

24 September 2018

Overview

AFCA will be required to ensure that it has adequate funding to effectively manage the transition from the existing dispute resolution schemes, and to manage its ongoing complaint resolution services, in accordance with its authorisation requirements. AFCA will commence receiving complaints on 1 November 2018.

AFCA is implementing an interim funding model that is broadly based on the existing external dispute resolution scheme funding arrangements, and that meets the principles outlined in AFCA's authorisation requirements and ASIC Regulatory Guide 267. The interim funding model will apply for the first three years of AFCA operations (FY2018/2019 – FY2020/2021), while AFCA establishes an evidence base of complaint volumes and complexity in an expanded jurisdiction.

The proposed AFCA interim funding model was circulated to stakeholders for consultation in July 2018, with 17 submissions from stakeholders received. Following the consultation and consideration of the submissions and feedback received from stakeholders, the AFCA Board has now finalised and approved AFCA's interim funding model.

This paper provides an overview of the Board approved funding model and a summary overview of key feedback provided in submission made during the funding consultation.

Funding arrangements

The complaint fees paid by AFCA member financial firms under the AFCA funding model will apply to complaints received by AFCA from 1 November 2018.

AFCA is currently operating the FOS and CIO schemes. Existing complaint fees for complaints received by the FOS and CIO schemes up until 1 November 2018, will continue to apply to all complaints received prior to 1 November 2018 and closed before and after that date.

Information regarding AFCA complaint fees, user charge and other detailed funding information is now available to all AFCA members in AFCA's secure services portal.

The AFCA funding model

The interim funding model is different between superannuation providers who are members and other members.

The funding arrangements for superannuation providers

Superannuation providers will be subject only to an annual superannuation membership levy, based on the APRA levy model. Stakeholders were broadly supportive of this interim funding arrangement.

The funding arrangements for all other financial services providers

The interim funding model for all other financial services providers has three components. These take into account the existing user pays, industry funded model used by the predecessor Ombudsman schemes, and which stakeholders were supportive of.

Not all three components will apply to all members. Which component applies, how much is charged and when will depend on the type of business, the number of complaints received and at what stage of the process the complaints are closed.

Interim funding model components

The three components of the AFCA interim funding model are:

1. An annual membership levy based on the size and type of business.

The membership levy that more than 85% of AFCA financial firm members will pay for a 12 month membership period is \$350.
2. A user charge based on the number of complaints (for financial firms with more than one complaint closed past the initial Registration and Referral stage).
3. Complaint fees, based on complaint complexity and the resolution stage reached.

More than 85% of AFCA financial firm members are likely to not receive a complaint and will not pay any complaint fees or user charge.

Authorised Credit Representatives (ACRs) will continue to pay only a membership administration fee of \$55, with all complaints referred to the relevant Licensee.

Information regarding AFCA complaint fees, user charge and other detailed funding information is available to all AFCA members in the Invoices section of AFCA's secure services portal.

For more information on the principles applied in AFCA's funding model please refer to the Funding Consultation paper that was circulated to industry stakeholders in July 2018. A funding model consultation overview paper is available on AFCA's website.

Summary of funding submissions and feedback

Overall, funding submissions were supportive of the proposed interim funding model, that will apply for three years from 2018-19, with constructive feedback generally provided. There were no significant issues raised about the proposed components or framework of the interim funding model itself.

There was general support or no concerns raised regarding the principles underpinning the funding model, including minimising cross subsidisation and the three-phase approach to AFCA's funding model.

Several submissions sought clarification or more details in relation to the financial information underpinning the proposed funding model, with further information provided to individual stakeholders during and after the consultation. Suggestions were also made in relation to AFCA's longer term funding model.

The main issues raised across industry sectors are set out below, along with AFCA's response in the shaded boxes :

- There should not be any cross-sector subsidisation or subsidisation within sectors.

As a user pays funding model, the AFCA funding model ensures subsidisation across and within sectors is minimised. As part of AFCA's funding model review in three years, we will also be closely reviewing this component, including in relation to superannuation complaints.

- Information about particular complaint fee levels was sought by some stakeholders.

Details regarding AFCA complaint fees, user charge and other detailed funding information is now available for all AFCA members in AFCA's secure services portal.

- Concerns from some CIO members and industry associations were raised about paying both CIO membership fees and AFCA membership fees as part of the transition costs. No particular concerns, however, were raised from this sector regarding the overall funding model.

The membership fees already paid (or payable) to CIO by CIO members are required to fund the handling of open CIO complaints and CIO complaints received up until 1 November 2018. The CIO membership fee also covers CIO runoff costs and wind up costs that will be incurred until CIO is wound up.

There are one-off establishment and transition costs for establishing AFCA, that as an industry funded scheme, every member of AFCA is financially contributing towards. This applies whether members are CIO or FOS members, or are superannuation providers currently under the jurisdiction of the Superannuation Complaints Tribunal.

The transition and establishment costs that FOS members have contributed towards have been paid through the use of existing FOS accumulated reserves, which were transferred to AFCA in May 2018.

CIO members will contribute to these transition and establishment costs through their 2018-19 AFCA membership fees. The superannuation industry will be contributing to these costs through their 2018-19 membership levy.

In summary, this means that all AFCA members are contributing to the transition and establishment costs of AFCA, which is required as part of the Government reforms, but members are doing so through different means. This reflects the predecessor scheme and funding arrangements for different industry sectors.

For CIO members, should there be surplus funds remaining after the runoff of CIO complaints and the windup of the CIO entity, then a rebate back to previous CIO members will be applied by AFCA. This would be applied for 2019-20 and will be considered in June 2019, before membership renewal invoices are issued for all AFCA members.

- Feedback and suggestions were provided in relation to additional detail that could be provided by AFCA about the scheme costs and levy calculations.

We will be giving further consideration to how we can provide additional information about scheme costs, in addition to the detailed financial information that will be provided in AFCA's annual general purpose financial report and in monthly complaint fee invoicing and annual membership levy invoicing.

- Feedback was provided from superannuation stakeholders in relation to whether levy invoices sent to trustee members could be broken down to RSE (fund) level, so costs can be apportioned appropriately by trustees that have multiple RSEs.

Superannuation trustee members that are invoiced for their membership levy are able to have the levy broken down to RSE fund level.

Further information regarding AFCA's funding model

For further information regarding AFCA's funding model, please contact AFCA's membership team at membership@afca.org.au or call 1300 56 55 62.