Proposed funding model

Summary of changes for all members

AFCA has partnered with independent experts PwC to develop a new funding model.

The model's "user-pays" approach means firms who frequently receive complaints will pay a fair share towards AFCA's service, while costs will remain low for firms with few or no complaints.

Member feedback, the Ramsay Review of the Financial System EDR and Complaints Framework, and the AFCA Independent Review have all influenced the model's development.

The proposed model is designed to be efficient, sustainable, responsive and support early resolution of complaints.

89% of financial firm members will see a decrease or no change in their total annual payments to AFCA.

Change impact

18% of financial firm members will see a **decrease** in total annual fees.

71% of financial firm members will see **no change** to their total fees.

11% of financial firm members will see an **increase** in total annual fees.

These are heavy users of AFCA service which the new model helps ensure they pay a fair proportion of AFCA's costs.

See page 3-6 for more information on impacts on specific industry types.

Key features

Five free complaints

No complaint fees for the first five complaints closed within a financial year.

Reassurance for small members who could be significantly affected by an unforeseen complaint.

Gives members time to identify and address causes of complaints before incurring cost.

Single annual registration fee

All financial firm members will pay a $375.55 flat fee – the same as the lowest member levy today.

Members who receive few or no complaints will only pay the annual fee –estimated to be 95% of financial firm members.

The annual registration fee is not linked to business size or industry– so there will be no unfair extra costs for firms with low complaint numbers.

Simplified complaints fees

A simplified complaint fee structure will reduce complexity and encourage early resolution.

A reduced registration and referral fee means firms have a final opportunity to resolve complaints without incurring significant costs.

Introduction of a Rules Review fee to ensure this work is funded by those who use it.

"User-pays" approach to fees

Heavy users will pay their fair share towards AFCA's service.

This approach reduces the burden on smaller members and those industries who are not heavy users of the scheme, and minimises cross-subsidisation across sectors.

Firms will be incentivised to use internal dispute resolution to decrease complaints to AFCA. Firms can significantly reduce their fees and charges through improvements to their IDR.

The model also supports firms to better forecast and budget for complaints.

By encouraging early resolution the proposed model is consistent with ASIC RG271.

Removal of the superannuation levy

Superannuation members will pay the annual registration levy and complaint fees for complaints they receive.

This change removes issues where super trustee who received few or no complaints previously paid a large levy.

Current funding model*

Fixed (33%)

- Membership levy/ ACR fees (**7%**)
- Super levy (**18%**)
- User charge (**8%**)

Variable (67%)

- Complaint fees (**67%**)
- Systemic issues fees

+13%

– 13%

Future funding model*

Fixed (46%)

- Annual registration fee (**4%**)
- User charge (**42%**)

Variable (54%)

- Complaint fees (**53.5%**)
- Systemic issues fees (**0.5%**)

AFCA's proposed funding model embeds the "user pays" principle to promote fairness, responsiveness and efficiency. By increasing the proportion of AFCA's costs covered by the user charge, the new model ensures frequent users pay to support AFCA's service.

Annual registration fee

- Flat rate of **$375.55** per financial firm member (moving away from business size based fees) and
- **$65.98** per ACR member (inc GST).
- Significantly reduced administrative effort required by members.

User charges

- Increased proportion of fixed revenue generated through user charges.
- Eligibility threshold increased to provide greater certainty (from two complaints to six complaints onwards).

Complaint fees

- Simplified complaint fee structure to reduce complexities and encourage early resolution of complaints.
- All members receive **five free complaints**.
- Systemic issue fees remain a feature.

Note: Comparison considers actuals compared to the future funding model, both in FY21.

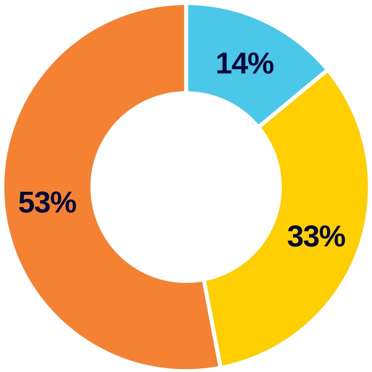
* Excluding additional revenue items such as interest income, code monitoring fees, and other income.

Impacts for banking and finance members

The majority of licensee Banking and Finance members (**89%**) will either experience **reduced or the same total annual fees under the future funding model**.[1]

86% will only pay the annual registration fee

Compared with the current funding model:



Members with a **decrease** in total annual fees

Members with **no change**

Members with an **increase**, largely due to higher relative complaint volumes

The new funding model recalibrates funding toward those who use AFCA's services most frequently.

Therefore banks – as one of AFCA's largest user sectors – will be one of the biggest contributors under the new funding model. Increases in total annual fees is largely driven by higher complaint volumes and complexity of those complaints, relative to other members.

In the banking and finance industry, **77%** of AFCA's revenue from B&F members under the new model are recovered from **very large** businesses who represent **12%** of all B&F members and **74%** of all B&F complaints received by AFCA.

Where a member does a good job of resolving complaints at IDR, they will see a reduction in their overall costs.

Consultation and feedback

AFCA is sharing the proposed funding model will all members and giving them an opportunity to ask questions and provide feedback.

A special webinars on 10 and 11 March for all members will provide an overview of the model and inform members of the impacts on their product areas.

Each member will be provided with an overview of the model, the impacts on their product group and an estimate of their individual impact based on their FY21 complaints profile. This allows members to effectively budget for the model's introduction on 1 July 2022.

AFCA is engaging directly with those members who are most heavily impacted, as well as with industry peak bodies and regulators.

All members are invited to submit feedback and questions to AFCA via **fundingmodel@afca.org.au** during the consultation period running from 10 March to 22 April 2022.

Following this 6 week consultation period, AFCA will collate and assess the feedback received and prepare a final paper confirming the model to members.

AFCA aims to confirm the final model and release the findings of the consultation, along with a range of funding model and fee guidance, in May 2022.

1. All figures are estimates only, based on FY 21 data and excluding ACRs. These estimates are based on a historical cut of complaints data and are not a definitive statement of what fees a member will pay in the future.

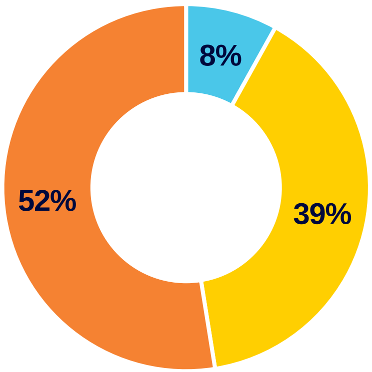
Impacts for insurance members

AFCA's largest users contribute most under the new funding model. For Insurance this means that fees are distributed toward those who use AFCA's services most frequently.

The majority of Insurance members (92%) will either experience reduced or the same total annual fees under the proposed funding model. [1]

89% will only pay the annual registration fee

Compared with the current funding model:



Members with a **decrease** in total annual fees

Members with **no change**

Members with an **increase**, largely due to higher relative complaint volumes

The funding model recalibrates funding toward those who use AFCA's services most frequently.

Therefore insurers – as one of AFCA's largest largest user sectors – will contribute most under the new funding model. Increases in total annual fees is largely driven by higher complaint volumes and complexity of those complaints, relative to other members.

In the insurance industry, **76**% of AFCA's revenue from insurance members under the new model are recovered from **very large** businesses who represent **8%** of all insurance members and **71%** of all insurance complaints received by AFCA.

Where a member does a good job of resolving complaints at IDR, they will see a reduction in their overall costs.

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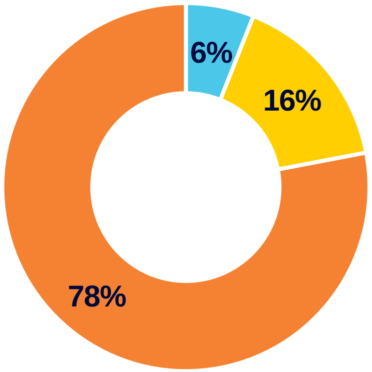
Impacts for investments and advice members

98% will only pay the annual registration fee

The majority of Investment and Advice members (~91%) will either experience reduced or the same total annual fees[1] under the proposed funding model.[1]

Compared with the current funding model:



Members with a **decrease** in total annual fees

Members with **no change**

Members with an **increase**, largely due to higher relative complaint volumes

The new funding model recalibrates funding toward those who use AFCA's services most frequently.

In the investments and advice industry, fees are distributed among members.

Only 2% of all I&A members are liable for complaint fees. Most members will only be liable for the annual registration fee (formerly membership levy).

Consultation and feedback

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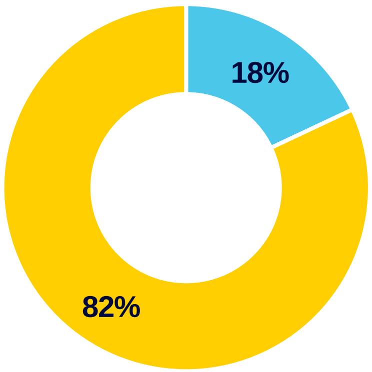
Impacts for superannuation members

AFCA's largest users contribute most under the new funding model. For Superannuation this means that fees are distributed toward those who use AFCA's services most frequently.

The majority of Superannuation members (~82%) will experience reduced total annual fees under the proposed funding model.[1]

25% will only pay the annual registration fee

Compared with the current funding model:



Members with a **decrease** in total annual fees

Members with an **increase**, largely due to higher relative complaint volumes

The new funding model recalibrates funding toward those who use AFCA's services most frequently.

In the superannuation industry, **49%** of AFCA's revenue from superannuation under the new model will be recovered from very large businesses who represent **10%** of all super members and **49%** of all super complaints received by AFCA.

Consultation and feedback

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