



29 August 2025

Director, Programs and Redress Unit
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600
Via email: cslr@treasury.gov.au

Dear Director

**CONSULTATION PAPER – COMPENSATION SCHEME OF LAST RESORT: EXCEEDING
SUB-SECTOR LEVY CAPS**

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 Treasury's consultation paper on the Compensation Scheme of Last Resort (CSLR) and exceeding the sub-sector levy caps.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 \(afia.asn.au\)](https://afia.asn.au).

² Department of the Treasury, *Compensation Scheme of Last Resort – exceeding the sub-sector levy cap*, (1 August 2025).

OPENING COMMENTS

AFIA has long supported the establishment of the CSLR since it was recommended by the *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry*.³ We believe that customers who have received a final determination from the Australian Financial Complaints Authority (AFCA) should justly receive the compensation that they are found to be entitled to.

However, the implementation of the CSLR, including how levy burdens are distributed across the financial services industry, should be fair and consistent. The scheme should and must be sustainable, without having to resort to ongoing special levies.

It is crucial that the Government ensures the sustainability of CSLR scheme without the need for ongoing and recurring special levies, and provides confidence of this sustainability to industry, concurrently with determining the method of covering the 2025-26 levy period shortfall.

In terms of the principles the Minister should have in mind when considering options for dealing with an excess estimate, strong consideration should be given to:

- ensuring an industry sub-sector's culpability for the relevant excess is recognised
- the need to mitigate future successive imposts of similar magnitude that may threaten the relevant sub-sector's financial sustainability.

CSLR REFORM AND THE INCLUSION OF MANAGED INVESTMENT SCHEMES

Since the 2017 Ramsay Review, and when the legislation was introduced, it was decided that managed investment schemes (MISs) should be excluded from the CSLR, with potential compensation in relation to such schemes restricted to financial advice failures with respect to MISs.⁴

However, the Ramsay Review also said:

*A CSLR should be designed for the future and accordingly be scalable, which means it can be expanded over time to cover other types of financial and credit services should evidence of significant problems of uncompensated losses emerge.*⁵

³ Commonwealth, Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, *Final Report*, (4 February 2019) vol 1, 41 ('Royal Commission Final Report')

⁴ Commonwealth of Australia, Review of the financial system external dispute resolution and complaints framework, *Supplementary Final Report*, (21 December 2017), p. 67.

⁵ Ibid.

It has been argued that including MISs in the CSLR would risk broader design issues and result in more MIS-related complaints being lodged with AFCA, and would therefore increase the costs for the scheme.⁶ This is despite that MIS failures will continue to be a significant category of unpaid claims.

Given the growing volume of unpaid compensation claims in relation to MIS losses are being allocated through the financial advice sub-sector, including significant high-profile cases such as Dixon Advisory, UGC, Shield Master Fund and First Guardian, it is clear that the scheme will not be sustainable at its current settings. Furthermore, it is not clear that the inclusion of MISs will make it any less sustainable.

The fact is, what is being proposed is for a special levy to cover the excess to be paid for by banks, non-bank lenders and insurers and their customers for the failures of investment in MISs.

AFIA recommends that the CSLR is reformed and a Ministerial determination is made that the responsible entities of the MIS sub-sector bear the full costs of the proposed special levy to cover the \$47.3m in excess claims, given that this sub-sector is the source of the unpaid determinations. This would constitute imposing a special levy on the MIS sub-sector because of its connection to the losses that have driven an excess, as noted in the consultation paper.⁷

AFIA also notes that reforms required to be made to the CSLR to align it to its policy intent and to ensure it is sustainable include:

- expanding the CSLR to include MISs if the scheme is to continue to cover these losses
- making the scheme genuinely last resort
- ensuring CSLR funds are used for compensation and not for administrative costs associated with AFCA and the Australian Securities and Investments Commission (ASIC) as well as minimising the administrative costs for the CSLR operator that are transferred to industry through the scheme
- targeting the scheme to the needs of lower income consumers by reducing the maximum compensation cap from \$150,000, and
- ensuring timely and effective pursuit of recoveries from those directly responsible for consumer losses.⁸

Additionally, to ensure prevention and minimise the need to call on the scheme, we believe appropriate regulation of MISs and financial advice businesses should be prioritised and resourced (including monitoring capital adequacy and professional indemnity insurance obligations, disclosure obligations, such as fees, charges and investment risks, etc).

⁶ Department of the Treasury, *FOI 3671 - Managed Investment Schemes*, (23 September 2024).

⁷ Department of the Treasury, *Compensation Scheme of Last Resort – exceeding the sub-sector levy cap*, *Consultation paper*, (1 August 2025), p. 10.

⁸ Further details about reforms to the CSLR can be provided upon request, from previous AFIA and Finance Industry Council of Australia (FICA) submissions.

ADDRESSING THE 2025-26 CSLR FUNDING SHORTFALL

If the Government decides that responsible entities of MISs cannot collectively fund the \$47.3m in costs without a significant impact on the viability of the sub-sector and that MISs should remain excluded from the scope of the CSLR, then we support:

1. the Government making a financial contribution to the CSLR to cover the excess claims and current shortfall of unpaid determinations. This would be consistent with the commitment to fund the initial stages of the scheme, recognise the nature of the underlying failures leading to the need for the proposed special levy, and restore trust in the scheme
2. the remaining unfunded amount being covered by spreading the costs of the special levy equally across 'retail facing' sub-sectors. As noted in the consultation paper, this is the most straightforward method of allocation. The other methods proposed, including by population, revenue, profits or regulatory effort, are either based on inconsistent measurements across sectors or sub-sectors, or rely on ambiguous estimations, and
3. the structure of the CSLR being reformed to ensure its sustainability, including reviewing the funding model and refining the eligibility criteria, such as excluding financial advice related to MISs, as well as the reforms outlined above.

AFIA is concerned about the use of special levies and believes that reform of the CSLR is necessary to ensure that it operates consistently with the policy intent and to ensure that it is sustainable.

In this regard, AFIA notes the latest submission made by the Finance Industry Council of Australia (FICA) and we support the comments and recommendations made in this submission. Specifically, we believe that before any proposal for a special levy and industry contribution that the Government should provide industry with certainty that the CSLR will be reformed to make it sustainable, and that there will be no further ad hoc levies on industry, and in light of regulatory and administrative failings that the Government make a financial contribution to the sustainability of the scheme.

Thank you for the opportunity to submit to this consultation paper on the CSLR special levy. Should you wish to discuss our submission or require additional information, please contact me at

diane.tate@afia.asn.au or 0421 441 777 or David Delprat, Senior Policy Advisor, at david.delprat@afia.asn.au.

Yours sincerely



Diane Tate
Chief Executive Officer