

**Review of approved financial dispute resolution scheme (DRS) rules (06 May 2021)
Ministry of Business Innovation and Employment (MBIE)**

Te Ope Whakaora – The Salvation Army New Zealand, Fiji, Tonga, and Samoa Territory

Responses to parameters of the Review

1. The Salvation Army **opposes the framing of this Review**. The framing of the Review, particularly paragraph 8 of the Discussion Paperⁱ is too narrow and does not allow for greater discussion about the merits (and challenges) of combining the four DRS into one scheme. Our views are based on supporting and walking alongside thousands of the most vulnerable, marginalised, and poorest New Zealanders.
2. For these reasons, we have chosen not to follow the submission template provided by MBIE. We believe the framing of this Review is cosmetic tinkering on the periphery with the ‘jurisdictional’ issues of the four schemes, rather than truly digging into and trying to address issues of consumer access and involvement in these schemes. The Salvation Army contends that this is not actually a client or consumer-focused approach.
3. Under section 52(2) of the Financial Service Providers (Registration and Dispute Resolution) Act 2008, **accessibility** is one of the fundamental principles of financial disputes resolution. Furthermore, in paragraph 20 of the Discussion Paper, there is a clear **statement that the main objective of the review is to improve consumer access to redress available through the schemes** (emphasis added).ⁱⁱ If accessibility and improving consumer access are core goals and principles for these four schemes and Review, then we contend that this current approach does not work for most people and families using our various services. Additionally, The Salvation Army has heard the rhetoric from these schemes that they want to serve hard-to-reach groups (like those using our various services) or groups like Maori and Pasifika who are statistically unlikely to engage with these types of schemes. We welcome and support the work some of these schemes have done in this area. But again, dealing with jurisdictional issues like financial limits and time limits for complaints does not really address the barriers to accessibility and consumer access that should be reviewed and addressed by MBIE.
4. Therefore, our submission wants to focus on the **realities of those using our various Christian spiritual and social support services** and how they engage, or why they do not engage, with these schemes.
 - a. Our basic view is that these schemes are often a **‘stretch’** for the people that we serve to use, understand, differentiate, and navigate through. These views are based on our engagement with our clients across various services we provide, but primarily through the national network of financial mentors and staff we have. Therefore, we submit that simplifying these processes is crucial. Additionally, we believe there is clearly **merit in exploring if one scheme** might better serve communities given the numerous disputes resolutions and complaints schemes available in New Zealand.

- b. The main contact point for our clients with the various disputes resolutions schemes available in Aotearoa is through their engagement with **our financial mentor or budgeting staff**. Navigating through the complexities of these schemes is difficult for most New Zealanders, let alone for those facing extreme financial hardship. Therefore, the four financial disputes resolutions schemes (Banking Ombudsman (BOS), Insurance and Financial Services Ombudsman (IFSO), Financial Services Complaints Ltd (FSCL), Financial Dispute Resolution Service (FDRS)) are important services. **But for many of our clients, their complaints or issues will not be presented to these schemes unless they have consistent and strong support from a navigator or support person.**

- c. There is a **unique work of translation happening in these community settings**. That is, navigators like financial mentors and budgeters, or those in Citizens Advice Bureaux or Community Law Centres, help translate the complexities of these schemes for the clients they face. But what these schemes and Government departments do not fully grasp is the scope and complexity of work these community navigators face with their clients that sits within a severely underpaid and under-resourced community and NGO sector. This difficult context therefore affects how these community navigators help clients consider and possible advance and complaint through one of these schemes.

- d. The recent report ***Social Service System: The Funding Gap and How to Bridge It*** captures these realities about the major funding challenges facing the social service sector that indeed affect our own service provision.ⁱⁱⁱ Some of the key findings were:
 - i. Basic operating costs are being underfunded by about \$130 million a year.
 - ii. Wages are being underfunded by about \$300 million a year.
 - iii. The gap between funded and actual (absorbed) demand is nearly \$200 million a year.
 - iv. 83% of providers surveyed are reliant on philanthropy to meet their core costs.

- e. Some of the **impacts** of these funding challenges include:
 - i. The community and provider workforce are underpaid and overworked, with a growing pay gap between the public and private sectors; and
 - ii. The competitive tendering process benefits better resourced providers, providers are incentivised to accept under-funded contracts and disincentivised from collaborating.

- f. **Case Study – Andrew Mitchell, Financial Mentor, Auckland**
 - i. Below is a case study we present to illustrate the difficulty and challenges involved in our budgeters and financial mentors engaging with different financial DRS.
 - ii. *In 2019, I (Andrew) have been working with a family for about 6-months (a married couple with two teenage sons) who have taken on far too much debt. They have unsecured loans with Westpac and Harmony and secured loans with Geneva Finance and Aotea Finance. Each creditor is with a different dispute resolution scheme:*
 1. *Banking Ombudsman (Westpac)*
 2. *Financial Services Complaints Limited (Harmony)*
 3. *Insurance & Savings Ombudsman (Geneva Finance)*
 4. *Financial Dispute Resolution Service (Aotea Finance)*

- iii. *From the evidence I have collected both Geneva Finance and Aotea Finance were irresponsible lenders. However, because their loans are secured by vehicles, they are getting paid \$300pw between them, as my clients don't want to lose their vehicles. My clients stopped paying Westpac and Harmoney several months ago, as these loans are unsecured. They owe Westpac and Harmoney about \$25,000 each. Westpac has recently passed the debt to a debt collector, and Harmoney has sold their debt to Lion Finance, which is owned by a large Australian debt collector (Panthera Finance), which has recently entered the New Zealand market.*
 - iv. *My clients previously had clean credit records but now they each have a default on their record. The result is probably going to be a Summary Instalment Order (SIO) for both husband and wife, even though they have both worked full-time for the last ten years.*
 - v. *I don't think there can be any sort of redress for my clients, as their naive borrowing has contributed to the situation, they find themselves in. However, I am going to write up this case and send it to each of the dispute resolution schemes, and the Commerce Commission, just so they have an actual example of how irresponsible lending combined with naive borrowing can harm both borrowers and responsible lenders. Obviously, it would be much simpler if I could deal with a single dispute resolution scheme.*
5. The current schemes are too complex, complicated, and burdensome for our financial mentors and budgeters to navigate for themselves, and difficult for them to help clients navigate. MBIE has cut any discussion of a single scheme. We challenge that because this bureaucratic complexity might keep plenty of people employed in well-paying jobs. **But this does not increase the accessibility and consumer access for our people and clients.**
 6. As MBIE is aware, in April 2017, the **Review into Disputes Resolution and Complaints Framework** was returned to the Australian Government. The Report makes 11 recommendations that represent an integrated package of reforms that will see the EDR framework well-placed to address current problems and ensure it is designed to withstand the challenges of a rapidly changing financial system. The Panel's central recommendation is the ***establishment of a new single EDR body for all financial disputes (including superannuation disputes) to replace FOS, CIO and SCT (other schemes) (emphasis added).***^{iv}
 7. For these reasons, we are opposed to the framing of this Review and have chosen not to follow the prescribed format for submissions. We welcome any discussion that tries to get to the heart of issues around accessibility, fairness and improving access to these schemes, particularly for poorer and vulnerable New Zealanders. But this current Review is, in our view, not getting to the core of these issues and is instead superficial policy development. The discussion should be focussed on how to best streamline and simplify these processes from a consumer or client-focussed perspective. The current regime might possibly work for most New Zealanders. But for those we work with, who are often the groups DRS really want to engage with, the current regime is not working effectively. The Salvation Army submits that the discussion should be focussed on how to have one scheme that is straight-forward to navigate for all New Zealanders.

Background

8. **The mission of The Salvation Army is to care for people, transform lives and reform society through God, in Christ and by the Holy Spirit's power.** The Salvation Army is a Christian church and social services organisation that has worked in New Zealand for over one hundred and thirty years. It provides a wide range of practical social, community and faith-based services around the country.
 - a. The combined services of The Salvation Army provided support to around 120,000 people per year. These services included over 57,000 food parcels to more than 28,000 families and individuals, providing some 2,400 people with short-or long-term housing, nearly 7,000 families and individuals supported with social work or counselling, just over 17,000 addictions counselling sessions, more than 5,500 families and individuals helped with budgeting, other practical assistance to over 6,000 families and individuals, 6,500 hours of chaplaincy support, and some 9,000 victims, defendants and families supported at court.
9. This submission has been prepared by the Social Policy and Parliamentary Unit (SPPU) of The Salvation Army. The SPPU works towards the eradication of poverty by encouraging policies and practices that strengthen the social framework of New Zealand. This submission has been approved by Commissioner Mark Campbell, Territorial Commander of The Salvation Army's New Zealand Fiji Tonga, and Samoa Territory.

ⁱ Retrieved from <https://www.mbie.govt.nz/dmsdocument/13754-discussion-paper-review-of-the-approved-financial-dispute-resolution-scheme-rules>

ⁱⁱ Ibid, page 10.

ⁱⁱⁱ Retrieved from https://sspa.org.nz/images/Social_Service_System_-_The_Funding_Gap_and_How_to_Bridge_It_-_FULL_REPORT_FINAL.pdf

^{iv} https://static.treasury.gov.au/uploads/sites/1/2017/06/R2016-002_EDR-Review-Final-report.pdf, retrieved 13 September 2019.