

11 July 2014

Senior Adviser
Banking and Capital Market Regulation Unit
Financial system and Services Division
The Treasury
Langton Crescent
PARKES ACT 2600

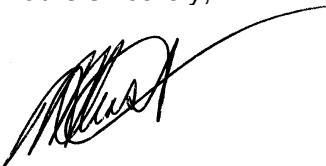
Dear Sir / Madam,

Please find attached a response from Bendigo and Adelaide Bank in regards to the Federal Treasury's Options for Improving the Unclaimed Bank Account and Life Insurance Money Provisions discussion paper dated 30 May 2014.

The Bank welcomes the opportunity for its customers to be reconnected with their unclaimed monies and to improve the efficiency of the banking industry services.

Should you have any questions please do not hesitate to contact Ms Suzi Mildern on (03) 5485 7076 or by email on suzi.mildern@bendigobank.com.au.

Yours sincerely,



Mike Hirst
Managing Director

The Bendigo Centre
PO Box 480
Bendigo Victoria 3552
Telephone 1300 361 911
Facsimile +61 3 5485 7000
www.bendigoadelaide.com.au

Bendigo and Adelaide Bank Limited
ABN 11 068 049 178 AFSL 237879

Consultation questions:

1. Is an increase in the required period of inactivity from three years supported? If so which period (for example, five or seven years) would be preferred?
2. What period of adjustment would be sufficient to manage any future changes to the period of inactivity?
3. What costs would be involved in any changes to the current arrangements?
4. What savings would be involved over time if changes were to be made or not made?

1. Yes, Bendigo Bank supports option 2 of 5 years
2. The bank would be able to support all changes to be effective as of January 2015.
3. If any changes were to be made to the current arrangements, depending on the level of changes it would be a minimal cost to the Bank.
4. Requires additional opportunity to calculate and is provisional on final legislated changes.

Consultation questions:

1. Are there any additional account types that should be excluded from the unclaimed bank account provisions?
2. Could the current exemptions and special rules be streamlined to reduce the complexity of the unclaimed bank account provisions?
3. Which of the three proposed treatments of FCAs, if any, is preferred?

1. Bendigo Bank recommends the following products be fully exempted
 - Accounts for which the primary purpose is credit
 - Escrow accounts
 - Controlled accounts
 - Accounts held as security
 - Farm Management Deposit Accounts
 - Term Deposits
 - Foreign Currency accounts

If the life span of the inactive account is to stay at 3 years we'd also suggest the following

- Children's accounts at 7 years
 - Retirement Savings accounts – where the account is high interest earning and only available to customers over the age of 65 yet at call – 7 years
 - Cash Management accounts
 - Superannuation Funds
2. As per the ABA the Bendigo Bank agrees that if the above is reviewed it should reduce customer complaints and administration costs
 3. The bank agrees with option 1 – exempt Foreign Currency Accounts.

Consultation questions:

4. Do the current arrangements for public disclosure of details of unclaimed bank accounts and life insurance moneys achieve an appropriate balance?
5. What changes could be made to sufficiently protect privacy and still ensure that account holders can easily locate their unclaimed accounts?

The Bank has had no adverse feedback in relation to the disclosure of personal information. However our thoughts are that a customer's personal information is important and that if there was a way to have a second level of security to obtain further information, this would assist in preventing the funds being fraudulently accessed and ensure we are taking the best steps to in respect of our customer's privacy.

Consultation questions:

6. Should TFNs be able to be shared between ADIs and ASIC/the ATO to more efficiently reunite individuals with the unclaimed moneys?
7. Are there any alternative approaches to more efficiently reunite individuals with their unclaimed moneys while effectively balancing privacy concerns?
8. Should ADIs continue to hold and pay interest on unclaimed accounts, instead of transferring them to ASIC?
9. Are there other opportunities to streamline the unclaimed money arrangements?

Bendigo Bank supports the idea of sharing the TFN's. Although a TFN is not currently mandatory to be provided to an ADI when opening an account, we believe that where we have the opportunity to reunite the customer with their funds we should be able to take that.

We believe that, if unclaimed moneys could be more in line with the way unclaimed super is processed, the customer would have more opportunity to be able to locate their funds through a third party such as a financial planner and the retrieval process should be through one channel.

Additionally, it would be far more efficient to bring the ASIC and eight (8) state and Territory based Unclaimed Money Funds and Repositories into a single **Unclaimed Money Public Fund**, allowing the use of a search engine to assist customers and business to identify lost funds.

The single **Unclaimed Money Public Fund** and database should be managed by a single government entity. If provision is made for the ATO to match Tax File Numbers with lodgement of Unclaimed Monies for customers then the ATO would be the management entity of choice by both opportunity and independence.

This would lead to a pro-active approach of reuniting customers with their unclaimed funds either by Tax Return, when lodged with the ATO, or by pro-active notification from the ATO upon lodgement of funds by a Financial Institution (under the Banking Act of 1969 (s69)) or through the Corporations Act 2001 (various sections)

Currently ASIC is responsible for handling unclaimed monies from

- Authorised Deposit Taking institutions under **s69** of Banking Act 1959;
- Life Insurance companies & benefit fund friendly societies, only for annual returns made under **S216** of Life Insurance Act 1995
- Institutions providing first home saver accounts under **s51A** of First Home Savers Account Act 2008

Currently State (6) and Territory (2) based government authorities are responsible for handling unclaimed monies from

- Companies with unclaimed monies & property under sections **668A; 668B; 1343; 1343A; 1017E; 601AD(2); 601AD(1A); 601NG; 544** and **414** of Corporations Act 2001

Consultation questions:

10. Are there broader opportunities to reduce the regulatory burden of the unclaimed moneys provisions?
11. Are there any other issues that you would like addressed as part of this consultation process?

Please refer below extract from Bendigo And Adelaide Bank's submission on 5 March 2014

Using unclaimed monies to support underserved segments

Government should establish an independent Investment Board to transparently manage a proportion of the income from unclaimed public monies through commercially-focused investment in under-served areas of the community.

Unclaimed money, accumulated from citizens' dormant financial accounts, is currently paid by the relevant financial institutions to ASIC, which then transfers it into The Commonwealth of Australia Consolidated Revenue Fund.

This capital would be more transparently managed in the interests of the customers for whom it is held by an independent board, comprised of financial institution representatives, with deep investment management capability, and a charter to pursue socio-economic growth.

This managing body would be charged with directing a proportion of the unclaimed money capital pool into investments that

- Support the self-sustaining growth of communities, small businesses and social enterprise,
- Provide a commercial return
- Improve national productivity and socio-economic resilience.

Background

Australian unclaimed money at 31 March 2014 stood at approximately \$1.5 billion (FindUnclaimedMoney.com.au 2014)⁵, accumulated nationally from uncashed cheques, savings accounts, inheritances, share dividends, payroll cheques, tax returns, refunds, insurance policies, security deposits, lotto winnings and state revenue offices.

This money is sourced from:

- Authorised Deposit Taking institutions;
- Life Insurance companies & benefit fund friendly societies
- Institutions providing first home saver accounts; and
- Companies with unclaimed monies & property.

Unclaimed monies originally were assets left untouched by the owner for a period of seven years, but in October 2012, the Federal Government passed legislation amending this period to three years.

ASIC currently manages these funds on behalf of the Federal Government, but there is limited transparency or accountability with respect to their handling of this capital pool sourced from individual Australians' personal finances.

Structure and approach

Under this proposal, the public's unclaimed money would be transparently managed and put to the service of the greater public to whom its composite monies belong.

In this proposed structure, the Reserve Bank of Australia would be nominated as the independent custodian of these public funds until such time as the customer seeks rebate of funds from their financial institution or other corporation governed by the Unclaimed Monies Public Fund and legislated acts. [RBA's assumption of this function may require legislative amendment in order to extend its legislative powers to act as custodian of unclaimed monies.]

The Fund would require regulatory supervision to ensure best practice management, governance and reporting. ASIC should retain its current administrative functions but channel unclaimed money received to the new Fund, rather than the Consolidated Revenue Fund.

⁵ Unclaimed public money total is calculated across eight government databases plus the all the entities which contribute to the ASIC Unclaimed Monies Public Fund. This includes: ADI Funds, Life Insurance, First Home Savers, Corporation Act (one database); State and Territory Government funds (eight databases).

The Investment Board would be established as an independent entity to manage the Fund. This Board would be comprised of members from those financial institutions and businesses with a direct and ongoing custodial relationship with the customers and owners of the unclaimed money. The Board would have no political membership or links, enabling it to remain independent of Federal and state governments and related strategic governance and economic strategies.

One of the Board's core responsibilities would be to invest in Australian communities, small business and social enterprise, where funds would be profitably and productively engaged to drive socio-economic prosperity from the ground up.

It is proposed that the Board's initial injection of capital funding would be in the order of 20 per cent of unclaimed funds and that subsequent funding would sit at 15 to 20 per cent of the total unclaimed monies pool per annum. The remainder of the unclaimed money would effectively act as a preserved investment for the customers of the businesses and financial institutions who have contributed to the fund over the years, and are entitled to reclaim their monies in the future⁶.

The Board would manage the targeted capital funding distribution to eligible community programs, small businesses and social enterprises, which would apply for strategic lending to progress and strengthen their organisation's sustainability and growth.

Eligibility would be assessed on metrics and criteria relative to the various applicants (e.g. Community Strengthening Index metrics for community investments), and contingent on applicants submitting their applications in collaboration with and through their financial institution partner.

Funds would be granted to the successful applicants through their financial institutions. This process would leverage existing capability and relationships already established, ensure business case rigour and feasibility, and build insight and competencies on both sides.

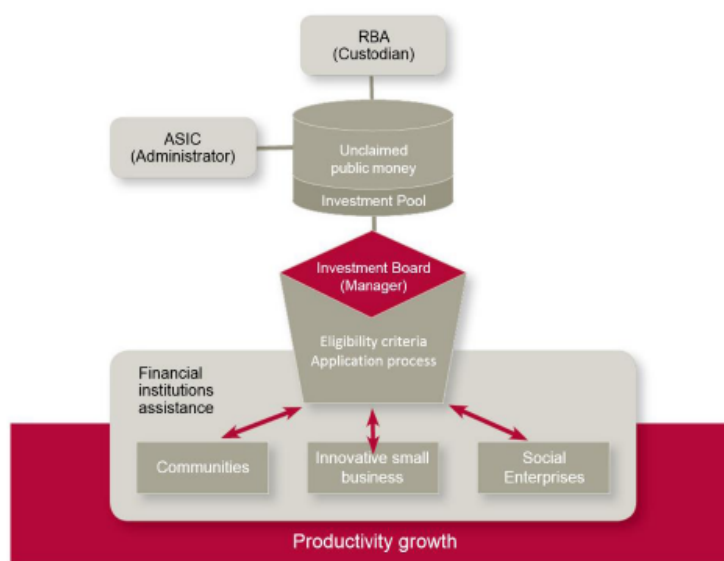


Figure 3: Overview structure

Beneficiaries

Communities, small business and social enterprise are targeted by this initiative because they are underserved by existing banking approaches, yet are powerful drivers of socio-economic growth and national productivity. The support of local financial institutions in their application has the potential to build recipients' capability and create longer-term benefit for their organisation. It will also require financial institutions to build insight and relationships in the recipient segment, encouraging the development of tailored and innovative products and services.

⁶ The change of legislation in December 2012 included the introduction of interest to be paid to customers reclaiming their funds. Interest calculations commence from July 2013, regardless of the date at which the money became officially 'unclaimed'. (ASIC 2013b)

Communities

This initiative would create a new and stable access point for community funding, and by requiring application in conjunction with a financial institution, encourage communities to work closely with their local service provider and build stronger relationships in the financial system.

Application assessment criteria could leverage the Community Strengthening Index metrics, together with other known indicators of community investment success (e.g. co-funding, local sourcing, etc.), to ensure that investment is commercially feasible and generates genuine socio-economic benefits within the community.

From the Board and government perspective, there is the potential to use applications to develop insight into community needs nationally, identifying opportunities for leveraging investment across multiple areas and building greater inter-community networking, a key characteristic of resilience.

Small businesses

This initiative would support the financing of innovative SMEs struggling to meet standardised banking requirements. By requiring banks to partner with SMEs for the application procedure, the application process helps to build capability on both sides. SMEs will gain increased exposure to the financial system, develop greater financial competency and improved banking relationships. Banks will in turn improve their capacity and capability for tailored product development and service delivery for a customer segment that is traditionally difficult to service profitably.

Social enterprise

A recent research project at the Queensland University of Technology (Barraket *et al.* 2010, p.16) defined social enterprises as organisations that:

- a. Are led by an economic, social, cultural, or environmental mission consistent with a public or community benefit;
- b. Trade to fulfil their mission;
- c. Derive a substantial portion of their income from trade; and
- d. Reinvest the majority of their profit/surplus in the fulfilment of their mission.

There are an estimated 20,000 social enterprises in Australia, focusing on a wide variety of missions and serving many beneficiaries. For these enterprises, earned income (including contracted income from Government, won in competitive tenders) represents approximately 85 per cent of their revenue, with the remnants coming from contributions and grants (more common amongst the younger organisations). The majority focus on local and regional needs, and fulfil a public and community benefit (*ibid.*, pp.17-29).

These social enterprises represent a relatively new form of business model that empowers people to address those needs that most impact them in a way that both creates trade and is self-sustaining. This emphasis on self-sufficiency is well-aligned with the increasing need for resilient structures in the wake of current budget cuts to many community-based services areas that have traditionally enjoyed government support.

Social enterprises appear somewhat more operationally-focused than many commercial businesses of their size, with nearly twice the incidence of business planning and performance measurement use than mainstream ABS business respondents. They also represent a high level of innovation within their processes, business development and customer service delivery. However, social enterprises are generally less well-connected with mainstream business development and business networks than their commercial counterparts (*ibid.*, pp. 32-35).

A majority of social enterprises are not-for-profit organisations, members of a sector that contributes a great deal not only to the beneficiaries of its services, but to the Australian economy in general. The Australian not-for-profit sector generates in the order of four per cent of GDP and represents over eight per cent of total Australian employment (Productivity Commission, 2010, p. XXVI). It receives

approximately seven billion dollars in donations and \$25bn in direct government funding annually, and about half the sector's income is from services delivered or sales of goods (ABS 2009).

The sector certainly relies on government and private sector funding, but at the same time, is largely self-sustaining, with the bulk of operating expenses covered by their own income generation. However many NFPs require more insight and support than conventional lenders have available, and therefore find it difficult to access capital for their development or expansion (Productivity Commission 2010, pp. 184-193). There is a clear mismatch between finance services required by NFPs and what is available.

Case study: VIC - The Range Children's Centre

With more than 200 children on the waiting list for The Range Children's Centre, in Melbourne's inner south-west, the parent-run Management Committee decided to add another room, and offer an extra 11 places of high quality childcare to the community.

The problem was funding. The local council owned the building, not the centre. The council was happy to contribute, but wouldn't sign off on the deal until The Range secured its own share. Other banks wanted the building as security, which didn't work when the council owned the building. They also expected committee members to guarantee the loan, not recognising the members were volunteers.

The Range already used Community Sector Banking for its daily banking needs and so approached them to talk through the project. Community Sector Banking (CSB) is a Community Development Financial Institution established as a joint venture between Bendigo and Adelaide Bank and Community 21, a group of 20 leading not-for-profit organisations.

CSB understood that the centre didn't own the building, and was governed by volunteers. They knew the project was not only financially sound but good for the community. After looking carefully into the centre's financials, CSB offered finance in two sections – a loan, and an overdraft.

The loan approval led to the final go-ahead from council, and construction is now underway on the extension. The extra places offered in the new room have already been filled. A project rejected by other banks was embraced by Community Sector Banking, and will help relieve the critical shortage of quality childcare places available locally.

NFPs often struggle to establish reliable revenue streams that can be used to service debt, given the mismatch between standard banking product terms and the government contracts which represent their income stream. Providing collateral, a key requirement for most standard financing products, is also an issue: smaller NFPs may have difficulty in developing an asset base to leverage, and many NFPs have ownership and governance arrangements that complicate the leverage of any asset base available.

In addition, much like SMEs, many NFPs lack the capability and capacity to develop compelling business, financial or strategic plans without substantial advice and support from their financial services provider. This makes them time-consuming and costly in comparison with other potential clients, and also inhibits their ability to access alternative funding sources e.g. grants.

There is an urgent need within this sector to inject new capital and create growth opportunities through consistent revenue generation and investment. NFPs require strong, long-term relationships with their financial institutions to provide financial advice and support.

The introduction of funding specifically focused on social enterprises encourages NFPs to approach their challenges from a commercial perspective, becoming proactive in their approaches to serving the constituencies that they benefit. Although this may represent a shift in thinking for some NFPs, the process will serve to challenge the sector, and also the financial institutions with whom they will be required to work through the application process.

Once again, the financial institutions that partner with these organisations will build insight and capability through the application process, improving the opportunities for more innovative offerings for the sector.

Summary

The establishment of a new fund comprised of the public's unclaimed money, together with an independent, industry-based management board creates a more transparent and proactive approach to the government's handling of individual citizens' unclaimed funds.

Managing the fund to drive investment in underserved segments of the community creates a more robust and sustainable model for socio-economic growth than the more traditional grants and subsidies approach available from government. Investment will focus on those opportunities that build self-sufficiency and resilience, and demonstrate the innovation and commitment that is required for increased productivity.

The engagement of financial institutions in both the management of the fund and as support for the application process increases banking insight and understanding in sectors that may otherwise be overlooked. This in turn increases the likelihood of innovative solutions and services being developed to address these more complex customer needs.

And aside from the obvious benefits of funding, the recipient organisations develop closer relationships with their local banking representatives, and improve capability with respect to meeting the commercial requirements for funding.

Finally, this initiative supports the bi-partisan government agenda of driving growth through grass-roots empowerment. It improves productivity and social resilience by fostering the sustainability and growth of sectors that are often underserved by the market, but are fundamental to national economic prosperity.

This submission recommends that the Inquiry introduces a national fund that makes transparent the accountable management of existing public monies, and directs the income towards commercially-founded investment in communities, small businesses and social enterprise.