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Submitted via: petitions@parliament.govt.nz

Petitions Committee
Parliament House, Parliament Buildings
Wellington

Re: Petition of MyMahi: Make it easier for young people to open a bank account

FinCap welcomes the opportunity to submit in response to the MyMahi petition to make it easier for young people to open a bank account. We make this submission to highlight the harm caused by barriers to opening a bank account. We also submit to share data about young people, and some of the challenges there, from FinCap's recently released inaugural 'Voices' report.

All in Aotearoa should have reasonable access to financial products and services that meet their needs, in line with the Reserve Bank of New Zealand's working definition of financial inclusion.¹ FinCap recommends that access to a bank account be made available to all in Aotearoa. We know of several cohorts that are currently excluded, and the underlying solution is that all banks in Aotearoa commit to ensuring that every person in Aotearoa can access a bank account.

About FinCap

FinCap (the National Building Financial Capability Charitable Trust) is a registered charity and the umbrella organisation supporting the 190 local, free financial mentoring services across Aotearoa. These services supported 50,000 whānau facing financial hardship in 2022. We lead the sector in the training and development of financial mentors, the collection and analysis of client data and encourage collaboration between services. We advocate on issues affecting whānau to influence system-level change to reduce the causes of financial hardship.

General comments

Financial mentors report that some whānau have to go to great lengths to, or cannot, obtain a bank account in Aotearoa. Common related circumstances are that a person is going through an insolvency or leaving prison. This is further evidenced by reports and articles released by industry, independent and community stakeholders. We are also aware of live work by members of the Council of Financial Regulators which might explore this issue's impact on financial inclusion in Aotearoa.

Without practical and timely access to a bank account whānau can face severe financial exclusion or be put at significant risk of economic harm or other forms of fraud. This can arise because a person is unable to receive government administered or wages income. Alternatively, they might receive income through another person's account who can easily constrain their access to money.

Without timely access to a transaction account there can be far more logistics involved in paying bills and higher risk of incurring late fees or penalty interest that contribute to debt spirals. Whānau can also have limited ability to shop online and keep up with others in their community. The reports we

¹ See <https://www.rbnz.govt.nz/hub/publications/financial-inclusion-report/2023/our-approach-to-financial-inclusion>

have footnoted go into many other consequences of limited access to banking services as well as more detail on these issues that we have touched on.

Another concern is that the administrative burden is increased for both whānau that cannot access a bank account, and the essential services and government departments that they are required to interact with. Typically, most employers have systems set up for payment of staff based on the expectation that the recipient will have a bank account. Therefore, where an employee does not have a bank account, whether because of the factors when exiting prison, identification barriers, or insolvency procedures, this adds an additional step.

In turn, this can create barriers to whānau getting into work. Furthermore, it creates additional steps at government departments that whānau interact with, such as at Work and Income offices or when engaging with the Ministry of Justice. Having whānau in Aotearoa that cannot access a bank account is causing harm and unnecessary processes.

Incarceration

In July this year, FinCap published a report written by Victoria Stace and John Sibanda from Victoria University, called 'Paying the Price – A report into issues prisoners face around access to banking.'² This report highlights that those exiting prison in Aotearoa can face financial exclusion with barriers to accessing the necessity of a bank account. The report makes key recommendations to address these barriers.

The recommendations include that all major banks should participate in a programme that offers prisoners bank accounts, proof of address be met by PIP documents, and that the cost of getting identification documents be met by corrections. It also makes recommendations under the theme of Government recognising the importance of providing access to banking by prisoners.³

There are clear barriers to accessing a bank account for those exiting prison, going through insolvency, and as the petition has outlined, for young people in Aotearoa. These barriers need to be removed, so that all can participate and contribute to our communities.

Young people

In September this year, FinCap released the inaugural Voices report. The report aggregates data from the client management tool that most financial mentors use, called Client Voices. Using the data from Client Voices, FinCap can report on the levels of income, expenditure, and debt for whānau seeing a financial mentor. In 2022, just below 50,000 whānau were supported by a financial mentor.

In pages 69 to 71 of the Voices report we explored trends and challenges for young people, putting a spotlight on some of the realities behind the data. We hope to report on these trends in more detail in future Voices reports. In the report we have excluded the under-18-year-old age group from the tables. This is because of a low sample size for the age group.⁴ However, from what we can see in the data that we do have, and from what we hear from financial mentors, there are some key issues that are causing financial hardship for this age group.

² See <https://www.fincap.org.nz/wp-content/uploads/2023/07/FinCap-Paying-the-Price-Final-25-June.pdf>

³ See pages 114 to 117 for recommendations <https://www.fincap.org.nz/wp-content/uploads/2023/07/FinCap-Paying-the-Price-Final-25-June.pdf>

⁴ Financial mentoring is targeted towards and provided for those over the age of 18, however some young people seek support from these same services. This is especially the case where the service might provide specific support for youth alongside financial mentoring.

In both 2021 and 2022, under 18-years-olds had the lowest incomes out of all age groups. In 2022 this age group had a median weekly income of \$542.10. The low income indicates that a high number are either on a benefit or potentially in work that is part-time and poorly paid. At times, those in this age group are employed under training or starting out wages which are lower even than minimum wage. There is no minimum wage for employees under the age of 16, and young employees aged 16 to 19 can be paid the starting-out wage if it applies, which was \$16.96 in 2022 (Employment New Zealand, 2022).

Through further analysis, we verified that this age group also held significant levels of debt. In both 2021 and 2022, young clients in Client Voices held a median of three debts each and the median amount of debt per client was \$3,472.64 in 2022.

Typically, lenders do not lend to under 18-year-olds because contracts with minors are not legally binding (Ministry of Business, Innovation & Employment, 2023). This means that the only grounds for enforcement of contracts with minors are based on whether the contract was fair and reasonable. Further, it is unlikely that any debt is affordable for this age group, because as identified above, the incomes for this age group were extremely low.

“We don’t see that many young people, but we do see some young men in particular coming in and getting car loans. We also see young people when they’ve got a credit card, or setting up for a new flat so they start to have debts with telecommunication and power providers. We also see some young people being guarantors for their parents when their parent has a bad credit rating, or getting long-term payment plans for phones.”

– Financial mentor

Financial mentors have reported that the majority of debts for this age group are typically owed to government departments. In particular, financial mentors mentioned that debts were often owed to the Ministry of Social Development (MSD) and in relation to housing. This is particularly the case for those in emergency or transitional housing. There are many requirements and obligations that emergency housing tenants need to meet. Where tenants are not able to meet these obligations, they can be penalised.

Another creator of housing related debt to government for young people is moving houses. Moving costs can add up, and often they are able to get loans from Work and Income to get necessary household items such as a washing machine or bunkbeds for their children. Although these loans are a much better option than getting into interest accruing debt, FinCap has recommended that Work and Income provides grants for essential items. This is especially important for whānau with children or young people. Further, we have made recommendations for the quality control of the appliances and items that are provided for whānau. If these items are constantly needing to be replaced or are not fit for purpose, then the debt that whānau are getting into is especially unnecessary.

Case study

“A client was granted a fridge-freezer through work and income through the Fisher and Paykel whiteware relationship in March 2021. On April 2nd the fridge-freezer started playing up. A technician visited and said that a part was required but will not be available until June. The client was not sure whether it was an electrical fault or not. If it was an electrical fault, it may have been harmful to their family and possibly cause a fire.

The client is now paying off a faulty fridge-freezer to W&I. This appliance should have been replaced as it was less than 30 days old. The financial mentor sent an email to the regional W&I contact but also spent 38 minutes on hold and then was hung up on by Fisher and Paykel. The client was told not to contact W&I but has still not had any success with Fisher and Paykel.

This issue was resolved, and the client received a replacement fridge, thanks to the intervention from the financial mentor supporting this client.”

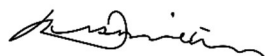
The data and insight from the Voices report are helpful for painting a picture of some of the barriers to financial inclusion that young people are experiencing, through debt, low incomes, and the additional stress of precarious housing.

Ensuring that young people can access a bank account is crucial. All banks in Aotearoa need to commit to providing support to whanau to access accounts and ensure that there are options to cover the costs of identification and allow for access to banking services through multiple platforms, to account for digital inclusion as well as barriers for those based regionally and their need for transport.

While we recognise this is an important and harmful issue for young people, we reiterate that the barriers to banking are experienced by other cohorts too, and the issues need to be addressed for all.

Please contact FinCap policy advisor on janeke@fincap.org.nz or 027 261 3690 to discuss any aspect of this submission further.

Ngā mihi,



Ruth Smithers
Chief Executive
FinCap