

19 August 2005

Consumer and Financial Literacy
Taskforce
C/- Consumer Affairs Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Taskforce Members

The Council congratulates the Consumer and Financial Literacy Taskforce on the quality of the discussion paper.

Is it worth noting that the deregulation of the financial service sector in the early to mid 1980s saw a fundamental change in the approach (one might say role or purpose) of the financial service provider in the community. Prior to this deregulation, the few players involved – the big four and a few mutuals - played an almost paternalistic role in the when it came to the financial affairs of the family. This paternalistic approach dissipated almost instantaneously with deregulation. There was an explosion in the availability of products, a drive to reduce operating costs, vigorous pursuit of market share, and the “share price” became important. Of course, this competitive dynamism has provided many benefits. However, the competitive dynamism has also made financial literacy a matter of ongoing concern most recently reflected by the substantial reforms undertaken through the Financial Services Reform Act (FSRA).

Notwithstanding this, the Council believes significant issues remain, especially with the young, the disadvantaged and the poorly educated. Views on the solution can become polarised around notions of “the knave and the fool” i.e. the view that people need to be protected through prescriptive, almost paternal regulation to protect them from business that is characterised as greedy, uncaring and untrustworthy as opposed to the view that consumers need to take responsibility for their decision making.

A compromised solution to these competing views leads inevitably to the information asymmetry, disclosure and education debates. Overall, the Council believes the recommendations in the discussion paper provide a sound basis for integrating the plethora of current activity into a more focussed balance between competition (which is in the consumer interest) and consumer protection.

However, the Council believes that the key issue is the provision of more meaningful and easily understood information that simultaneously allows consumers to make informed choice and drives competition. A solution to this is suggested in the feedback to question 2.7. This, together with a basis level of financial literacy and sensible principles of key information disclosure, seems to be all that can be reasonably done at a policy level to try to address the problem. Co-ordinating the execution of this difficult task then becomes crucial to its success.

Yours sincerely

Colin Neave
Chair