

Chapter 2 The Consumer

Question 2.1

Economic forces and government intervention can both improve and constrict a consumer's ability to understand and act on information. As such, information providers must make assessments about the extent to which information alone can change consumer behaviour.

Are economic and government factors sufficiently understood in information provision to consumers?

Feedback

The Council believes economic and government factors are not sufficiently understood by information providers. There are two recent examples of this. First, the level of conflicts of interests in the Financial Advisory industry referred to in the Disclosure of Soft Dollar Benefits Report¹. Secondly, the recent moves by ASIC to simplify Statements of Advice. Whilst intended to assist consumers, some information providers actually increase the information asymmetry, particularly in the purchase of goods and services, by the sheer volume and repetitiveness of advice being proffered. Anecdotal evidence would indicate that many consumers tend to close their ears when invited to listen to advice "which must be given" when uttered in a monotone on the telephone or by a Sales Person in a Store. In some circumstance, it may even be the case that the disclosure of highly relevant matters is deliberately hidden in a huge body of largely irrelevant material.

This problem seems to emerge from a failure or refusal on the part of information providers to respond to the spirit of the legislation, namely, that fair markets depend on well-informed consumers. CCAAC believes that information given should be tailored so as convey requirements of the legislation in a clear but succinct way.

In the Council's view, the co-ordinating body recommended by the Taskforce could act as an integration point for what at present appears to be well-meaning but disjointed activities by all stakeholders. Additionally, FSRA requires providers to capture and review complaints. These databases would undoubtedly contain key disclosure issues causing problems for consumers. The co-ordinating body may be able to play a role in collecting this information and advising government and regulators on disclosure areas requiring greater prescription or other work.

¹ An ASIC research report, June 2004

Question 2.2

Where we come from and our socio-economic status in life are key determinants in how we access and use information. As such, it is important for information providers to recognise the particular disadvantages that some consumers face in both accessing and acting on information.

Are socio-economic and demographic factors that important? How should they be factored into what information providers produce?

Feedback

The Council agrees that socio-economic and demographic factors are important. It should be considered by all information providers, especially commercial providers and their agents under the “know your client” provisions of FSRA. In the secondary and tertiary education levels examples such as the George Model used in the discussion paper could have great value. No one likes to be made the fool and such realistic examples would undoubtedly create strong and lasting impressions.

Question 2.3

Understanding the different personal characteristics that lead to consumer problems helps information providers decide whether they need to target behaviour rather than product knowledge in any information campaign.

Is a broader understanding of human behaviour useful in addressing consumer and financial literacy? How do we best discern the different personal characteristics of people in the community?

Feedback

Council agrees that self-awareness is the starting point for effective management. The creation of bodies such as CCAAC, the ACA and many others indicates recognition that individual Consumers are unlikely to be able to affect change in the Market Place ... the Ralph Nader phenomenon being one remarkable exception. Council notes, particularly, the reference to easy Consumer commitment through acceptance of terms such as “buy now, pay later”. Offers in the form of “no deposit, no payment and no interest for x years” are highly visible examples of this type of selling which, by casual observation, are seen to be proliferating through the retail goods and services markets. The interest rates charged on an outstanding balance at the end of one of these contracts can be highly injurious to gullible consumers. This type of activity and the deliberate confusion of Consumer ‘needs’ and ‘wants’ referred to in this section also indicate the great desirability for formal consumer education beginning at an early age.

Question 2.4

Understanding and appreciating the differences between consumer wants and aspirations helps information providers better prioritise information while recognising that many consumers take an aspirational outlook to issues that face them.

Is an appreciation of needs and aspirations useful?

Feedback

Refer to feedback to Question 2.3

Question 2.5

Understanding the life event triggers behind the big decisions that consumers make, assists information providers in targeting information at the times and places in people's lives when they most need it.

Does this help? How can the Taskforce's understanding of life events be enhanced?

Feedback

The Council believes understanding life trigger events is helpful to assist (or require) information providers target information to consumers at the relevant time. Consumers are far more aware and absorbent of information at the time it is relevant to them. Currently, young people tend to learn about the pitfalls of mobile phones and credit cards when they receive their first bill. In most cases, as demonstrated by Figure 2.5 in the discussion paper, these life events occur within definable age bands.

Question 2.6

Learning consumer and financial skills is all about building our capacity to make better decisions throughout our lives.

What skills are important to consumers? Do the consumer and financial skills presented in this section capture all relevant skills? How can we benchmark these skills over time?

Feedback

Financial literacy today is as important as reading, writing and arithmetic were to earlier generations. Financial literacy should be available to all

Australians and should be achieved prior to school-leaving age. The level of literacy required is such that allows average consumers to protect themselves and build wealth. The Council believes the skills set out in this section could be benchmarked through national and state financial literacy testing (as is done for numeracy and literacy) and that this should be a benchmark developed by OECD.

Question 2.7

Understanding consumers' preferences for information allows information providers to properly target their messages and maximise their reach.

What information sources do consumers trust? Are consumers confused by different information on the same issue? Is information tailored to the learning style of the target audience?

How important are intermediaries such as financial advisors in delivering outcomes for consumers?

Feedback

Consumers are more mistrustful of advertising and marketing than they have ever been. The high profile dishonesty and failure of major corporations here and overseas has made consumers distrustful of information coming from these sources. Wiser corporations understand that the "dinner party story" is the best and worst form of recommendation. Indeed, it has been postulated² that the best measure of the growth prospects of a business is its "net promoters", i.e. the ratio of customers, having experienced the company's product and services, that actively promotes the business to family, friends and associates. This measure is perhaps the ultimate readily understood test of whether the information disclosure, be it via advertising, over the phone or via documentation, is matched by the service that is provided. Unfortunately, there is no database of these experiences available to consumers.

The Council recommends that the co-ordinating body set up a market research database that reports on the experience of consumers from relevant sectors. The publication of high level customer satisfaction metrics is not only of great use to customers but also is a powerful incentive for market participants to improve customer experience and create competition. The J.D. Power survey of Auto-Manufacturers in the USA is a good example³. Manufacturers, through their marketing programs, actively compete on the J.D. Power results. See also the J.D. Power ratings on Finance and Insurance.

² The One Number You Need to Grow, Frederick F. Reichheld, Harvard Business Review, December 2003

³ See jdpower.com

The advantage of this approach is that it provides customers with easy to access, easy to understand information on the outputs of providers. This promotes competition and informed choice and avoids the cost, and potential anti-competitive and service suppressing effects, of prescriptive and input based regulation.

Government and consumer group information is more likely to be trusted by consumers. The proposed integration of this information by the co-ordinating body would make access far easier than it is in its diffuse form today.

Earlier in this submission the council raised its concerns around financial advisers and conflicts of interest. While there is certainly potential for this sector to provide real assistance to consumers, the current CLERP processes will have to address rigorously the conflict of interest issue for consumers to have their confidence restored.

Chapter 3 The information provider

Question 3.1

The extent to which Australians' needs are met by the currently available consumer and financial education programs needs to take account of a number of factors including the following:

- The availability of information – Are there some topic areas where there is insufficient information?
- Awareness of the available information and information sources – Do consumers (or teachers and other intermediaries) know what is available?
- Access to the available information – Do consumers know how to access information? Are all consumers able to access information?
- The quality of the information provided – Is the available information clear and consistent?
- Efficient allocation of resources – Is consumer education delivered efficiently?

Feedback

The Council agrees with the Taskforce that there is much information but that there is a lack of standards / consistency and that its non-integration means access and delivery is haphazard. The complexity of the financial market place and the myriad of diverse issues facing consumers coupled with the number of sources can make consumers feel like they are looking for a needle in a haystack.

The Council believes there should be one database of all information, readily accessible by consumers.

Question 3.2

What elements from overseas approaches should the Taskforce recommend in the context of the current Australian environment?

Feedback

In particular, the Council commends the UK approach of the use of a call centre as well as an online service to provide advice to consumers. Whilst it is an easy and cheap way to disseminate information, the Internet is not accessible to all, particularly those who need advice.

The Council also commends the New Zealand approach of looking at financial literacy as a positive and empowering skill that promotes enterprise and a sense of self-responsibility.

Chapter 4 An integrated solution

Question 4.1

The Taskforce is proposing that a coordinating body be established to promote and facilitate a coordinated and targeted approach to consumer and financial information in Australia.

The body would aim to achieve this through the development of the Consumer Behaviour Model into a tool that can be used by service providers. The body would also be given a number of other functions to do with consumer and financial literacy that are currently not implemented in a comprehensive and coordinated manner. These include: research, a clearinghouse, an accreditation service to enable consumer and financial literacy to be incorporated into the school curriculum, an ongoing awareness campaign, a capacity-building grants program and a partnerships program.

Is a coordinating body necessary? Should it be Government or industry funded? What functions should it perform?

Feedback

The Council supports the proposed co-ordinating body. It is necessary. The issue of consumers and money continues to be on the public agenda in one form or another. The amount of legislative, regulatory, NGO and commercial time spent on it is extra-ordinary. And yet the fundamental issues remain; lack of consumer awareness / education; distributed information that can be difficult to find; poor and even dishonest practices by some industry players; insufficient integration of the activities of consumer groups, the private sector, state and federal governments and their agencies.

The Council believes the integration of all these activities needs to be "someone's job". The current framework of shared accountability leads with the best will in the world, to a series of duplications and gaps.

The Council believes the body could be set up in the way and with the functions proposed by the Taskforce but it is critical for consumer confidence, that it be a government instrumentality with the support of state and federal governments. Two existing bodies that could be considered for the task are ACCC and ASIC. In order to be able to execute, the body will need appropriate powers and authority. The industry could reasonably be asked to contribute through a levy. However, given the amount of non-integrated activity currently on foot, it could reasonably be expected that a co-ordinated response would garner substantial savings.

Should the Taskforce wish to discuss any aspect of the above, please do not hesitate to contact the Council via the Chair, Colin Neave care of the following address:

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