Response to the

Financial System Inquiry

Interim Report

Submission by:

Good Shepherd Microfinance

August 2014

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Mr David Murray AO
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Good Shepherd Microfinance
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Tuesday August 26th 2014

Dear David,

Good Shepherd Microfinance welcomes the opportunity to respond to the Financial System Inquiry's Interim Report which has called for commentary and requested additional evidence to inform the Final Report to the Treasurer, which in turn will establish a direction for the future of Australia's financial system.

In this submission we respond primarily to the Interim report's observation and request for additional information regarding a role for Government and/or industry to facilitate further development of microfinance initiatives, in collaboration with the not-for-profit and community sector.

We strongly believe that investment by government, business and civil society, through leading microfinance schemes such as those developed by Good Shepherd Microfinance, can be highly effective in creating economically strong, vibrant connected communities where families thrive, are self-sufficient and take care of themselves. We provide evidence that Good Shepherd Microfinance schemes improve access to, and use of, small amount credit, confirming that investment in microfinance schemes will expand consumers' access to safe, affordable credit in a market sector vacated by the big banks and replaced by expensive and hazardous fringe lenders.

This submission re-iterates our belief and position (outlined in our previous submission) that financial inclusion and building resilience is a means by which to drive economic mobility and to mitigate the consequences of financial hardship in Australia. We believe that financial inclusion and building resilience should be a stated aim of the Australian financial system.

We also urge the Financial System Inquiry to include in its Final Report a recommendation that there **is** a role for government in addressing the post-GFC failure of the market to achieve financial inclusion, and further recommend that this could be achieved by the RBA making a direct contribution and investment under its obligations to ensure ….“….that the monetary and banking policy of the Bank is directed to the greatest advantage of the people of Australia…..”[1]

[1] *The Reserve Bank Board's obligations with respect to monetary policy are laid out in Sections 10(2) and 11(1) of the* Reserve Bank Act 1959. *Section 10(2) is often referred to as the Reserve Bank's 'charter'*

Increasing financial inclusion and resilience in the Australian community will drive economic growth and have positive impacts on competition, innovation, efficiency, and stability and consumer protection.

The recommendations and response that Good Shepherd Microfinance have made in this submission are all in line with our values of human dignity, respect, social justice, compassion, audacity and reconciliation. Good Shepherd Microfinance will continue to inform stakeholders and take action to provide increased and improved access and services to realise financial inclusion for all Australians.

We therefore look forward to the Inquiry's Final Report reflecting and acknowledging financial inclusion and resilience building in its recommendations for Australia's financial system.

Please do not hesitate to contact us if there is any further information we can provide (03 9495 9644).

Adam Mooney
CEO
Good Shepherd Microfinance
August 26th 2014

EXECUTIVE SUMMARY

In this response to the Financial System's Inquiry's Interim Report, Good Shepherd Microfinance provides evidence to demonstrate how microfinance initiatives to build financial resilience and economic mobility lead to a fairer, healthier and more sustainable Australian financial system.

We believe that there **is** a role for government to facilitate further development of microfinance initiatives, in collaboration with the industry and the not-for-profit and community sector.

We also believe that building resilience and financial inclusion at individual, family and community levels should be stated aims of the Australian financial system, embedded in policy. Increasing financial resilience and inclusion in the Australian community will have positive impacts on competition, innovation, efficiency, stability and consumer protection. And consumer protection is a core consideration of any well-functioning financial system – and should be valued over costs, flexibility and profits. Indeed, we are evidencing economic mobility as large numbers of people move away from financial hardship towards stability, income generation and longer-term resilience, through Good Shepherd Microfinance programs. If extended to the whole population who demand these services, a $20b uplift in GDP is possible[2].

Our response is underpinned by the clear evidence at a global level that improving the economic wellbeing of the poorest third of the world's population will have a profoundly positive impact on all people. Economic mobility and resilience at the family and community level directly leads to increased security, human connectedness and hope for everyone. It also enables self-directed action to realise one's own dreams and aspirations, however modest, leading to overall contentment. It is not a coincidence that the number of people living in poverty is the same as those that are unable to access appropriate financial services as measured by the World Bank's Findex[3] reports.

In 2010 in Australia 2,265,000 adults (and as many as 2,831,000 people, including children) were severely or completely excluded from the Australian financial system. Constituting 12.8 per cent of the population, the great majority were living in poverty. By 2012 this number had risen to 3,123,519 adults with 17.7 per cent of the Australian population being either severely or fully excluded from mainstream financial services (ACOSS, 2012; Connolly, 2013).

Given that the level of poverty has increased over recent time, the likelihood of economic mobility for these Australians is restricted, if not non-existent, without dedicated action and policy focus.

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[2] *SPP, (2014) Microfinance, Inclusion and Economic Growth (Good Shepherd Microfinance)*
[3] *These reports state that only half the world's adults have bank accounts and of those, only 15 per cent believe that their needs are understood and met by the products they have access to.*

Without access to fair, safe and appropriate financial services, the capacity of individuals and families to live full lives, participate economically and realise their own wellbeing is directly impacted. Financial hardship and financial exclusion result in greater demand for emergency relief, families go without meals or other basic necessities, and individuals are forced to sell or pawn their possessions (ABS, 2011). This constrains the economic mobility of large numbers of people and puts an added short term impost on governments and civil society to offer crisis and hardship services such as housing, counselling, mental health support and prevention of family violence, which could have been avoided if appropriate investment had been made in preventative measures to build resilience and financial inclusion.

It is our response in this report that microfinance initiatives can more than adequately address these issues within the Australian financial system. Good Shepherd Microfinance has therefore responded directly to the Interim Report's question about the extent to which government assistance would facilitate microfinance initiatives that improve access to small amount credit.

We argue strongly for the Reserve Bank of Australia (RBA) to make a direct contribution in the form of targeted investment of capital and grant funding of microfinance initiatives and investment under its obligations to ensure "….that the monetary and banking policy of the Bank is directed to the greatest advantage of the people of Australia….."[4]. We call for direct investment to establish:

- a $500 million loan capital fund and
- $100 million in operating funding per annum

to identify, reach and serve the underserved market of 3 million people that are completely or severely financially excluded.

We argue strongly that:

- Assistance to build further access to fair, safe no or low interest credit, savings and insurance does achieve wellbeing over time. Using one's own capabilities progressively builds a sense of hope, control, and confidence in participating in society. From an economic perspective, microfinance clients are then less likely to need expensive government services such as emergency relief, corrections, housing, mental health, income support, and more likely to move towards income generation, self-sufficiency and broader economic contributions.

- Market failure within Australia means that the financial needs of ***all*** people in Australian[5] are not being met. We strongly posit the case for the presence and further development of microfinance in this market. Targeted inclusive finance around the world can and will be a key driver of economic growth, especially through production, employment and education.

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[4] *The Reserve Bank Board's obligations with respect to monetary policy are laid out in Sections 10(2) and 11(1) of the* Reserve Bank Act 1959. *Section 10(2) is often referred to as the Bank's 'charter'*

[5] *Issue: Post-GFC Regulatory Response No.6 – Consumer Outcomes.(p.3-80 to 3-82)*

- To further develop initiatives that focus on building financial resilience and economic mobility in Australia more support is needed, especially the support of Government and/or industry in collaboration with the not-for-profit and community sector.

We recognise that there are still significant barriers to financial inclusion in Australia and recommend that the Financial System Inquiry address these issues through targeted policy and legislative regulation.

In particular, consumer detriment driven by short-term investor demands is of particular concern. Since the Global Financial Crisis (GFC), most large banks and other major financial institutions around the world have been more selective about whom they transact with (with a few honourable exceptions[6]). New prudential requirements like Basel III, designed to stabilise the system, along with overzealous consumer protection have seen banks divert focus to high and middle income clients. They believe that these clients are the best investment for them to return to pre-GFC profitability and total shareholder returns to outperform their rivals. David Murray, Chair of Australia's Financial System Inquiry, has himself observed that the average investor time horizon has reduced from seven years a decade ago to one year now.

In fact, this is the stated aim of many institutional investors, sitting behind faceless nominee companies on a bank share register - to pressure Chairs and CEOs to 'harvest' the business through efficiencies (often staff cuts) and revenue enhancement (often fees which are loosely driven by an unconscious client action) in the near term of 12 months. We need to increase the transparency around company ownership to see who is really creating this unconscionable pressure on executives. This change means that banks will naturally match their investment horizon with that of their institutional shareholders. This creates an environment where clients on low incomes, who may take longer to realise financial wellbeing, are not seen as desired or lucrative. It is now widely acknowledged by banks that the previous internal justification for voluntary 'concept testing' of inclusive finance access programs – to stave off or influence regulation - no longer exists after the GFC. Instead, banks are now discretely changing their focus away from access towards cheaper financial capacity (financial literacy, often online) programs that suggest customers on low incomes should get their act together before access to products is available.[7]

We argue strongly therefore, for the need to increase transparency around company ownership, and to ensure that customers and stakeholders are able to view the proportionate shareholding.

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[6] *NAB is one of those rare exceptions and has been recognised by Harvard Business School professors as leading the so-called 'developed countries' in its commitment to inclusive finance through microfinance. Making $130 million in capital available and committing to reach 1 million people (of three million financially excluded adults) over the next five years is outstanding and 'sets a great role model for the rest of the world.'*

[7] *Mooney, A., (2014) We're all better off: G20's golden opportunity, Good Shepherd Microfinance. http://www.goodshepherdmicrofinance.org.au/blog/we%E2%80%99re-all-better-g20%E2%80%99s-golden-opportunity*

We also argue for a more honest and creative consideration of pricing where interest rates and fees are determined by a combination of customer 'capacity to pay' and the 'human purpose' of the loan (survival, security, resilience or recreation).

Good Shepherd Microfinance does not address all the observations made in the Interim Report. Instead we focus on issues where we can provide additional evidence or relevant comment, namely those related to:

- The need for insurance, access to financial literacy services and to safe, affordable credit for those financially excluded from the mainstream.
- Policy options related to regulation of the credit industry
- The need for an industry Code of Responsible Referral embedded in a responsible referral framework that would include the sale-force training of front-line staff
- The need for Financial Resilience Action Plans within the industry and workplace with the government taking the initiative and leading by implementing its own.
- The need to review the level and amount of onerous and difficult disclosure documentation with a view to developing and implementing requirements that focus on *verifying customer understanding* at the point of transaction, rather than on disclosure per se.
- The requirement for a focus on women who are financially excluded, especially with reference to superannuation and financial advice.

Report Structure

This report is laid out to address the nine priority issues identified by the Financial System Inquiry Committee as facing the current Australian financial system: Competition and contestability, Funding Australia's economic activity, Superannuation efficiency and policy settings, Stability and the prudential framework, Consumer outcomes and conduct regulation, Regulatory architecture, Retirement incomes and ageing, Technology opportunities and risks and International integration. These nine issues are headed under the three framework principles identified by the Inquiry: Growth and consolidation, Post-GFC regulatory response and Emerging trends.

Good Shepherd Microfinance acknowledges that the Interim Report has not made recommendations, but rather has called for commentary and requested additional evidence to inform the Final Report to the Treasurer. However, where relevant in this response we have also re-iterated some of the recommendations made in our original submission, understanding that the Committee has also encouraged feedback about the priority and focus of other issues.

Our following recommendations reflect our belief that investment by government, business and civil society, through leading microfinance schemes such as Good Shepherd Microfinance's can be highly effective in creating economically strong, vibrant connected communities where families thrive, are self-sufficient and take care of themselves.

RECOMMENDATIONS

Recommendation 1A That Government review and strengthen the regulation of the practices of small and large credit providers, particularly where:

- exploitative practices exist, or there is inadequate support in the form of responsible referrals or diversion away from exploitative operators for the financially vulnerable,
- industry self-regulation is not strong enough to maintain responsible practices.

Recommendation 1B Appropriate regulation of credit providers, while still retaining balanced competition, could be achieved by:

R1B.1 The expansion and enhancement of current legislation to prevent credit providers from offering or imposing 'extras' on credit loans. We welcomed the introduction in July 2013[8] of the cap of 48 per cent on annual interest rates, and 20 per cent fee cap. However, currently the legislation allows for some maverick credit providers to operate within the law while exploiting loopholes; consequently genuine and ethical providers are disadvantaged.

R1B.2 The provision of necessary resources for monitoring and compliance of the consumer protection and credit lending legislation. Currently there do not appear to be adequate and dedicated resources to monitor compliance of the legislated regulations. Resource constrained regulators find it difficult to respond quickly on such matters and often the consumer complaint process is onerous and slow.

R1B.3 A review of the position that the credit industry has the capacity to self-regulate and therefore will. It would seem that credit providers have become highly competitive and sophisticated in their marketing and practices. Financially vulnerable Australians without the resilience, eligibility criteria for loans or asset building capacity are easy prey for these operators. Expecting such a competitive industry to self-regulate is unrealistic.

Recommendation 2 Develop a Responsible Referral Framework for banks and fringe lenders alike, to refer to safe, affordable alternative financial service providers**,** offered through community organisations.

Recommendation 3 That every consideration be given, in policy development, to the discrimination often experienced by women attempting to negotiate the financial system, particularly as it relates to superannuation and financial resilience during times of crisis.

Recommendation 4 That the Financial System Final Report includes policy options aimed to reduce exclusion from access to affordable Insurance products.

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[8] *National Consumer Credit Protection Amendment (Enhancements) Bill 2011: caps on costs etc. for credit contracts.* *Exposure Draft, July 2013, Treasury, Australia.*

Recommendation 5 That there be a review of corporate law to:

- Increase transparency of company ownership, such that stakeholders can view the names of individuals (not nominee companies) who own financial services, and their proportionate shareholding
- Improve accountability for short-term “harvest” strategies (cost cutting and revenue enhancement) directly conflicting with customer interests.

Recommendation 6 The Reserve Bank, in line with its charter, makes direct contribution and investment of $500m in capital and $100m in annual operating funding, in microfinance initiatives.

Recommendation 7 That the Government, the Reserve Bank of Australia and other stakeholders invest in microfinance banking and financial services as a long-term proposition, in collaboration with the not for profit and community sector. This could be achieved by:

R.7.1 Sector building investment in Community Development Finance Institutions (CDFIs).

R7.2 Mandatory minimum proportions of bank risk weighted assets (RWA) or bank profits being invested in economic inclusion programs for people on low incomes

R7.3 Scalable and sustainable income generating microenterprise development schemes

R7.4 Performance oriented financial capability programs (financial capability bonds)

R7.5 Insurance cover for people on low incomes

R7.6 Investment in alternative people centred financial services similar to Kiwibank in New Zealand

Recommendation 8 The Government support and advocate for a systematic nation-wide program to develop financial inclusion and resilience plans for and by all key actors. Similar to Reconciliation Action Plans, these financial inclusion and resilience action plans would enable all actors, businesses, families, communities and government, within their individual sphere of influence, to optimise financial inclusion to mutually benefit people, customers and financial service providers.

Recommendation 9 That all financial institutions develop and incorporate into practice, a process by which they are able to “*verify and confirm a customer’s understanding”* of their financial undertaking, replacing the simple and shallow commitment to improve “disclosure” and the assumption that it leads to understanding and informed and effective decision making and behaviour.

ABOUT GOOD SHEPHERD MICROFINANCE

Good Shepherd Microfinance is Australia's largest microfinance organisation. We offer a suite of people-centred, affordable financial programs for individuals on low incomes at different financial stages of their lives.

Our aim, together with those of our community partners, is to enable people to realise their own economic wellbeing, as they define it themselves, through appropriate financial services. As a result, people feel valued, accepted and included and in control of their own finances and lives.

Drawing on knowledge gained over 33 years, and on its commitment to these aims, Good Shepherd Microfinance has already reached over 140,000 people across all states and territories that were excluded from mainstream banking. Good Shepherd Microfinance's provider network includes 246 community organisations across 650 locations in Australia who offer safe, fair, and affordable loans, savings, energy inclusion and other programs.

Underpinned by the basic principles of trust, respect and non-judgement of people and their financial circumstances, our low and no interest loans programs enable people to build assets, engage in community life and / or find, or keep, a job. Our suite of microfinance programs includes the following products.

No Interest Loan Scheme (NILS)

NILS is a national community based program that enables people living on low incomes to access fair and safe credit (up to $1,200) to buy essential goods and services. Known as circular community credit, NILS is a demonstration of communities taking action to address their own needs. NILS is delivered through accredited community partners across Australia.

StepUP

StepUP provides low interest loans to people on low incomes through community providers across Australia. StepUP is delivered in partnership with National Australia Bank (NAB) and provides loans of between $800 and $3,000 for personal household purposes to individuals or families on a benefit. Interest is charged at a fixed rate of 5.99% and loans can be repaid over three years.

AddsUP

AddsUP is delivered in partnership with NAB and focuses on helping people on low incomes develop financial independence through savings. The program does not impose restrictions on the object of savings, nor does it set a regular payment amount. Recipients gain basic financial literacy throughout the AddsUP program and individual savings are matched dollar for dollar as an incentive to develop savings behaviours that last well beyond the program period.

Good Money

Good Money is a pilot program of three community finance stores in Victoria that offer new ways of delivering financial services to people currently experiencing financial exclusion. A new location is planned for SA in early 2015. In partnership with the Victorian Government, NAB and Good Shepherd Microfinance, Good Money is a one-stop shop providing a more distinct safe alternative to the growing fringe lending sector.

Debt Deduct

Debt Deduct is a pilot program that provides access to affordable and safe credit for people who need to break cycles of unaffordable credit. It is a ‘circuit breaker’ addressing the immediate need for debt relief while also building in ongoing financial capacity and resilience.

Aboriginal Financial Inclusion

Good Shepherd Microfinance is building its experience and knowledge of NILS into remote Indigenous communities, funded through Department of Social Services (DSS). In partnership with Indigenous communities, Good Shepherd Microfinance is supporting the delivering of Microfinance into Far North Queensland, Rockhampton, Darwin/Kimberly, and Alice Springs/APY Lands.

Good Energy

Good Shepherd Microfinance has worked with both government and energy providers to secure and offer the lowest price for individuals and families living on low incomes that are looking to purchase energy efficient whitegoods. More recently we have partnered with the federal government, administering an incentive program for NILS borrowers. To date, the program saved an estimated $3.3m for households on low incomes including an estimated 40 per cent reduction in carbon emissions per appliance. In 2013 we announced a national business-community partnership with The Good Guys, and together with their commercial division, we have developed ***Good2GoNow***, an online buying service that enables people to access household appliances at competitive prices.

Good Insurance

The objective of the ‘Good Insurance’ pilot program is to address the current issue of non-insurance by providing low-income earners with greater access to safe and tailored insurance products at an affordable price. The objectives will be achieved through collaboration, consultation, and information sharing with various stakeholders including corporate partners, regulatory bodies, and community organisations. The Good Insurance products will balance affordability with features tailored to the needs of the low-income segment, protecting these people when bad luck strikes.

CONTENTS

RESPONSE TO THE FINANCIAL SYSTEM INQUIRY INTERIM REPORT

Growth and Consolidation

Priority Issue No 1: Competition and contestability

Good Shepherd Microfinance acknowledges and commends the Financial System Inquiry Interim Report observation of the following issues:

- The Australian banking sector, although competitive, is concentrated and **without the neutral application of capital regulation.** Therefore systemic risks posed by large banks need to be addressed.
- **Credit and debit card regulation** is required for competition to lead to more efficient outcomes

Regulating the use of capital

Although more relevant to Issue No 4: "Stability and the prudential framework", we make the point here also that the concentration of the four larger banks in Australia does not make us immune to the effects of a future GFC, nor to the further exclusion of Australians who may not appear to be viable customers as banks hedge towards stricter access criteria.

As outlined in the Interim Report, the Australian government intervention in 2010 went a considerable distance to immunising our financial system from some of the disasters experienced by other countries. Next time we may not be as lucky, and as indicated by the EU's announcement earlier this year to ban proprietary trading by banks, there appears to be growing concern globally about the balance between the retail function of bank and their propriety lending function.

The blueprint by the European Commission, the EU's executive arm, is the final piece in Europe's lengthy overhaul of its banking system in the wake of the financial crisis, a process that has encompassed fatter capital cushions, bonus caps for bankers and plans for a Euro-zone banking union[9].

Good Shepherd Microfinance supports this position of separation, commonly known as ring-fencing, because we believe that the losses made by banks from inappropriate, high risk investments can no longer put pressure on the retail function of the bank to recoup the losses. By doing so, it renders the banks less flexible, less sustainable, and open to risky practises that engender misappropriation and corruption.

[9] *Dow Jones Newswires, 30th Jan 2014*

Credit Card regulation

The Interim Report in particular makes the observation that:

> *Regulation of credit card and debit card payment schemes is required for competition to lead to more efficient outcomes. However, differences in the structure of payment systems have resulted in systems that perform similar functions being regulated differently, which may not be competitively neutral (p.xix).*

In response to this Good Shepherd Microfinance makes the observation that banks have all but exited the market for small amount loans, leaving the market saturated with perpetual credit lines through credit cards, payday lender loans and rent-to-buy schemes. Although there are a number of reasons for this, predominantly around short-termism, Good Shepherd Microfinance strongly advocates that there be several approaches to addressing this gap in the market:

- Strong and sustained regulation of the credit card industry to prevent predatory lenders taking advantage of vulnerable financially excluded customers
- That the Financial System Inquiry and the government support and advocate for microfinance to be supported into this market with enough investment and capital support to sustain its presence in the face of the tough tactics of payday lenders and rent-to-buys. This aspect is addressed in further detail in Issue No 4.

In addition, we believe that the Financial System Inquiry should not compel banks to directly offer small amount finance below $5,000, as this will lead to tokenism and ineffective solutions that exacerbate financial exclusion. Where such legal compulsion has been applied, for example in the United States, through the Community Reinvestment Act, observers have argued that this contributed to the forced (legislated) uninformed and inappropriate growth in sub-prime lending which was a catalyst of the GFC. Families on low incomes were worst hit by this misguided good intention.

On this basis, Good Shepherd Microfinance believes that investment by government, business and civil society, through leading schemes like NILS and StepUP can be most effective in creating economically strong, vibrant connected communities where families thrive, are self-sufficient and take care of themselves.

Therefore Good Shepherd Microfinance re-iterates the position we took in the original submission and recommend that:

Recommendation 1A That Government review and strengthen the regulation of the practices of small and large credit providers, particularly where:

1. exploitative practices exist, or there is inadequate support in the form of responsible referrals or diversion away from exploitative operators for the financially vulnerable,
2. industry self-regulation is not strong enough to maintain responsible practices.

Recommendation 1B **Appropriate regulation of credit providers, while still retaining balanced competition, could be achieved by:**

R .1B.1 The expansion and enhancement of current legislation to prevent credit providers from offering or imposing 'extras' on credit loans. We welcomed the introduction in July 2013[10] of the cap of 48 per cent on annual interest rates and 20 per cent fee cap. However, currently the legislation allows for some maverick credit providers to operate within the law while exploiting loopholes; consequently genuine and ethical providers are disadvantaged.

R .1B.2 The provision of necessary resources for monitoring and compliance of the consumer protection and credit lending legislation. Currently there do not appear to be adequate and dedicated resources to monitor compliance of the legislated regulations. Resource constrained regulators find it difficult to respond quickly on such matters and often the consumer complaint process is onerous and slow.

R.1B.3 A review of the position that the credit industry has the capacity to self-regulate and therefore will. It would seem that credit providers have become highly competitive and sophisticated in their marketing and practices. Financially vulnerable Australians without the resilience, eligibility criteria for loans or asset building capacity are easy prey for these operators. Expecting such a competitive industry to self-regulate is unrealistic.

Equally there should be a focus on mainstream financial service providers and institutions to responsibly refer vulnerable and excluded customers to safe and affordable credit and loan alternatives. Good Shepherd Microfinance has substantial evidence of all major Australian banks referring people seeking personal loans below $5,000, in the first instance to the option of a credit card, and in the second instance to payday lenders. In an exercise in mystery shopping the customer met the criteria for a NILS or StepUP loan, and in some cases had to walk past a NILS or StepUP provider in one of Good Shepherd Microfinance's 650 locations around Australia to get to the referred payday lender.

Clearly there is a need for banks to engage in a responsible referral process to ensure customers are not exposed to unsuitable products. Therefore we strongly urge that the Final report of the FSI include a recommendation to establish a responsible referral framework within the financial sector (See also our response to Issue No 6). A Responsible Referral Framework would create greater awareness among frontline bankers and financial services providers of small one-off credit options where bank products are not suitable.

Recommendation 2 **Develop a Responsible Referral Framework for banks and fringe lenders alike, to refer to safe, affordable alternative financial service providers, offered through community organisations.**

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[10] *National Consumer Credit Protection Amendment (Enhancements) Bill 2011: caps on costs etc. for credit contracts.* *Exposure Draft, July 2013, Treasury, Australia.*

Priority Issue No 2: Funding Australia's economic activity

Good Shepherd Microfinance acknowledges and commends the Financial System Inquiry Interim Report observation of the following issues:

- Foreign funding risks could be mitigated by prudential **supervisory and regulatory regimes** and sound public sector finance.
- Impact investment and **social impact bonds**

Impact Investment Bonds

Good Shepherd Microfinance is encouraged to see that **Social Investment Funds** are positively addressed in *Growth and Consolidation – Funding* (p.2-73), and that there is a recognition that Government may need to offer support in mobilising the impact investment market, including removing barriers (p.2-74).

We also agree with other proposals acknowledged in the Interim report that Government be more actively involved in expanding the impact investment market to include:

> *……providing risk capital to attract initial investments, developing a dedicated social investment bank and introducing tax concessions. The latter should be considered as part of the Tax White Paper process (p.2-76)*

We therefore re-iterate that the enhancement and attraction of long term funding of microfinance initiatives could also be achieved through investment impact in social performance bonds whose impact is measured at the individual client level in addition to the whole of community/society return on investment.

Recommendation 3 **Long-term investment in microfinance could, amongst other initiatives, be achieved through investment in social performance bonds that are focused on impact at the client level.**

Priority Issue No 3: Superannuation efficiency and policy settings

In general, Good Shepherd Microfinance does not need to address the observations included in this section. However we use this section to raise the extremely important issue of the financial exclusion of women, especially as it is experienced by that sector of women who are currently retiring from the workforce, only to discover that their superannuation, interrupted by child –bearing or inequitable contributions, will be nowhere near sufficient for their old age.

As with any issues related to gender inequality, the problem of economic exclusion operates around notions of ownership, resilience, power to decide, access and employment. The Australian financial system functions reasonably well for those with finances, those who have power over finances, those who have access to finances and those who work in the industry, but unfortunately was developed on a basis that did not recognize women as inclusive financial citizens.

There still remains the residual legacy of this foundation, especially in superannuation and areas of financial investment. It is generally accepted that our current system for saving for retirement is a failure when we ask the question does it provide for those who live the longest?

However Good Shepherd Microfinance acknowledges that, in the contemporary context there is one major positive - financial growth is about growing the market, and if the market can be grown to be less discriminatory towards more than half the population, it could be win-win for all.

Therefore we strongly urge that every consideration be given, in policy development, to the discrimination often experienced by women attempting to negotiate the financial system, particularly as it relates to superannuation and financial resilience during times of crisis.

Good Shepherd Microfinance strongly advocates for this position which reflects the Good Shepherd mission and commitment to achieving the best outcomes for disadvantaged and marginalised women and girls, thus strengthening whole communities. Wherever possible, we do this by focusing on early intervention prior to crisis, and we would encourage the Financial System Inquiry to recommend that policy related to building financial literacy and resilience, recognise the need for early intervention in the lives of women and their families to ensure that generations of Australians understand and can negotiate safe, fair financial options from an early age.

Recommendation 3 **That every consideration be given, in policy development, to the discrimination often experienced by women attempting to negotiate the financial system, particularly as it relates to superannuation and financial resilience during times of crisis**

Policy development in all aspects of the Australian financial system should reflect this aim.

Post-GFC Regulatory Response

Priority Issue No 4: Stability and the prudential framework

Good Shepherd Microfinance acknowledges and commends the Financial System Inquiry Interim Report for its observation that there exists a perception that the four major banks in Australia are **too big to fail** and that this needs to be addressed, in the main, by not relying on solutions that involve the Government.

Good Shepherd Microfinance has addressed the issues relevant to these in Issue No 2.

Priority Issue No 5: Consumer outcomes and conduct regulation

Good Shepherd Microfinance acknowledges and commends the Interim Report on the inclusion of the following issues relevant to financial inclusion and the building of financial resilience:

- That the Australian financial system should meet the **needs of all Australians**
- Adverse consumer outcomes in the financial system may result from a variety of factors, including fraud, mis-selling, product unsuitability, lack of information and lack of **financial literacy**. Consumer outcomes can be enhanced by a variety of methods, including competition, innovation by industry and effective regulatory regimes **(including self-regulation**).
- Regulation should seek to create confidence and trust in the financial system, inform consumers and assist them to manage their risk.
- For consumers to engage effectively with the financial system and meet their financial needs, they need access to **advice** that helps them make informed financial decisions.
- Underinsurance may occur for a number of reasons, including: personal choice, behavioural biases, affordability, and lack of adequate information or advice on the level of **insurance** needed. Insurance can mitigate risks of significant loss for consumers. The decision to insure against certain risks is a personal one, which means there will always be a level of non-insurance and underinsurance in the system.
- What should be a role for Government and/or industry to facilitate further development of **microfinance** initiatives, in collaboration with the NFP and community sector
- To what extent would incorporating microfinance initiatives into the financial system improve **access to small amount credit**
- Additional : Financial Literacy and **Industry self-regulation**

In the following section we address these issues, with relevant recommendations attached.

Insurance

Good Shepherd Microfinance acknowledges and commends the Financial System Inquiry Interim Report for seeking further information specifically on the following areas (pp 3-79 to 3-80):

• Does Australia have a problem with underinsurance that warrants some form of policy response? Specifically:

– How does Australia compare internationally on adequacy of insurance coverage?

– Has the issue of underinsurance been increasing over time?

– What evidence and data are available to support a conclusion about our level of underinsurance?

– What evidence and data are available to assess whether more granular risk-based pricing will lead to exclusion or further underinsurance?

• If warranted, what are possible approaches to lessen the existence of, or mitigate the impact of, underinsurance?

We have responded to these requests with an overview of the rationale behind the development of our pilot program – Good Insurance and strongly urge the FSI to support the policy development we outline below.

Good Shepherd Microfinance's Good Insurance Program:

Good Shepherd Microfinance is strongly committed to the provision of safe, affordable and accessible insurance for the financially excluded. To this end we have recently developed a pilot programme to address the current issue of non-insurance by providing low-income earners with greater access to safe and tailored insurance products at an affordable price.

The objectives will be achieved through collaboration, consultation, and information sharing with various stakeholders including corporate partners, regulatory bodies, and community organisations The overall goals of this project are to provide people on low incomes with:

- **improved access to insurance** via the Good Shepherd Microfinance's comprehensive national provider network
- **improved affordability** of insurance products
- **Improved suitability of products** by developing products that fit consumer need following research and test pilots.
- **Improve understanding of insurance product and their associated documentation** by providing product materials that are concise and in 'plain English"

The Good Insurance products will balance affordability with features tailored to the needs of the low-income segment, protecting these people when bad luck strikes.

Corporate community partnerships to develop insurance products

Many Australians living on low incomes are interested in and desire insurance and recognise that insurance is vital for protecting assets and securing a resilient future. However, they currently do not purchase insurance due to cost, accessibility, unsuitable products, mistrust, and misunderstanding - these factors contributing to their ongoing financial exclusion.

Good Shepherd Microfinance has recently developed partnerships with nationally recognised insurance brands including **Suncorp** and **IAG.** The ultimate objective of these partnerships is to develop tailored, affordable, accessible, and safe insurance products for people on low incomes. These partnerships were formed following an initial investigation in 2013 through the report *"Covering the essentials - increasing access and affordability of insurance for people on low incomes".*[11]

Insurance: Priority areas for change and policy development

Greater accessibility & affordability - Fortnightly payment options

Currently, frequency of payments options for insurance is limited to annual and monthly premiums – a major barrier for people on low incomes with budgetary limitations. Research conducted by Good Shepherd Microfinance showed that enabling consumers to make fortnightly payments, without penalty, via bank direct debit or Centrepay, is critical for increasing access, affordability, and uptake of insurance amongst people on low incomes.

Improved financial literacy - Introduction of a short-form Product Disclosure Statement (PDS) regime

Long-form PDSs currently act a barrier to consumers, particularly for people on low incomes, taking-up home and contents insurance and/or switching providers. The current format of PDSs does not assist consumers to concisely understand the product under consideration and makes product comparison difficult. The length of documentation and absence of 'plain English' makes the decision making process more complex; thereby increasing the likelihood of non-insurance or under-insurance or choosing an inappropriate product. The existing document also acts as a deterrent for consumers to change providers.

A concise uniformed document outlining key information will encourage take-up of insurance, allow for better decision making, improve the likelihood that product is appropriately matched with consumer need, encourage consumers to change providers, and ultimately improve market competition.

[11] *Collins, D (2013) "Covering the essentials - increasing access and affordability of insurance for people on low incomes". Good Shepherd Microfinance.*

Providing safe and tailored products - Home and contents insurance comparators

Technology tools are needed to deliver to all consumers, including low income earners, a tailored experience that enhances their ability to find a product that is best suited to their needs at a given price point. The ability for consumers to truly analyse their home and contents insurance needs and receive impartial product advice will enhance the product decision making process.

Similar tools have been successfully established and utilised by consumers within other financial product suites including home loans and health insurance.

Reasons for underinsurance are largely based on:

- lack of information (leading to unwittingly underinsuring) and
- cost of premiums (leading to deliberate underinsurance)

Mitigators for underinsurance therefore need to focus on addressing the lack of financial literacy around insurance products and services.

Web based calculators

While in existence, there needs to be greater proximity and visibility and triggers of web-based calculators for consumers to perform inventory of their assets (perhaps a regulatory requirement of insurers) - thereby providing a means to more accurately reflect the value of assets and thus ensure the appropriate coverage.

3rd Party Comparative Tools

Providing greater access to consumers of available (but not well known) tools that would help consumers to more accurately reflect the level of insurance needed e.g. accessibility to geographical information (e.g. by street/postcode/ suburb) relating to average buildings cover for area

Greater education on Sum Insured Policies v Total Replacement Policies

Ensuring consumers understand the difference between the policy types – thereby purchasing the most appropriate insurance type for their needs

Myth busting

A belief that government/community will provide a bail-out in times of disaster needs to be debunked.

In sum, Good Shepherd Microfinance advocates strongly for the following recommendation:

***Recommendation 4*: That the Financial System Final Report includes policy options aimed at increasing access to affordable, safe Insurance products.**

Microfinance

Good Shepherd Microfinance strongly commends the Financial System Inquiry Interim Report for seeking further information specifically on microfinance, and it is in this section that we have focussed our main responses and recommendations.

We welcome the opportunity to respond to the Committee's questions:

Is there a role for Government and/or industry to facilitate further development of microfinance initiatives, in collaboration with the not-for-profit and community sector? To what extent would this improve access to small amount credit? (p.3-82).

We strongly argue and advocate for a role for government to facilitate further development of microfinance initiatives, in collaboration with the industry and the not-for-profit and community sector.

In particular Good Shepherd Microfinance strongly encourages the Government to increase its investment in our leading microfinance programs and services. We have significant evidence of the economic and social impact of our programs on the economic mobilisation of the financially excluded[12].

Increased economic capability and financial literacy are also emerging outcomes from independent evaluations of our Good Money model[13] and our NILS programs, indicating that we are increasing our reach and breadth.

For example, we can confidently indicate that with an investment of $15 million a year in Australian Government funding over five years ($75 million) from 2015/16 to 2020/21, the following could be achieved:

1. Annual reach to increase from 25,000 clients to 60,000 clients (from 6 to 14 per cent of the market) – 300,000 clients reached in five years
2. Indigenous client reach to increase from 6,000 to 15,000 each year, especially in remote communities - 75,000 clients reached
3. Realisation of economic benefits that drive GDP growth of $20 billion and Government savings of $2.6 billion, as evidenced by the independently calculated $3.02 of economic and social return for each dollar of Government investment in NILS.

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[12] *Bennett, S. Georgouras, M. Hems, L. Marjolin, A. and Wong, J. (2013). An Outcomes Evaluation of the Good Shepherd Microfinance No Interest Loan Scheme (NILS), Centre for Social Impact (CSI), University of New South Wales, for Good Shepherd Microfinance*

[13] *RMIT (2014), Evaluation of Good Money and a current independent evaluation of Good Money including an economic cost benefit analysis through PwC*

4. Diversion of vulnerable clients from hazardous products offered by exploitative fringe lenders (based on evidence, 240,000 people would stop using pay day lenders) enabled by improved awareness and increased virtual and physical footprint
5. Greater corporate participation, building on our existing partnerships with NAB, The Good Guys, Suncorp, IAG, Clemenger BBDO and bringing in others, especially energy retailers and telecommunication providers
6. An increase of NAB's capital actually applied from $30m to $75m.
7. Economic mobility of 240,000 families moving away from crisis and hardship to stability, income generation and longer term resilience and self-sufficiency
8. A solid base for complementary innovative inclusive finance programs including home ownership for public housing tenants, energy inclusion through Good Energy, affordable and effective renters and car insurance through Good Insurance, financial resilience action plans for important actors like schools, families, energy retailers, telcos, finance companies, regulators, local councils, etc.
9. Network optimisation and technological innovation to segment and offer the right products to technologically and financially literate clients who simply need a loan.

In addition, the current strong partnership that Good Shepherd Microfinance enjoys with NAB clearly indicates the potential for collaborative enterprises between the not-for-profit sector and the banking industry. We also highlight the capability and capacity of the current Australian private sector, now more keenly focussed on social enterprise and investment, to partner with, and commit long-term to financial and in-kind collaborations with highly reputable and marketable organisations such as Good Shepherd Microfinance. Strong government commitment to the same microfinance programs would encourage this private sector and assist in addressing the associated risks.

We also point out that recent research undertaken collaboratively between Good Shepherd Microfinance and SPP Consultants has shown the substantial benefits to government in terms of GDP and decreased government expenditure based on projections of mobilising the financially excluded[14].

Based on projections of economically mobilising people on low incomes in Australia along sections of a financial inclusion-exclusion continuum, it was estimated that the increase in Australia's household wealth would be $50.9b, with a macro-economic flow–on effect in nominal GDP of $19.7b p.a. and a reduction in government spending of $2.6b p.a.

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[14] *SPP, (2014) Microfinance, Inclusion and Economic Growth (Good Shepherd Microfinance)*

These are substantial benefits calculated on the percentage of our microfinance clients who reported both social and economic benefits from accessing NILS loans.

In other words, if, with funding and direct investment from government and industry, microfinance initiatives such as those that Good Shepherd Microfinance provides, can bring about a shift in the wealth of the population by moving excluded Australians up to the same wealth spectrum as the included, then the following savings become a possibility:

- Welfare - reduction in government spending of $0.84 billion
- Crime - reduction in government spending of $0.38 billion
- Health - reduction in government spending of $1.75 billion (p.17)

Clearly the benefits would not only be to those Australians currently unable to access mainstream banking, but also to the government in the form of their investment realising significant savings through the reduction of spending on welfare, education, justice and health.

Good Shepherd Microfinance supports the response to the Interim report submission prepared by NAB, in which they also point out that a long term funding commitment of five years or more is required from the Government to allow for the protection of their capital investment into microfinance programs and the ongoing exploration of innovative solutions such as the creation of a digital channel to enable scale and reach.

Emerging bank behaviour resulting in further exclusion

We make the above point in particular since it appears that banks around the world are being more selective in who they transact with following the GFC, (with a few honourable exceptions such as NAB). New prudential requirements like Basel III, designed to stabilise the system, along with overzealous consumer protection have seen banks divert focus to high and middle income clients. They believe that these clients are the best investment for them to return to pre-GFC profitability and total shareholder returns to outperform their rivals. Some, in fact have observed that the average investor time horizon has reduced from seven years a decade ago to one year now.

In fact, this is the stated aim of many institutional investors, sitting behind faceless nominee companies on a bank share register - to pressure Chairs and CEOs to 'harvest' the business through efficiencies (often staff cuts) and revenue enhancement (often fees which are loosely driven by an unconscious client action) in the near term of 12 months. We need to increase the transparency around company ownership to see who is really creating this unconscionable pressure on executives. This change means that banks will naturally match their investment horizon with that of their institutional shareholders. This creates an environment where clients on low incomes, who may take longer to realise financial wellbeing, are not seen as desired or lucrative. It is now widely acknowledged by banks that the previous internal justification for voluntary 'concept testing' of inclusive finance access programs – to stave off or influence regulation - no longer exists after the GFC.

Instead, banks are now discretely changing their focus away from access towards cheaper financial capacity (financial literacy, often online) programs that suggest customers on low incomes should get their act together before access to products is available.

For this reason, Good Shepherd Microfinance urges the FSI to respond to our following recommendation, which, although not specifically addressing the TOR of the Inquiry, addresses the emerging post GFC behaviour of banks attempting to maintain their market share in the face of increasing technological capability, online costing shifts and most importantly the opening of the market "…. to a more diffuse set of commercial enterprises that would extend into other financial and non-financial service domains." [15](p. 7)

Recommendation 5 **That there be a review of corporate law to:**

- **Increase transparency of company ownership, such that stakeholders can view the names of individuals (not nominee companies) who own financial services, and their proportionate shareholding**
- **Improve accountability for short-term "harvest" strategies (cost cutting and revenue enhancement) directly conflicting with customer interests.**

Another driver of financial exclusion is the reluctance of banks and others to innovate to reach new markets and to consider pricing that would make inclusive finance more sustainable. Pricing is regarded as the Achilles heel of the microfinance industry, with well-meaning people feeling pity for people on lower incomes rather than finding a way to see this market as viable.

A more honest and creative consideration of pricing is needed where interest rates and fees are determined by a combination of customer 'capacity to pay' and the 'human purpose' of the loan (survival, security, resilience or recreation) . Simply saying that 'these poor people don't need credit or shouldn't be charged interest' through pity or an extension of charity, has led to only 250 million people, or ten per cent, of the 2.5 billion that need microfinance actually getting it. This modern day invoking of Marie Antoinette to suggest that we 'let them have money' will not serve anyone well.

And this is not just a problem that we see in Australia. Recently His Holiness Pope Francis convened a conference in Rome, titled "The Global Common Good: Towards a more inclusive economy"[16] inviting seventy eminent heads of the financial industry, academia and civil society. The primary focus was on social issues, particularly the global economy which was seen as an economy of exclusion. At the conference conclusion the experts signed a document titled "Beyond the globalisation of indifference, for a more inclusive economy"

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[15] *Price Waterhouse Cooper, (July 2014), The Future Shape of Banking. – Time for reformation of banking and banks?*

[16] *Pontifical Council for Justice and Peace, in collaboration with the Secretariat of State, 2014 "Towards an inclusive economy".*

calling for an economy that places the human person at the centre. The document stresses the importance of the market being inclusive and creating work and wealth. It invites those in charge of institutions to more decisive action against tax shelters; to safeguarding the biodiversity in economic and financial forms; to supporting the development of new financial institutions which include the poor; to overhauling economic theory basing it on more humane and realistic hypotheses; and of combating discrimination against women; human trafficking, international criminality, corruption and money-laundering.

In sum, whether because of the exit of banked short term loans or by the emerging globalisation of economies that appear to be heightening inequality, the market has been left vulnerable and open to unregulated players, or to the possibility of smaller, viable microfinance initiatives who require support and funding to gain leverage and then sustainability.

Good Shepherd Microfinance is certainly not suggesting that Australian banks be compelled by regulation to operate in this market, as was the case in the USA (The Community Reinvestment Act) with disastrous results. Rather we are strongly advocating for microfinance to occupy this market with targeted initiatives that builds financial resilience and economic mobility. In this way, **all** people in Australia would have access to safe credit and the opportunity to increase their wellbeing and place in the world. Concomitant to this would be the compelling of the government to respond to the safe access of all people in Australia to the financial system. And given that the charter of the Reserve Bank of Australia states that:

> *It is the duty of the Reserve Bank Board, within the limits of its powers, to ensure that the monetary and banking policy of the Bank is directed to the greatest advantage of the people of Australia and that the powers of the Bank ... are exercised in such a manner as, in the opinion of the Reserve Bank Board, will best contribute to:*
>
> a. *the stability of the currency of Australia;*
> b. *the maintenance of full employment in Australia; and*
> c. *the economic prosperity and welfare of the people of Australia.'*[17]

…..it would seem that the Reserve Bank would be best placed to contribute directly to further development of microfinance initiatives.

We therefore recommend that:

Recommendation 6 **The Reserve Bank, in line with its charter, makes direct contribution and investment of $500m in capital and $100m in annual operating funding in microfinance initiatives.**

[17] *Section 10(2) of the* Reserve Bank Act 1959,*Australia (often referred to as the Bank's 'charter')*

We also re-iterate the following recommendations made in our original submission:

Recommendation 7 **That the Government, the Reserve Bank of Australia and other stakeholders invest in microfinance banking and financial services as a long-term proposition, in collaboration with the not for profit and community sector. This could be achieved by:**

- ***R .7.1*** Sector building investment in Community Development Finance Institutions (CDFIs).
- ***R 7.2*** Mandatory minimum proportions of bank risk weighted assets (RWA) or bank profits being invested in economic inclusion programs for people on low incomes
- ***R 7.3*** Scalable and sustainable income generating microenterprise development schemes
- ***R 7.4*** Performance oriented financial capability programs (financial capability bonds)
- ***R 7.5*** Insurance cover for people on low incomes
- ***R 7.6*** Investment in alternative people centred financial services similar to Kiwibank in New Zealand

Financial Action Plans

With alternative financial products broadening their reach in the market there is a very real need to ensure that all Australians have access to information about microfinance initiatives, that they are able to increase their financial literacy and build their resilience. To this end, we strongly advocate for the development of Financial Action Plans and that government takes a lead in developing its own departmental action plans, and offer support and incentives to enable organisations to develop their individual action plans.

Similar to the Reconciliation Action Plans (RAPs) managed by Reconciliation Australia, Financial Action Plans would be incorporated into all businesses and organisations with commitment to financial inclusion and resilience. Good Shepherd Microfinance has commenced a new program aimed to bring in actors to commit to inclusive finance initiatives we know work, to create the conditions where everyone can get access to advice and fair and affordable financial services to enable self-sufficiency and to lift the hope and wellbeing of many people on low incomes.

Good Shepherd Microfinance has been in discussions with Wesfarmers, Australia Post, NAB, Telstra, Origin Energy, The Good Guys, Deloitte and News Corporation, to name a few who would be prepared to be pioneers to launch this project at a national event, potentially involving both Minister Andrews and the Treasurer in late 2014.

These corporate leaders would outline their vision for financial resilience, why it is important to their business and what their role will be with specific actions that are time bound, accountable, measurable and reported on annually.

Good Shepherd Microfinance would convene a panel of respected experts in this area to guide the actions, govern the program and promote the work, with support from our partners Clemenger BBDO and friend Harold Mitchell.

Therefore we strongly recommend:

Recommendation 8 **The Government support and advocate for a systematic nation-wide program to develop financial inclusion and resilience plans for and by all key actors. Similar to Reconciliation Action Plans, these financial inclusion and resilience action plans would enable all actors, businesses, families, communities and government, within their individual sphere of influence, to optimise financial inclusion to mutually benefit people, customers and financial service providers.**

Disclosure vs Understanding

Good Shepherd Microfinance is aware of the lack of information made available to financially excluded customers when they are forced to seek crisis credit and loans. Often the documentation is onerous and far too legalistic for many to understand, especially non-English speaking customers, the visually disadvantaged and those who are illiterate. Although there has been strengthening around the probity of disclosure and policy related to increasing more informed and better trained financial advisors and counsellors, disclosing information does NOT ensure *understanding, nor its verification.*

Good Shepherd Microfinance therefore strongly argues for there to be innovative ways in which customers' understanding of their financial contract and undertaking can actually be verified. For example, following disclosure of the financial undertaking, customers might demonstrate their comprehension and understanding via videoed verbal feedback, or in a written explanation authored by themselves.

Good Shepherd Microfinance therefore urges:

Recommendation 9 **That all financial institutions develop and incorporate into practice, a process by which they are able to *"verify and confirm a customer's understanding"* of their financial undertaking, replacing the simple and shallow commitment to improve "disclosure" and the assumption that it leads to understanding and informed and effective decision making and behaviour.**

Priority Issue No 6: Regulatory architecture

Regulatory issues are covered in our comments in Issue No 2

Emerging Trends

Priority Issue No 7: Retirement incomes and ageing

Priority Issue No 8: Technology opportunities and risks

Good Shepherd Microfinance has no comments to make in these areas.

Priority Issue No 9: International integration

Good Shepherd Microfinance acknowledges the observation made in the Interim report that having a high foreign debt makes Australia vulnerable, and that although Australia weathered the GFC comparatively well, there may not be that same assurance in the future.

We could learn much from the difficulties that some European nations found themselves in post GFC, and equally from some of the strong initiatives and strategies they are employing to combat financial and social exclusion while rebuilding economies and financial systems.

In 2010 the EU developed a strategy in response to the aftermath of the GFC in Europe. The European Commission proposed five measurable EU targets for 2020 to steer an agenda with the capability to deliver smart, sustainable and inclusive growth, to create new jobs and to offer a sense of direction to their societies. Fighting against poverty and social exclusion is one of the five principal objectives of this strategy and the European Commission intends to reduce, by 20 million, the number of persons living in or at risk of, poverty and social exclusion[18]. To monitor its progress, the European Commission consistently measures data across all member states via Eurostat. For example, utilising EU[19] data (2011 and 2012) on income and living conditions (EU-SILC), it was estimated that 17 per cent of the population in the EU-28 were at risk of income poverty, 9.9 per cent were severely materially deprived and 40.2 per cent could not afford unexpected financial expenses.

In developing its 2020 targets the European Commission also recognised that the increased economic interdependence between countries demanded a more determined and coherent response at the political level. It is not simply a problem of economics and budgeting.

As a first step in implementing this agenda, the Commission and the European Investment Bank (EIB) created Jasmine[20] (Joint action to support microfinance institutions in Europe-here) in 2008, which provided mentoring for non-bank microcredit finance institutions and a financing window for a global amount of EUR 20 million offered by the European Investment Bank.

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[18] *European Commission (2010), Communication from the Commission – Europe 2020 – A strategy for smart, sustainable and inclusive growth. Brussels*
[19] *European Commission, Eurostat: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/People_at_risk_of_poverty_or_social_exclusion*
[20] *European Investment Fund: JASMINE – Joint Actions to Support Microfinance Institutions http://www.eif.org/what_we_do/microfinance/JASMINE/*

Following this the European Progress Microfinance Facility was established which enabled selected microcredit providers in the EU to increase lending, by issuing guarantees, thereby sharing the providers' potential risk of loss providing funding to increase microcredit lending[21].

Another financing tool to build resilience is the European Social Fund (ESF) which supports combating poverty through all its priorities by specifically targeting the most vulnerable groups, such as migrants and ethnic minorities, who tend to present higher poverty rates or face higher risks of poverty, and women[22]. Furthermore, the European platform against poverty and social exclusion clearly identifies the need for better use of funds to support social inclusion, and the delivery of actions across the whole policy spectrum such as the labour market, minimum income support, healthcare, education, housing and access to basic banking accounts[23].

Of particular interest is the Commission of European Communities initiative[24] for the development of micro-credit in support of growth and employment which identified four priority areas for action: improving the legal and institutional environment in Member States, changing the climate in favour of employment and entrepreneurship, promoting best practices and *providing additional financial capital for microfinance institutions.*

And lastly, and most relevant to our argument is the legislative proposal from the Commission to give all European citizens access to a basic bank account thereby enabling them to participate fully in the society they live in and take advantage of the benefits of the Single Market[25].

On this evidence Good Shepherd Microfinance would strongly urge the Financial System Inquiry to consider the substantial financial and political investment that has been made in microfinance initiatives in Europe and the positive impacts these are having on the renewed stability in the region.

There is clear evidence at a global level that improving the economic wellbeing of the poorest third of the world's population will have a profoundly positive impact on all people. Economic mobility and resilience at the family and community level directly leads to increased security, human connectedness and hope for everyone. It also enables self-directed action to realise one's own dreams and aspirations, however modest, leading to overall contentment.

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[21] *European Commission (2013) Report from the Commission to the European parliament, the Council, the European Economic and Social Committee and the Committee of the Regions- Implementation Of The European Progress Microfinance Facility — 2012*

[22] *European Commission (2010) The European Social Fund: a cornerstone in the fight against poverty and social exclusion*

[23] *European Commission- Employment, Social Affairs ad Inclusion (2014)*
http://ec.europa.eu/social/main.jsp?catId=961

[24] *Commission of the European Communities (2007) Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the regions - A European initiative for the development of micro-credit in support of growth and employment.*

[25] *Press Release: Bank accounts: Commission acts to make bank accounts cheaper, more transparent and accessible to all* ; " http://europa.eu/rapid/press-release_IP-13-415_en.htm?locale=en

It is not a coincidence that the number of people living in poverty is the same as those that are unable to access appropriate financial services as measured by the World Bank's Findex[26] reports. Indeed, just last month His Holiness Pope Francis convened a conference of some 70 eminent financial and economic scholars and representatives from business and international organizations to address and encourage the idea of an inclusive global economy supported by justice and based on dignity of the human person[27].

In sum, Australia should not rest on its laurels having "survived" the GFC. Rather it needs to perceive itself as an integral part of the Asia-Pacific economy with ever increasing links within the global financial network. Just as the EU and other developed nations are realising the importance of assisting developing economies, Australia is well placed to take an international lead on addressing financial inequity and exclusion within a first-world economy.

[26] *These reports state that only half the world's adults have bank accounts and of those, only 15 per cent believe that their needs are understood and met by the products they have access to.*
[27] *Pontifical Council for Justice and Peace, in collaboration with the Secretariat of State, 2014 "Towards an inclusive economy".*

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