Australian
Finance
Industry
Association

27 January 2023

The Hon Stephen Jones MP

Assistant Treasurer and Minister for Financial Services

Treasury

Langton Cres

Parkes ACT 2600

Submitted via email to: PreBudgetSubmissions@treasury.gov.au

Dear Minister Jones,

2023-24 Pre-Budget submission

The Australian Finance Industry Association (AFIA) is the only peak body representing the entire finance industry in Australia.[1] We appreciate the opportunity to respond to the Government's call for 2023-24 Budget submissions.[2]

We represent over 150 members, including bank and non-bank lenders, finance companies, fintechs, providers of vehicle and equipment finance, car rental and fleet providers, and service providers in the finance industry. We are the voice for advancing a world-class finance industry and our members are at the forefront of innovation in consumer and business finance in Australia. Our members finance Australia's future.

We collaborate with our members, governments, regulators and customer representatives to promote competition and innovation, deliver better customer outcomes and create a resilient, inclusive and sustainable future. We provide new policy, data and insights to support our advocacy in building a more prosperous Australia.

[1] Australian Finance Industry Association (afia.asn.au).
[2] Treasury, *2023-24 Pre-Budget submissions* (5 December 2022).

INTRODUCTORY COMMENTS

On 5 December 2022, the Assistant Treasurer and Minister for Financial Services, the Hon Stephen Jones MP, called for submissions regarding the 2023-24 budget process.[3] AFIA is proud to contribute to this process, as the only peak body representing Australia's entire finance sector, which contributes approximately $185.1 billion to Australia's Gross Domestic Product (GDP).[4]

According to the Australian Bureau of Statistics (ABS), Australia's total annual GDP to September 2022 was $2.3 trillion.[5] Yet, the Reserve Bank of Australia (RBA) estimates total credit provided to Australian businesses and consumers is $3.46 trillion.[6] This means the total amount of credit in the Australian economy is equal to 150.43 per cent of GDP.

Through providing credit, the Australian finance sector stimulates our economy and helps individuals and businesses to invest, thrive, achieve their aspirations and fulfill their dreams.

AFIA welcomes the Government's indications it will take a measured approach to the 2023-24 Budget process, balancing fiscal responsibility with investments in long-term growth to benefit all Australians. The Treasurer has said:[7]

> *[W]e will continue to make the Budget more responsible and our economy more resilient, but there'll be a greater focus on growth as well – growth that is stronger, more sustainable and more inclusive, where more Australians get a slice of the economic success they help create.*

We support this approach. However, AFIA notes the Budget does face substantial challenges which require bold thinking and assiduous economic management to overcome.

High levels of debt and deficit may restrict governmental capacity to make decisions requiring large financial expenditures. The necessary measures taken during COVID-19 led to an underlying annual cash deficit of $36.9 billion (1.5 per cent of GDP) in the October 2022-23 budget.[8] Meanwhile, accumulated gross debt reached over $1 trillion (40.8 per cent of GDP).[9]

This problem is complicated by increasing demand for government services as Australia's population ages. The proportion of Australians aged over 65 has doubled in the last 70 years. By 2032-33 there will be 31.2 people in this category for every hundred working Australians, up from 25.9 in 2020-21.[10]

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[3] The Hon Stephen Jones MP (Assistant Treasurer and Minister for Financial Services), *Call for pre-Budget submissions* (5 December 2022).
[4] IBIS World, *Finance in Australia* (31 March 2022): Finance in Australia - Market Size | IBISWorld.
[5] Australian Bureau of Statistics (ABS), *Key National Accounts Aggregates* (September 2022), Table 1, Column CT: Australian National Accounts: National Income, Expenditure and Product, June 2022 | Australian Bureau of Statistics (abs.gov.au)
[6] RBA, *Lending and Credit Aggregates* (September 2022), Table D2, Column H: Statistical Tables | RBA.
[7] The Hon Dr Jim Chalmers (Treasurer of Australia), 'This is Hawke and Keating for the 2020s', *The Australian Financial Review* (9 January 2023).
[8] Budget Paper 1, 2. All references to budget papers are references to the October 2022-23 Budget, unless otherwise indicated.
[9] Budget Paper 1, 6 – $1.004 trillion to be precise, growing to $1,159 trillion by 2025-26 (43.1 per cent of GDP).
[10] Roshena Campbell, 'One for the country: do we need another baby bonus?' *The Age* (9 January 2023) citing statistics from the Australian Government's *2022 Population Statement*.

A strong economy has led to low unemployment. This is a blessing for the 242,000 Australian who have found work since May 2022, with unemployment remaining remarkably low at 3.5 per cent.[11]

However, low unemployment has made hiring new employees increasingly difficult for business. According to the most recent data, job vacancies are at 444,200, just down from their record peak of 480,000 in May 2022.[12] Furthermore, a recent survey of Chief Executive Officers (CEOs) also found 90 per cent say they 'can't find staff'.[13]

Regrettably, low unemployment has not led to higher real wages. Median wages are up 4.2 per cent annually according to the latest data.[14] However, importantly, this has not kept pace with inflation, with the Consumer Price Index (CPI), increasing 7.8 per cent annually.[15]

Given this, AFIA recognises the Government faces a complex task in mapping out a budgetary plan which simultaneously deals with Australia's debt and deficits in a compassionate yet responsible way, maintains low unemployment, increases real wages and tames ongoing inflationary pressures.

Attachment A provides AFIA's proposals for continued prosperity and inclusive, sustainable growth to benefit all Australians. Our recommendations are grouped under three themes aligned to our strategic priorities. These are – sustainability; the digital economy and a safe, transparent financial system; and improving consumer outcomes, financial inclusion and proportionate regulation.

Attachment B of this submission provides AFIA's further detailed analysis of the current economic outlook and Australia's present budgetary position.

Attachment C of this submission provides an outline of AFIA members' contributions to sustainability and net-zero initiatives.

CLOSING COMMENTS

I would appreciate the opportunity to discuss our recommendations and provide further information. Please feel free to contact me at diane.tate@afia.asn.au.

Yours sincerely

Diane Tate
Chief Executive Officer

[11] ABS, *Australian Labour Force Data* (latest release, December 2022 measuring November 2022).
[12] ABS, *Job Vacancies* (latest release, January 2023 – measuring November 2022).
[13] Michael Read, 'More job gains likely as 90pc of CEOs say they can't find staff' *Australian Financial Review* (9 January 2023).
[14] ABS, *Weekly Earnings* (latest release, December 2022 – measuring August 2022).
[15] ABS, *Consumer Price Index* (latest release, January 2023 – measuring the year to December 2022).

ATTACHMENT A: AFIA'S SPECIFIC POLICY RECOMMENDATIONS

As outlined in the covering letter of this submission, AFIA supports the Treasurer's stated desire for an economic policy which marries 'responsible' fiscal management with the pursuit of growth which is 'stronger, more sustainable and more inclusive'. [16]

Our specific policy solutions for continued shared economic prosperity will be grouped under three broad themes which accord with AFIA's strategic priorities. These themes are:

1. driving sustainability and achieving our net-zero ambitions
2. supporting the digital economy and a safe and transparent financial system
3. improving consumer outcomes, financial inclusion, and proportionate regulation.

Theme 1 – Driving sustainability and achieving our net-zero ambitions

AFIA is passionately committed to sustainability, as evidenced by our active engagement in this space. In the last six months, we successfully advocated for the removal of Fringe Benefits Tax (FBT) on electric vehicles (EVs) and hybrid vehicles before the Senate Economics Legislation Committee.[17] We also made a submission to the National Electric Vehicle Strategy (NEVS) consultation.[18]

AFIA has vocally supported initiatives, such as the Clean Energy Finance Corporation (CEFC)'s $100 million investment partnership with AFIA member, Taurus Motor Finance, to directly subsidise the purchase of EVs.[19]

AFIA believes in schemes which could be used to provide support to small businesses seeking to transition to net-zero. Potential programs that could be used to achieve this goal include: low interest loans or loans with tax deductible interest. Furthermore, the Government may consider looking to pre-existing schemes such as the Small Business Growth Fund, the Small and Medium Enterprise (SME) Recovery Loan (SMERL) scheme and the SME Guarantee (SMEG) scheme. Greater support for small businesses in the area could all be provided by the CEFC or Australian Office of Financial Management (AOFM).

The Government must maintain its commitment to encouraging Australians to transition to cleaner, green forms of personal transport, given the transport sector accounts for 17.4 per cent of our emissions.[20] It will be impossible for Australia to lower our emissions and meet the Government's legislated target of at least a 43 per cent reduction in emissions by 2030 on

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[16] The Hon Dr Jim Chalmers (Treasurer of Australia), 'This is Hawke and Keating for the 2020s', *The Australian Financial Review* (9 January 2023).
[17] AFIA Senior Policy Adviser, Sebastian Reinehr, gave evidence to the Committee Inquiry into the Treasury Laws Amendment (Electric Car Discount) Bill 2022 on 23 August 2022, speaking to AFIA's submission.
[18] AFIA Submission on the NEVS.
[19] CEFC, 'CEFC finance drives down green car loan cost to accelerate Australia's EV uptake' (28 November 2022).
[20] CSIRO, 'What are the sources of Australia's greenhouse gases?' (accessed on 23 January 2022).

2005 levels without continued and increased action to foster the transition to green mobility.[21] It will be vital for us to find ways to fast-track and frontload key initiatives to ensure our emissions reduction trajectory is achievable.

As the Hon Chris Bowen MP, Minister for Climate Change and Energy has said:[22]

> *The time for action is now, we don't have a second to waste.*

In line with AFIA's commitment to sustainability and decarbonisation, we urge that the following measures from the October 2022-23 Budget be maintained or increased:

1. Initiatives to fast-track uptake of EV, hybrid and alternative powered vehicles, particularly in infrastructure necessary to support the transition of transportation, including charging infrastructure and investment in renewables so the grid is powered by sustainable energy. The Government is acting on green mobility. Their *Powering Australia Programs* from 2022-23 onwards, provide over $22.93 billion, including for major renewable energy and transmission upgrades.

AFIA strongly supports initiatives designed to encourage Australians to move towards green mobility. These include.

1.1 $275.4 million over 6 years, to double the Commonwealth's total investment in clean transport and charging infrastructure to $500 million.

AFIA believes this measure is essential as Australia continue to transition to a low carbon economy, given 17.4 per cent of Australia's emissions are directly related to transport and a further 33.6 per cent relates to electricity generation. This means, in total 51 per cent of Australia's total emissions flow either from transport or energy sources which can be used to power transport through charging EVs. Given this, expanding investment in charging infrastructure and renewables is essential.

1.2 The $500 million *Driving the Nation* fund includes:[23]

- $146.1 million for the Australian Renewable Energy Agency to co-invest in projects to reduce emissions from Australia's road transport sector.
- $89.5 million for the Hydrogen Highways initiative to fund the creation of hydrogen refuelling stations on Australia's freight routes.

[21] *Climate Change Act 2022* (Cth) s 10(1)(a).
[22] *The Australian*, 'The time for action is now': climate bill introduced' (27 July 2022).
[23] Ibid, 70.

- $39.8 million to establish a National Electric Vehicle Charging Network to deliver 117 fast charging stations on highways across Australia.
- $14 million over 4 years from 2022–23 for the Australian Automobile Association to conduct on-road emissions and fuel consumption testing of light vehicles.

AFIA believes there is an opportunity for Government to accelerate moves towards net zero by partnering with car rental companies to direct funding to initiatives supporting transitions to green mobility in the car rental sector. Specifically, AFIA recommends Federal and State Governments work together to:

- Direct a portion of the $500 million 'Driving the Nation Fund' (and equivalent state programs), to upgrading energy infrastructure for car rental facilities, both at airports and adjacent to airport grounds (known as 'off-airport locations). This would benefit clients from airports and surrounding consumer business hubs.
- Streamline application processes for State-based approvals to upgrade facilities by adding power generation capacity to charge EVs on a large scale.

1.3 Removing FBT from eligible zero and low emissions vehicles, decreasing receipts by $410 million over the forward estimates.[24] AFIA urges this scheme be expanded so home charging stations can be included in FBT-exempt packages which benefit from the measure, saving drivers a major upfront expense when they seek to move to EVs.[25] AFIA also urges the Commonwealth work with State Government's to harmonise the eligibility criteria for and tax treatment of benefits related to EV uptake.[26]

1.4 $15.9 million to reduce Australian Public Service (APS) emissions via adoption of a low emissions vehicles target of 75 per cent by 2025.[27]

1.5 The Clean Energy Finance Corporation (CEFC)'s $100 million investment partnership AFIA member, Taurus Motor Finance to directly subsidise the purchase of EVs.[28]

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[24] Ibid, 18.
[25] AFIA Submission on the Treasury Laws Amendment (Electric Car Discount) Bill 2022, 20-22.
[26] Ibid, 22.
[27] Budget Paper 2, 109.
[28] CEFC, 'CEFC finance drives down green car loan cost to accelerate Australia's EV uptake' (28 November 2022).

AFIA further supports the government programs outlined below:

2. Restoring Treasury's Capability on Climate Risks and Opportunities – modelling and reporting standards. The Government is providing $36.1 million over 4 years from 2022–23 (and $6.9 million per year ongoing) to support government priorities related to climate modelling and the development of climate reporting standards.[29]

   AFIA has been advocating for greater cooperation between government and business to develop the necessary reporting frameworks. The funding includes:[30]
   - $29.8 million over 4 years from 2022–23 (and $6.9 million per year ongoing) for the Treasury to restore capability to model climate risks and opportunities.
   - $6.2 million over 4 years from 2022–23 for the Treasury and the Australian Accounting Standards Board (AASB) to develop and introduce climate reporting standards for large businesses and financial institutions, in line with international reporting requirements.
   - AFIA has been directly involved with the Australian Sustainable Finance Institute (ASFI)'s Taxonomy Project, which we support as a useful input to inform the development of these standards.[31]

3. Establishing the 'Powering the Regions Fund', worth $1.9 billion to provide clean energy investments in rural and regional areas.[32]
4. $224.3 million for 400 community batteries to reduce power prices.[33]
5. $20 billion to establish the 'Rewiring the Nation' fund, to modernise Australia's electricity grid.[34]
6. $102.2 million to establish 'Community Solar Banks' for regional communities, social housing, apartments, rentals and other forms of accommodation which would otherwise struggle to access rooftop solar.[35]
7. Australia's International Climate Step-Up - $45.8 million over 6 years from 2022–23 to restore Australia's reputation and increase international engagement on climate change and energy transformation issues. This funding will allow for leadership and engagement in the United Nations Framework Convention on Climate Change, including to secure a bid to host a Conference of the Parties in partnership with Pacific Island Nations.[36]
8. Additional resourcing for the Department Climate, Energy, the Environment and Water (DCEEW) - $275.7 million over 4 years from 2022–23 (and $60.5 million per year

[29] Ibid, 190.
[30] Ibid.
[31] ASFI Taxonomy Project.
[32] Budget Paper 2, 71.
[33] Ibid, 62.
[34] Ibid, 72.
[35] Ibid, 73.
[36] Ibid, 56.

ongoing) to support establishing a strong Department responsible for these important issues.[37]

AFIA strongly urges that funding to these programs be maintained or increased, so Australia can continue transitioning to net-zero and meet our legislated emissions reduction targets.

All the initiatives outlined above should also be better and more widely publicised, through a government hub dedicated to informing individuals and businesses about the sustainability programs from which they could benefit. This will ensure those who need these programs most are able to access them.

Furthermore, to foster continued, sustainable and inclusive growth, AFIA agrees with the Australian Chamber of Commerce and Industry (ACCI) that we need to ensure all programs related to skills, employment and migration are geared towards supporting and sourcing the labour force of the future, who can meet our skills shortages and power our future prosperity. Specifically, we support an increase in the cap on skilled migration to 200,000 for the next two years, streamlining visa categories, making it easier for skilled migrants to receive permanent residency and the reduction of red tape throughout our immigration program.

Theme 2 – Supporting the digital economy and a safe and transparent financial system

Another of AFIA's strategic priorities relates to digital innovation and data. Our advocacy focuses strongly on this area. For example, we have recently made numerous submissions related to the Consumer Data Right (CDR). These include submissions to Treasury consultations related to CDR action initiation; CDR expansion to telecommunications and CDR expansion to the non-bank lending sector.[38]

AFIA concurs with the Treasurer that, alongside the transition to net-zero, innovation in the digital economy is essential to Australia's continued economic recovery and prosperity. The Hon Dr Jim Chalmers MP has said:[39]

> *The energy transition and adoption of new technologies in new and traditional areas of economic strength will be the defining phenomena of this decade and possibly the defining opportunities for this government.*

However, as recent events have made abundantly clear, we must always balance the benefits of technological innovation against the need to safeguard Australians' personal information,

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[37] Budget Paper 2, 58.
[38] See AFIA CDR submissions on action initiation; telecommunications and non-bank lending.
[39] The Hon Dr Jim Chalmers (Treasurer of Australia), 'This is Hawke and Keating for the 2020s', *The Australian Financial Review* (9 January 2023).

data and privacy. As the Australian Information and Privacy Commission, Angelene Falk, said following the 2022 Optus data breach:[40]

> *Organisations should make sure that they are only gathering personal information that is necessary to carry out their business. When that information is no longer required, they must take reasonable steps to destroy or de-identify the personal information they hold. Collecting and storing unnecessary information breaches privacy and creates risk.*

The ubiquitous use of data and technology is leading to greater risks of scams and threats to Australians personal privacy. For example, IDCARE, Australia and New Zealand's national identity and cyber support service, estimates that in the last 24 months there have been over 24 million data breach notifications sent to Australians.[41] Furthermore, according to Government estimates, Australians lost $2 billion to scams in 2021 and as much as $4 billion to scams in 2022.[42]

Australians have the right to feel safe and secure as they utilise the tremendous benefits unlocked by technology. As a nation, we also need to continue striving to be at the cutting edge of the new economy created by digital innovation, by investing in the skills and industries of the future.

Given this context, AFIA supports the further investigation of, and investment in, schemes which allow public and private organisations (especially financial institutions) to share data more readily after there has been a proven cyberattack and/or data breach, to ensure customers whose data or information may have been compromised can be appropriately notified and protected and action can be taken to strengthen defences against future attacks as quickly as possible.

This could be modelled on approaches already taken under the Trusted Information Sharing Network (TISN), administered by the Department of Home Affairs, which allows critical infrastructure 'owners and operators' to share information on 'threats and vulnerabilities' and 'collaborate on appropriate measures to mitigate risk and boost resilience'.[43]

AFIA also strongly supports continued or increased funding for the following Government initiatives, to continue driving technological innovation whilst protecting Australians against cyber risks through investing in the relevant skills and training programs:

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[40] Matthew Knott and Nick Bonyhady, 'Privacy laws to be overhauled as Dreyfus questions why Optus kept customers' details', *The Age* (29 September 2022).
[41] IDCare, *Data breaches and scam risks – what you need to know* (accessed on 17 January 2023).
[42] Poppy Johnston, 'Disturbing' cost of scams targeting Aussies revealed as experts warn of 'scumbag' criminals', *7News* (8 November 2022).
[43] Trusted Information Sharing Network (TISN): <TISN sectors (cisc.gov.au)>

1. The Cyber hubs – pilot extension - $31.3 million in 2022–23 to extend the Cyber Hubs pilot, utilising four Cyber Hubs, to deliver cyber security capabilities to Commonwealth entities.[44]
2. Supporting Talent and Leadership in Australian Science and Technology - $47.2 million over 6 years from 2022–23 to support the development of talent and leadership in Australian science and technology. Funding includes:[45]
    - $13.5 million over 4 years from 2022–23 to strengthen coordinated policy capability to identify and support Australian development of critical and emerging technologies.
    - $5.8 million over 5 years from 2022–23 to support women in science, technology, engineering, and maths (STEM) through the Women in STEM and Entrepreneurship program and to undertake an independent review of existing STEM programs.

3. The Better Connectivity Plan for Regional and Rural Australia - $757.7 million over 5 years from 2022–23 to improve mobile and broadband connectivity and resilience in rural and regional Australia, including:[46]
    - $400 million over 5 years from 2022–23 to support the roll out of mobile base stations to improve highway and underserviced community mobile coverage, and initiatives to improve the resilience of communications services to support the roll out of base stations to improve highway and underserviced community mobile coverage.
    - $200 million over 5 years from 2022–23 for two additional rounds of the Regional Connectivity Program to fund the delivery of telecommunications infrastructure to improve digital connectivity in regional, rural and remote Australia.
    - $40 million over 3 years from 2022–23 for an improving mobile coverage round of the Mobile Black Spot Program to implement commitments for new mobile infrastructure to improve mobile coverage and reception quality across Australia.
    - $39.1 million over 5 years from 2022–23 for two additional rounds of the Peri-Urban Mobile Program to improve mobile reception in peri-urban areas that are prone to natural disasters.
    - $30 million over 5 years from 2022–23 for the On Farm Connectivity Program to support farmers and agricultural businesses to purchase and install on farm connectivity equipment.

[44] Budget Paper 2, 106.
[45] Ibid, 156.
[46] Ibid, 158.

4. AFIA recommends funding from the following items in the October 2022-23 Budget be apportioned to recognise the prime importance of sourcing and training workers skilled in technology, data and cyber security, to drive innovation and productivity:
   - $12.9 million allocated to Jobs and Skills Australia (JSA).[47]
   - $61.9 million allocated to incentivising pensioners into the workforce.[48]
   - The $15 billion National Reconstruction Fund, which was developed to: 'support, diversify and transform Australian industry and the economy through targeted co-investments in priority areas'.[49]
   - $44.2 million for 'skilled migration funding' to 'increase visa processing capacity and raise awareness of opportunities for high-skilled migrants in Australia's permanent Migration Program'.[50]
   - $921.7 million allocated to fee-free TAFE and the TAFE Technology Fund, including $871.7 million over 5 years from 2022–23 to provide 480,000 fee-free Technical and Further Education (TAFE) and vocational education places in industries and regions with skills shortages.[51]
   - $59.9 million over the forward estimates for additional resourcing in the Attorney-General's portfolio following the Optus data breach, including an additional $5.5 million provided to the Office of the Australian Information Commissioner (OAIC) to manage the repercussions of data breaches.[52]

In addition, AFIA also strongly supports the Assistant Treasurer's announcement of a further $10 million, provided to the Australian Competition and Consumer Commission (ACCC), to set up a new National Anti-Scam Centre.[53] This was part of $12.6 allocated to 'fighting online scams'.[54]

AFIA strongly supports maintaining or increasing the funding to the measures outlined above, with the twin objectives of promoting the benefits that flow from the digital economy and protecting Australians' cyber-security, data and privacy.

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[47] Budget Paper 2, 100.
[48] Ibid, 181.
[49] Ibid, 153.
[50] Ibid.
[51] Ibid, 104.
[52] Ibid, 47.
[53] Poppy Johnston, 'Disturbing' cost of scams targeting Aussies revealed as experts warn of 'scumbag' criminals', *7News* (8 November 2022).
[54] Budget Paper 2, 188.

Theme 3 - Improving consumer outcomes, financial inclusion, and proportionate regulation

In line with AFIA's strategic priorities on financial inclusion and diversity and proportionate, scalable and targeted regulation, AFIA advocates for a financial system which promotes participation, accessibility, and prosperity for all Australians.

AFIA and our members are passionately committed to promoting economic growth which is inclusive and provides appropriate safeguards and consumer protections which respond to demonstrated consumer harms.

It is for these reasons AFIA has led the way in promoting industry Codes of Practice which go beyond what is required by the law to protect consumers and promote beneficial outcomes in terms of high industry standards and innovation in products, services and technologies. Our Codes of Practice cover a broad range of sectors, including:[55]

- Online Small Business Lending
- Car Rental
- Insurance Premium Funding, and
- Buy Now, Pay Later.

AFIA meets regularly with consumer representatives and has supported the Government's consultations related to mitigating potential consumer harms, including on the Compensation Scheme of Last Resort (CSLR) for financial services; the Financial Accountability Regime (FAR), and the Financial Counselling Industry Funding Model (IFM).[56]

AFIA has vocally supported the implementation of all recommendations of the Hayne Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.[57] As our submission on the FAR stated:[58]

> *Australians should rightly be able to expect high standards of ethics and propriety from those whom they trust to deal with their money and assets.*

These efforts demonstrate AFIA is committed to good consumer outcomes. As outlined in AFIA's submission on the Australian Securities and Investments Commission (ASIC's) consultation on their Industry Funding Model (IFM), which funds the costs of ASIC's regulatory and enforcement activities:[59]

[55] AFIA Codes.
[56] See AFIA submissions on the CSLR, FAR and IFM for Financial Counselling.
[57] Misconduct in the Banking, Superannuation and Financial Services Industry | Royal Commissions.
[58] AFIA submission on the FAR, 2.
[59] AFIA's submission on the ASIC IFM, 2.

> *[AFIA members]…always strive to act in accordance with the highest standards of propriety and comply with all their legal obligations.*

For these reasons, AFIA strongly supports continued appropriate funding for the relevant regulators across the finance sector, to ensure good consumer outcomes.

In the October 2022-23 Budget, total funding of key economic regulators, like the ACCC, APRA, AUSTRAC, ASIC, ATO and OAIC was $19.4 billion.[60] This should be maintained.

To promote good consumer outcomes, AFIA supports continuing or expanding funding for the Government programs regarding financial literacy and helping those enduring financial hardship. These include:

1. $15.1 for the Small Business Debt Helpline and the NewAccess for Small Business Owners programs to support the financial and mental wellbeing of small business owners.[61]
2. $3.4 million for small businesses providing paid Family and Domestic Violence leave.[62]
3. AFIA supports the at least $1.5 million in Government seed funding to underpin the Industry Funding Model for financial counselling.[63]
4. Funding for the Rural Financial Counselling Service to offer free, unbiased, professional financial counselling to primary producers in or at risk of financial hardship.' This program promotes financial inclusion in rural and regional areas.[64]
5. Commonwealth resources related to financial counselling.[65]
6. The MoneySmart financial literacy resource.[66]
7. The MoneyManaged financial literacy resource.[67]

AFIA further agrees with ACCI that, to promote financial inclusion the Government should:

- maintain adequate funding to employment services that assist the long-term unemployed
- make disability employment services more accessible to increase the participation and empowerment of people living with disabilities
- encourage pensioners to participate in the workforce where they wish to do so contributing their valuable spills and experience, and
- take a wholistic approach to properly funding childcare, which also boosts participation rates.

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[60] Budget Paper 4.
[61] Ibid, 193.
[62] Ibid, 102.
[63] Department of Social Services, *Financial Counselling Industry Funding Model Discussion Paper* (November 2022).
[64] https://rfcsnsw.com.au/.
[65] Commonwealth Financial Counselling | Department of Social Services, Australian Government (dss.gov.au).
[66] Home - Moneysmart.gov.au,
[67] Money Managed for teens | Financial capability.

AFIA strongly supports an inclusive financial system which balances the benefits of a thriving economy against the need to support consumers from the risk of demonstrable harms. For these reasons, we support the budgetary measures outlined above.

Summary of recommendations

AFIA is strongly supportive of the Government's approach to growth which is, in the Treasurer's words, 'stronger, more sustainable and more inclusive'.[68] As outlined above, we support the continuance or expansion of Government programs aligned with AFIA's strategic priorities, especially those related to sustainability, the digital economy and a safe and transparent financial system and improving consumer outcomes.

[68] The Hon Dr Jim Chalmers (Treasurer of Australia), 'This is Hawke and Keating for the 2020s', *The Australian Financial Review* (9 January 2023).

ATTACHMENT B: ANALYSIS OF THE CURRENT ECONOMIC OUTLOOK, WHICH HAS GUIDED OUR RECOMMENDATIONS

Economic Trends

Since the 2022-23 October budget, GDP, consumption and business investment has dropped, while inflation and unemployment have remained at historically high and low levels, respectively. Potential relief in energy costs and labour shortages over the coming year may ease business input costs, shifting some upward pressure from inflation to unemployment while lifting growth expectations.

Real GDP growth was 5.9 per cent in the year to September 2022, compared with 3.9 per cent growth recorded in the October budget for 2021-22.[69] This partly reflects the strong growth in the December quarter of 2021 (3.8 per cent quarter-on-quarter) which followed a one-quarter contraction in September 2021. Quarterly growth in September 2022 was 0.6 per cent, or 2.4 per cent in annualised terms. The October budget forecasted growth of 1.5 per cent over 2023-24, indicating the likelihood of a slowdown in coming quarters.

Household consumption grew 1.1 per cent in the September quarter of 2022 to be 11.8 per cent higher over the year.[70] Much as with real GDP growth, this figure is partly due to the base effect, as consumption fell 4.9 per cent in the September quarter of 2021 before rebounding by 6.4 per cent in the December quarter. On an annualised basis, consumption growth in the September quarter of 2022 was 4.5 per cent. Resilient consumption over 2021-22 may have been partly financed by the strong savings buffers households built up over the course of the pandemic. The decline in the household savings ratio, approaching the pre-pandemic level of approximately 7 per cent, may indicate that households do not have much further to extend themselves in the context of declining real wages.[71]

Dwelling investment increased by 0.3 per cent in the September quarter of 2022, following four quarters of stasis and contraction in 2021-22.[72] November 2022, new housing loan commitments had fallen 26 per cent from the January 2022 peak, before the commencement of the interest rate rising cycle.[73] Business turnover in the construction industry fell 1 per cent in November 2022, reflecting this drop off in investment.[74] External refinancing grew 20.4 per cent in the year to November 2022 to a record high, as mortgage holders seek to avoid the full impact of the rate rises.[75]

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[69] ABS (September 2022), Australian National Accounts: National Income, Expenditure and Product, ABS Website, accessed 23 January 2023; October 2022-23 Budget Paper 1, 6.
[70] ABS (n 69).
[71] Ibid.
[72] Ibid.
[73] ABS (November 2022), Lending indicators, ABS Website, accessed 23 January 2023.
[74] ABS (November 2022), Monthly Business Turnover Indicator, ABS Website, accessed 23 January 2023.
[75] ABS (n 73).

Business investment fell 0.6 per cent in the September quarter of 2022, with declines in equipment investment only partially offset by construction investment.[76] This left business investment 1.7 per cent higher over the year to September 2022. Non-mining investment rose 0.4 per cent, offsetting a 5.1 per cent fall in mining investment.

Inflation reached 7.8 per cent annually in the December quarter of 2022, the highest level since the adoption of the inflation targeting regime by the Reserve Bank of Australia.[77] On a monthly basis, inflation has remained near 7 per cent since June 2022.[78]

The cash rate reached 3.10 per cent in December 2022 after eight consecutive rises. Current market expectations indicate a peak of approximately 3.54 per cent in September 2023.[79]

The unemployment rate has remained at 3.5 per cent in trend terms since August 2022, up a near 50-year low.[80] Underutilisation has also been historically low, at 9.4 per cent, reflecting broad tightness in the labour market. The number of employed people is now 5.8 per cent higher than the pre-pandemic peak, reflecting a jump in participation alongside low unemployment. Flatlining trend unemployment, underutilisation and participation may indicate that the positive labour market outlook has run its course, as monetary tightening and cost pressures have begun to weigh on hiring decisions. A post-pandemic rebound in migration may also help fill critical labour and skills shortages across the economy, with almost twice the number of job vacancies reported in November 2022 than pre-pandemic and over a quarter of businesses reporting vacancies.[81]

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[76] Australian Bureau of Statistics (September 2022), Private New Capital Expenditure and Expected Expenditure, Australia, ABS Website, accessed 23 January 2023.
[77] Australian Bureau of Statistics (December quarter 2022), Consumer Price Index, Australia, ABS Website, accessed 23 January 2023.
[78] Australian Bureau of Statistics (November 2022), Monthly Consumer Price Index Indicator, ABS Website, accessed 23 January 2023.
[79] Reserve Bank of Australia, Cash Rate Target, <https://www.rba.gov.au/statistics/cash-rate/>, accessed 23 January 2022.; Australian Securities Exchange, ASX 30 Day Interbank Cash Rate Futures Implied Yield Curve as at market close on 20 January 2023, <https://www.asx.com.au/data/trt/ib_expectation_curve_graph.pdf>, accessed 23 January 2022.
[80] Australian Bureau of Statistics (December 2022), Labour Force, Australia, ABS Website, accessed 23 January 2023.
[81] Australian Bureau of Statistics (November 2022), Job Vacancies, Australia, ABS Website, accessed 23 January 2023.

ATTACHMENT C: AFIA MEMBERS' CONTRIBUTIONS TO SUSTAINABILITY

Australian corporates and EVs

The EV Council says Australian corporates and government fleets have the potential to drive the EV revolution in Australia, as they make up 52 per cent of annual new vehicle sales.[1]

AFIA fleet members are working with their corporate and government customers on EV fleet solutions that could provide the critical mass to elevate EV adoption in Australia. One such partnership is between AFIA members, SG Fleet, one of Australia's largest fleet providers to both corporates and governments, and Bendigo & Adelaide Bank, Australia's fifth largest consumer bank.

The regional bank has committed to a Climate Change Action Plan which includes goals to purchase 100 percent renewable energy by 2025 and reduce absolute emissions by 50 percent by 2030. Adopting EVs as part of its corporate fleet for Bendigo Adelaide employees, like mobile bankers, is an important part of the bank's strategy.

Partnering with SG Fleet, three members of the Bendigo & Adelaide Bank team are trialing a Nissan Leaf E+, which will help inform its EV strategy on how it can best transition its entire fleet to EVs.

This is part of SG Fleet's eStart Zero Emission Vehicle Transition Planning service, which plans and executes the transition from internal combustion to lower emission vehicles for its customers' fleets. The number of EVs in the managed fleet increased by 128% in 2021-22.

Transitioning corporate fleets to EVs will make a meaningful impact to the number of EVs on Australian roads, both as new vehicles and later as used cars. In its NEVS, the Government has committed to an EV target of 75% of new leases and purchases in the Commonwealth fleet by 2025.[82]

State and territory governments have also signalled they are planning to bring more EVs into their fleets. Together with corporate purchases, this will lead to more EVs will be available in the second-hand market and increase the accessibility of EVs to more Australians.

Australian car rental companies

Australia's car rental companies know they play a vital role in building the confidence of Australian motorists when it comes to the EV shift.

[82] October 2022-23 Federal Budget, Budget Paper No. 2, 109: Budget Paper No. 2.

Renting a specific model on a holiday has long been a way people try out new makes and models in a low-pressure environment. This is the case when it comes to EVs where Australians are hiring these vehicles for an extended test drive.

In 2021, the all-electric MG ZS EV compact SUV became the first fully electric car to join a major car hire company fleet in Australia, available from AFIA member Europcar. Other car hire companies quickly joined, with battery-powered Tesla Model 3s, Polestar 2s, MG ZS EV, Hyundai Ioniq EV, and Hyundai Kona EV now widely available across the country.

Hiring a car enables customers to become comfortable with charging and overcome 'range anxiety', one of the chief barriers that currently prevents Australians from buying an EV. Research by Deloitte Access Economics undertaken for National Automotive Leasing and Salary Packaging Association (NALSPA) found range anxiety and charging infrastructure are also viewed as EV blockers by Australian consumers. Almost 70% of surveyed Australians said they were discouraged to purchase an EV due to range and 85% by charging infrastructure.

Car rental helps overcome these perceptions, given more than 75% of EV's currently on the market having a range above 350km. As Deloitte says, coupled with the fact that the average Australian drives just 36km per day, this range sees most Australian's getting almost 10 days driving off a single overnight charge.

A final bonus to renting an EV is no last-minute filling up the tank before returning the car, with many rental companies happy for a car to be returned with minimal charge.

Helping to facilitate the purchase of EVs

Australians' sentiment towards EVs is becoming more positive, with almost half of all Australians seeing themselves driving an EV in 2030, according to research by Deloitte. While the signs are positive, buying an EV is a new experience for most Australians and many are unaware of just where to start. A lack of local dealership for the major EV models globally seemingly makes test driving difficult and many are concerned around delivery delays or model availability.

In 2021, Macquarie's retail banking and financial services group, which provides a diverse range of personal banking, wealth management and business banking services, became the first Australian banking group to launch a complimentary specialised EV buying service. Through Macquarie Vehicle Select, Macquarie provides dedicated expertise, support and assistance with financing to help consumers transition to an electric car.