



ABN 28 000 030 179

18 April 2008

Mr John Hawkins
Committee Secretary
Senate Economics Committee
Department of the Senate
economics.sen@aph.gov.au

Dear Mr Hawkins,

**A submission by The Smith Family regarding the Australian Securities and Investments Commission
(Fair Bank and Credit Card Fees) Amendment Bill 2008**

The Smith Family welcomes the opportunity to provide this submission into the Australian Securities and Investments Commission (Fair Bank and Credit Card Fees) Amendment Bill 2008. Over the past ten years, The Smith Family has undergone a comprehensive organisational transformation moving its focus from a welfare-oriented model to one more in line with a leading social enterprise focused on children and education. The overarching purpose of our flagship *Learning for Life* suite of inter-connecting programs is to provide educational opportunities for disadvantaged individuals and their families at key transition points, including transitions into employment, throughout the life course. This is achieved through three complementary streams:

- Financial scholarships (which facilitate the participation of disadvantaged children and youth helping them to have the materials needed to allow them to belong in the formal education system from early childhood through primary and secondary school to tertiary);
- Personal Support (which goes hand in hand with financial support and is focused on enhancing the cognitive/academic skills of the individual through formal learning assistance via tutoring, mentoring and coaching); and
- Personal Development (which focuses on an individual's social-emotional development through informal learning by participating in extra-curricular activities such as sports and the arts).

Within these streams *Learning for Life* concentrates on improving essential literacies, including financial literacy and others such as numeracy, comprehension and ICT literacy.

The Smith Family recognises that financially disadvantaged families are adversely affected in a disproportionate and disadvantageous manner by the current arrangements for banking fees and

¹ For examples of programs in our *Learning for Life* suite, see The Smith Family website, www.thesmithfamily.com.au.

charges in Australia. From our research² we have become keenly aware of the circumstances frequently encountered by financially disadvantaged families. The Smith Family is, therefore, supportive of the changes in the Australian Securities and Investments Commission (Fair Bank and Credit Card Fees) Amendment Bill 2008 that would:

- Ensure penalty fees are for cost recovery only;
- Allow the Australian Securities and Investments Commission the power to obtain information from banks and financial institutions to ensure that fees reflect costs;
- Strengthen the power of the Australian Securities and Investments Commission to monitor fees, investigate consumer complaints and concerns, and related issues referred by the federal Treasurer;
- Prohibit dishonour fees on inward cheques;
- Prevent penalty fees placed on individuals who exceed their credit card limit where the bank does not offer customers the option of a defined, inviolable maximum limit; and
- Prohibit the levying of multiple fees for the same erroneous transaction.

Our submission is also largely concerned with *the necessity of improved and expanded financial literacy education throughout Australian society, with particular regard to the requirements of financially disadvantaged families*. Although the changes proposed through the bill should assist financially disadvantaged families their effectiveness would be enhanced by further initiatives and endeavours directed towards widespread, sustained improvements in financial literacy levels throughout society.

In Australia, and indeed worldwide, financial literacy levels are low and for many people particularly those in financially disadvantaged families, they are insufficient to facilitate both financial and societal inclusion. Furthermore, there is a wider, more extensive array of financial products available, accompanied by a greater complexity and an increased onus falling on individuals to manage their finances within this broad complexity.

The Smith Family's financial literacy courses are designed to work with low income individuals so they gain a range of financial literacy capabilities. These include how to plan and manage cash flows, and how to avoid overdrawn accounts, dishonoured payments and over the limit credit card charges. Our courses assist participants to compare their income and expenses for the same income period and then establish the amount required to be set aside for regular household expenses. Facilitators and participants discuss possible alternatives to direct debits and credit cards for paying bills such as Centrepay and bill savings accounts.

The financial literacy courses also inform participants of their rights and options including those relating to unfair charges. Participants learn how to approach the bank or financial institution, and the merchant involved. In addition, they are informed about the roles of external dispute resolution mediators and other supportive institutions such as the Banking and Financial Services Ombudsman and Offices of Fair Trading.

The experiences of participants in our financial literacy courses are consistent with research that indicates they are unfairly penalised by financial fees and charges.³ In some cases these can constitute as much as 20% of their weekly income. The unfairness of bank fees and penalties is a key theme consistently expressed by participants in our financial literacy courses. The most common charges that are of concern are direct debit fees. Our families are particularly concerned about the double penalty of an overdrawn fee from the bank (typically \$45-60) coupled with a dishonour fee from the merchant (\$25-\$60).

² In 2003 The Smith Family published a landmark report on barriers to societal participation faced by financially disadvantaged Australians see, G. Zappala (Ed.), 2003, *Barriers to Participation Financial, Educational and Technological A report into the barriers to societal participation among low-income Australians*, The Smith Family, Sydney.

³ See N. Rich, 2004, *Unfair fees: A report into penalty fees charged by Australian banks*, Consumer Law Centre Victoria.

The effectiveness of relevant legislation and increased obligations on banks will be minimised or even nullified if many Australians have inadequate financial literacy skills and are insufficiently aware of their rights and options. Furthermore, The Smith Family encourages banks and financial institutions to assume greater responsibility in informing consumers of avenues for notification, complaint, rectification and reimbursement if they have been incorrectly subject to a financial fee or charge. In the longer term, provision could also be made for financial literacy studies as a component of the *compulsory* curricula for all students at both primary and secondary levels, with complementary accredited financial literacy courses for disadvantaged families.

We are keenly aware that after well over a decade of economic prosperity it is now even more pressing that financially disadvantaged individuals are not disproportionately impacted by excessively high bank fees and charges, and are able to access and complete suitable, accredited financial literacy courses. The Smith Family, therefore, recommends the passage of the bill, along with a more widespread provision of financial literacy skill courses in the Senate and federal government's agenda.

Yours sincerely,

A handwritten signature in black ink that reads "Elaine Henry". The signature is written in a cursive style with a period at the end.

Elaine Henry, OAM
Chief Executive Officer
The Smith Family