



AUSTRALIAN COLLECTORS &  
DEBT BUYERS ASSOCIATION

26 July 2018

The Hon. Helen Coonan  
Chair  
Australian Financial Complaints Authority

By email: [funding@afca.org.au](mailto:funding@afca.org.au)

Dear Madam

**SUBMISSION IN RESPONSE TO CONSULTATION ON AFCA FUNDING**

The Australian Collectors & Debt Buyers Association (ACDBA) is pleased to provide the attached Submission in response to the *AFCA Funding Consultation Paper* issued by Australian Financial Complaints Authority (AFCA) in July 2018.

If any additional information is required in respect to this Submission please don't hesitate to contact the writer.

Yours sincerely,

**AUSTRALIAN COLLECTORS & DEBT BUYERS ASSOCIATION**

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**ACDBA SUBMISSION TO AUSTRALIAN FINANCIAL COMPLAINTS AUTHORITY:**

## **AFCA Funding Consultation Paper**

**July 2018**

## Introduction

The Australian Collectors & Debt Buyers Association (ACDBA) was established in 2009, for the benefit of companies who collect, buy and/or sell debt - the members of ACDBA (refer Appendix 1) represent the majority of the collection market in Australia.

Our members which purchase debt, each hold an Australian Credit Licence and accordingly will become members of the Australian Financial Complaints Authority (AFCA) upon its commencement of operations.

ACDBA is pleased to provide for AFCA's consideration this submission in response to the *AFCA Funding Consultation Paper (Consultation Paper)*.

## Responses to consultation questions

1. Do you have any fundamental concerns with the high level three phase funding model approach, and if so what are they?

Response:

ACDBA has the following concerns:

**A. AFCA is 33% more expensive than the sum of the cost of the predecessor schemes**

For the 2017 financial year the total cost of the three predecessor schemes was approximately \$61m. In its first full year of operation it is expected that AFCA will cost \$81m.

This is an increase of almost 33% without any explanation.

The Ramsay Review and the Assistant Treasurer both rationalised the creation of a single scheme as a measure to promote efficiency. Far from this being the case, AFCA is significantly more expensive and represents an increased burden on industry, which must ultimately be passed on to users of the financial system.

**B. The additional costs for expanded jurisdiction should not be met by unaffected members**

The changes in jurisdictional limits only affect certain members. Members such as debt buyers and personal (non-housing) lenders will not be affected by the expansion in jurisdictional limits.

To avoid cross subsidisation the component of the 33% cost increase that relates to expanded jurisdictional limits should only be borne by those members affected by the change.

**C. The transition costs are disproportionate to the task of creating AFCA**

In practical terms the business of AFCA is not new - it is essentially FOS taking over CIO and the SCT.

For the most part systems and personnel for AFCA are already in place.

Any duplicated positions within CIO will be terminated by CIO prior to the merger, so such costs won't be borne by AFCA and there should be ongoing savings to the combined scheme as a consequence of those terminations.

The operations of CIO are a subset of the operations already undertaken by FOS. Were all existing CIO members to quit CIO and simply sign up with FOS there would be no transition costs at all and the cost of servicing these members would be met out of ordinary user levies.

In this context \$5.5m seems outsized and disproportionate to the relatively modest transitional and establishment task. Furthermore, the \$1.4m already incurred by FOS also seems outsized and inappropriate. FOS made the decision to incur this cost and should not have an expectation that others who were not a party to such a decision should fund it.

**D. The transition costs should not be cross-subsidised by non-superannuation members**

In light of the fact that AFCA is essentially FOS, with the addition of CIO members, FOS and CIO members should not bear any transitional costs. All the work for AFCA in creating new functions and structures must be attributable to the creation of a new division to deal with superannuation complaints.

To avoid cross-subsidisation all transitional costs should be met by superannuation members alone.

2. Does the proposed interim funding model, including the levy for superannuation trustees, provide a reasonable approach to enable AFCA to establish an evidence base of complaint volumes and flows, and to inform any subsequent long-term funding model?

Response:

Please refer to comments above.

3. Do you have any comments on invoicing arrangements for superannuation trustees in relation to the superannuation levy? In particular, feedback is sought as to the preferred frequency of the invoicing of the superannuation levy for:

- a. FY2018-19 (covering period 1 November 2018-30 June 2019). Invoicing could occur either:
  - i. 100% on 1 November 2018, or
  - ii. 50% on 1 November 2018 and 50% on 1 March 2019.
- b. FY2019-20 (Covering period 1 July 2019 to 30 June 2020). Invoicing could occur either:
  - i. 100% on 1 July 2019
  - ii. 25% on 1 July 2019, 1 October 2019, 1 January 2020 and 1 April 2020; or
  - iii. 50% on 1 July 2019 and 1 January 2020.

Response:

Nil comment as ACDBA members are not involved in the superannuation sector.

4. Are there any other issues that require consideration?

Response:

ACDBA has some additional concerns about the proposed AFCA funding model:

**A. There is nothing in the funding arrangements to promote the efficient operation of AFCA**

The proposed funding calculations are simply based on internal FOS models and structures. There appears to have been no effort to benchmark total costs or drive for more efficient methods of operation.

It looks like AFCA will operate with more than 100 additional full time employees than the sum of the existing schemes. The average salary and on-costs of each staff member will be a staggering \$120,000 pa.

We respectfully submit there needs to be much more transparency, benchmarking and incentive to ensure that AFCA is efficient and expeditious in its operation.

**B. The interim funding arrangements only represent change and uncertainty for ex-CIO members**

The stated rationale for the interim funding arrangements is to provide cost certainty to members and to allow for a period of operation to assess the volume and complexity of complaints before establishing a more comprehensive funding model.

The interim funding model, however provides certainty only to ex-FOS members and superannuation members as:

- i. Ex-FOS members will be completely unaffected as the proposed interim funding arrangement is a replica of the existing FOS arrangement; and
- ii. Superannuation members will face a continuation of the existing levy arrangement, which will bear no relation to the complaints generated by members and the costs of servicing those complaints.

Ex-CIO members will however, face a major upheaval in their fee arrangements which may result in considerable additional cost and unfairness given that the proposal is to apply the FOS fee model to ex-CIO members regardless of fees already paid by CIO members.

By the time of the assumption of the operations of CIO by AFCA the vast majority of CIO members will have already paid their annual membership fees to CIO. CIO's fee model involves a large membership fee, which is calculated with regard to historical complaint volumes for each complaint-generating member.

Upon merging with AFCA ex-CIO members will then pay an additional membership fee of up to another \$26,000 and a user levy (the calculation for which is completely uncertain and undisclosed), together with the FOS complaint fee model.

In essence, complaint-generating ex-CIO members will pay a membership fee to CIO which will cover a significant component of the cost of servicing its complaints for the year and then pay a duplicate membership fee to AFCA and complaint fees/user charges also designed to cover the cost of servicing its complaints.

This means that complaint generating ex-CIO members face the prospect of a substantial, indeterminate and opaque increase in their external dispute resolution costs in one year.

We submit such an outcome is contrary to the objective of the interim funding arrangements.

Ex-CIO members should be subject to a continuation of the existing CIO fee model until a more permanent and comprehensive model is put in place for all AFCA members.

It is simply unfair and discriminatory to leave ex-FOS and superannuation members unaffected while wreaking financial havoc and uncertainty on ex-CIO members.

## Contact

Enquiries in respect to this Submission should be directed in the first instance to:

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## APPENDIX 1 - Listing of Members of Australian Collectors & Debt Buyers Association

- ACM Group Ltd
- Axxess Australia Pty Ltd
- Baycorp (Aust) Pty Ltd
- CCC Financial Solutions Pty Ltd
- CFMG Pty Ltd
- Charter Mercantile Pty Ltd
- Collection House Limited (ASX: CLH)
- Complete Credit Solutions Pty Ltd
- Credit Collection Services Group Pty Ltd
- Credit Corp Group Limited (ASX: CCP)
- Credit Four Pty Ltd
- Credit Solutions Pty Ltd
- illion Australia Pty Ltd
- National Credit Management Limited
- PF Australia Pty Ltd
- Prushka Fast Debt Recovery Pty Ltd
- Shield Mercantile Pty Ltd