Australian
Finance
Industry
Association

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AFIA welcomes Treasury action to strengthen CSLR and enhance consumer protections

The Australian Finance Industry Association (AFIA) welcomes the launch of three Treasury consultations on draft consumer protection reforms and proposed changes to the Compensation Scheme of Last Resort (CSLR) that will work towards restoring fairness and sustainability to Australia's financial consumer protection framework.

AFIA has consistently supported strong protections and effective routes for compensation where real misconduct has occurred.

However, the CSLR's current design is imposing escalating and unpredictable costs on well-regulated financial firms that had no role in the original consumer harm, says AFIA CEO, Diane Tate.

"The CSLR was intended to operate as a genuine last resort," Tate says. "In practice, it has drifted away from that principle, with costs increasingly disconnected from where the misconduct has occurred, and by whom. That is not sustainable, and ultimately consumers bear those costs."

The consultations recognise compensation schemes cannot be a substitute for proactive regulation and prevention. Stronger consumer protection settings that address harmful conduct earlier, and don't rely on back-end compensation, are critical to reducing reliance on the CSLR and to ensuring future levies are reasonable.

Costs under the CSLR have become a proxy for deeper design problems that cover the scheme's scope, eligibility settings and funding arrangements. Left unaddressed, these flaws risk entrenching moral hazard, weakening incentives for good conduct and adding unnecessary pressure to borrowing costs, insurance premiums and other consumer prices.

"AFIA welcomes the government's openness to reviewing whether the CSLR is operating as a true scheme of last resort and said reform should focus on ensuring compensation is targeted, proportionate and linked as closely as possible to the source of consumer harm," Tate says.

"Consumer confidence depends not only on access to compensation, but on a system that discourages misconduct in the first place and allocates costs fairly. Responsible financial firms should not be asked to permanently subsidise failures elsewhere in the system."

Tate adds that any reforms must strike a careful balance between protecting consumers and preserving the capacity of financial providers to continue delivering affordable, competitive products and services in a challenging economic environment.

AFIA intends to participate in the consultation process and looks forward to working with Treasury and government to deliver reforms that strengthen consumer protection, while restoring the CSLR to its original, explicit purpose.

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ABOUT AFIA

AFIA is the only peak body representing the entire finance industry in Australia.

We represent over 150 members, including banks, 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.