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Dear Sir / Madam

CPA Australia welcomes the opportunity to provide comment on the discussion paper *Consumers and Money* released in June 2004.

CPA Australia is the largest accounting body in Australia with more than 103,000 members specialising in finance, accounting and business. There is particular emphasis within our membership in terms of providing financial advice and counselling to consumers.

CPA Australia has a strong role to play in educating consumers about financial literacy as public interest is one of the fundamental principles underpinning our Code of Professional Conduct. Section B of CPA Australia's Code of Professional Conduct states: "*A distinguishing mark of a profession is acceptance of its responsibility to the public*".

As you are aware, CPA Australia released research into the debt levels of generations X and Y in June 2004. This research is part of a broader CPA Australia strategy to empower consumers about finance and financial planning issues. We also currently provide consumer advice on finance and financial planning issues through communication mediums such as newspaper columns and question and answer segments.

CPA Australia applauds the initial steps taken by the taskforce in releasing its discussion paper and looks forward to providing the taskforce or secretariat with any future assistance.

In response to the specific questions posed in the discussion paper, CPA Australia provides the following for consideration:

Question 2.1 – Are economic and government factors sufficiently understood in information provision to consumers?

CPA Australia is of the view that consumers do get a tremendous amount of information but they do not understand it. We believe there is a compelling need for all financial services and financial product information to be communicated in layman's terms in line with community literacy levels.

It is generally accepted that the broader community lacks understanding of economic principles and forces and the need for government intervention. We suggest that this knowledge or understanding needs to be introduced earlier to Australian school students at the primary rather than secondary level of schooling.

Question 2.2 – Are socio-economic and demographic factors that important? How should they be factored into what information providers produce?

We believe it is fundamental that any co-ordinating body set up by the Government should have individuals from disadvantaged socio-economic cohorts or have those consumer representatives who have an intimate appreciation of their issues.

Socio-economic factors are very important in considering the issue of financial literacy and targeted consumer communication. An example of this importance would be highlight to consumer cohorts that the provision of on-line banking is generally cheaper than face-to-face banking at a branch.

In the development of any communication to consumers, care must be taken to ensure that the content is clear and easy to understand and is designed to engender understanding and empowerment. We believe that any communication material developed should be extensively focused tested with consumer cohort groups.

CPA Australia would welcome the opportunity to provide specialist advice on any communication product developed.

Question 2.3 – 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?

It is fundamental that any differences or disadvantages associated with a consumer's socio-economic background be addressed. The co-ordinating body may wish to focus on ways in which particular consumer mindsets can be turned around to achieve the best financial outcomes for consumers and their families.

In doing so, both consumer product knowledge and behaviour needs to be targeted.

Question 2.4 – Is an appreciation of needs and aspirations useful?

Recent research sponsored by CPA Australia into the debt habits of Generations X & Y has identified that there is a substantial problem with personal credit, particularly in the 18 – 24 year age group. This is attributable largely to the ease with which consumers gain access to personal credit and the 21st century phenomenon of instant consumer gratification. There is insufficient appreciation within the community at a broad level, of the difference between need and want and the consequences of pursuing a lifestyle of instant material gratification in the long term.

The perception of a person's needs shift in a modern society and are largely influenced by a combination of global mass marketing and the relative ease of access to credit. All of which can work together to give the impression of items being needs rather than aspirational or lifestyle items. What was a luxury item 15 years ago, such as a mobile phone, CD player or large television, is now seen more as standard in a modern society and viewed as a need not an aspiration. Consumers must be able to differentiate between those purchases which are lifestyle related versus those which are needs and therefore fundamental to their existence.

Question 2.5 – Understanding life triggers – Does this help? How can the Taskforce's understandings of life events be enhanced?

An understanding of life events is critical. We need to understand what people do when certain life events occur such as the birth of a child, divorce, unemployment, separation, death etc and how they want to seek information at this time. CPA Australia is currently exploring this issue and would be happy to discuss further with the secretariat.

The Australian community, we believe, needs to have a toolkit of financial strategies appropriate to deal with life events. Currently our research shows us that Generation Y do not plan for life events

such as retirement and the purchase of their first home, even though they clearly understand the need to do so.

We would be happy to work with the Taskforce to develop a toolkit.

Question 2.6 – What skills are important to consumers? Do the consumer and financial skills presented in this section capture all the relevant skills? How we benchmark this over time?

The types of skills that are important for consumers are basic numeracy skills applied in concert with some understanding of different classes of financial products.

Consumers need to understand for example the difference between gross and net income (non-bank credit providers may approve in-house credit or interest-free credit offers on the basis of a person's gross salary. However the consumer may not understand that their take-home salary will be substantially less). Consumers need to understand the value of a budget and know how to best structure their own basic budget. Education on the differences between good and bad debt, as highlighted in the discussion paper, would also be invaluable and could serve to influence a change in consumer behaviour.

Consumer levels of understanding need to be benchmarked over time. CPA Australia proposes to use our recently completed research into debt levels of generations X and Y to measure any improvements or deteriorations in levels of debt in these two demographic groups over time. Another way to assess understanding, could be to use information about debt and default levels from financial product providers. The level of consumer complaints could also be used however this would require specific synthesising of data to ensure the outcomes were not linked to the performance of particular advisers or to the performance of markets.

Another benchmark could be any change in the level of bankruptcies.

Question 2.7 – What information sources do consumers trust? Are consumers confused by different information on the same issues? Is information tailored to the learning styles of the target audience?

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

Consumers generally trust information that is provided by their accountant, their financial adviser, their bank manager, if they have a relationship with one, and their family members and friends. Consumers often place a great deal of trust in information that comes from large banking groups and well known brands of institutional investment companies. This is particularly true of older members of the community who have long identified with particular financial institution brands.

Information, however, is often not specifically tailored to particular groups of consumers and often does not take account of different levels of financial literacy. Consumers become confused by the proliferation of similar products and the use of industry or market and economic jargon.

Intermediaries are critical to assisting consumers understand their financial situation and in making informed decisions about their financial future. However access to intermediaries for consumers is often the greatest barrier to achieving this understanding. Barriers take the form of geographic isolation, insufficient funds to warrant consulting someone or the perception that a certain level of investment must be held in order to seek advice.

Financial advisers are often skilled, whether by default or design, in the provision of financial counselling services, however they probably don't get to see the consumers who most need their advice. There is a disconnect between financial advisers who work in a commercial environment and the consumers who need free or low-cost financial advice.

Question 3.1 – Access to information

CPA Australia believes there is insufficient, easily understood explanation of products such as interest free or deferred payment contracts offered by chain or department stores. The information is there, but more often than not it is not in a form that consumers understand or access. For example, simply advising a consumer that a non-interest free period, once completed, converts to an interest rate of 20+ % means very little to someone who does not have the basic numeracy skills to do the maths and come up with a dollar figure of what they will be liable to pay if their contract exceeds the interest free period.

Many consumers may not be aware of what information they need, therefore they will not know that they should seek the information or where to go to get the information. Information that is available to consumers is often not clear or consistent. Consumers need to be given information in clear, basic language they understand. A suggested way to communicate with consumers might be to tell stories which illustrate particular scenarios – people often identify more readily with a particular situation that they would with a series of text about a product or service.

CPA Australia members in public practice have the financial advice expertise and representatives would welcome the opportunity work with the Taskforce to provide advice.

Question 4.1 – Is a co-ordinating body necessary? Should it be Government or industry funded? What functions should it perform?

CPA Australia is of the view that a co-ordinating body is essential as this would ensure consistency of information development and delivery. The discussion paper specifically highlights the current levels of inconsistency within the market. Ensuring consistency should not necessarily impede the creativity of individual organisations but simply channel it more efficiently so that the same message gets out to those consumers who need it most.

The coordinating body should be Government controlled and funded with the essential involvement of industry.

Industry funding of financial literacy initiatives would be appropriate, but control of a coordinating body by industry, as important as it is to the financial future of our next generations would see biases, conflicts and inconsistent approaches.

We would welcome the opportunity to work more closely with the Taskforce. Should you have any queries, please contact CPA Australia's Financial Planning Policy Adviser, Catharine Crack on Tel: (03) 9606 9656 or E-mail: Catharine.Crack@cpaaustralia.com.au

Yours sincerely

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