Attachment 1

The Consumer

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

The government has a significant role to provide a regulatory framework that fosters information sharing without subjecting consumers to harm. But this regulation can be a double-edged sword. For example, the worthy goals contained in the recent *Financial Services Reform* (FSR) regime requires providers of financial products and services to improve the quality of their consumer information and disclosure, but consequently, it is also causing rapid growth in the quantity of information imposed on consumers. Far from providing *"clear, concise and effective"* information, these reforms generate an oversupply of material that can annoy and confuse consumers and impose significant regulatory and compliance costs on financial providers.

CUSCAL estimates that FSR implementation has cost the credit union sector $24.5 million, which is significant by comparison to the $100 million approximated for the four major banks. Credit union feedback also supports these concerns, for example:

> *"Too complicated, too much paper, too much information, PDS and FSG ignored as paper volume too great, waste of money/resources (time/trees)."*
>
> *"Members don't want to listen to the scripts and are not interested in the FSGs and PDSs."*

The result is a less effective exchange of information that fails to adequately equip consumers with financial knowledge and skills to make informed decisions. CUSCAL has communicated these concerns to parliament and regulators and the Treasurer's *Financial Sector Advisory Council* (FSAC) is currently considering this issue. CUSCAL believes that the Taskforce and any subsequent co-ordinating body should consider these experiences before launching broad national programs. If the Taskforce finds that mountains of printed material is not the best method to educate consumers then it should also share this view with ASIC and the Treasury.

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

Individual socio-economic backgrounds affect a person's ability to access and understand financial information. The credit union sector has recognised this in its targeting of literacy programs to low income and unemployed people. For example,

> *Encompass Credit Union support the Non Interest Loan Scheme (NILS) run with Barnardos Australia and the Good Shepherd Society for public housing residents in Penrith in NSW. These residents are often unable to obtain loans because they have low incomes, possess few assets or have poor credit histories. The scheme involves low-value non-interest "loans" to families and others in need, typically single mums with children, two parent families affected by unemployment and living below the poverty line and those living on old age, carer or disability*

> *pensions. Importantly, these "loans" are tied to an education program that involves teaching recipients about how to apply for loans, budgeting and making repayments. NILS is as much about learning about financial management as it is about financial assistance. Further, the repayments are recycled back into the scheme for the next family or needy resident. A strong sign of its success is that to date all "loan" amounts have been fully repaid.*

Consideration should also be directed to socio-economic factors as indicators of risk areas so that limited financial literacy resources can be appropriately targeted and supported. Credit unions have experience in focusing their limited resources towards achievable and meaningful outcomes.

- ***Question 2.3 – Is a broader understanding of human behaviour useful in addressing consumer and financial literacy? How do we best discern different personal characteristics of people in the community?***

Different behaviour and individual characteristics present different financial challenges for individuals. Effective financial literacy must account for these variances to ensure messages are meaningful and effective. The credit union sector seeks to accommodate different behavioural styles in its financial literacy initiatives.

Further, credit unions also try to ensure that members and the community understand that their individual preferences and approaches, as well as their particular stage along the consumer life event continuum – as proposed in the discussion paper – can affect their financial needs. For example:

> *Bankstown City Credit Union (BCCU) have been involved in the Girls Savvy program from the Office of Women, which involves businesswomen becoming mentors for a one-day program. The program is designed to ensure that young women understand the financial realities of life and includes identifying individual career and life objectives and then considering the particular financial skills and aptitude needed to achieve those personal objectives.*

In as much as providers of financial literacy need to be aware of behavioural factors, recipients of this type of learning may also benefit from a similar understanding. For example, Generation Y's are typically regarded as compulsive spenders with scant regard for tomorrow, understanding this may help them to better plan and budget for the future.

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

Effective budgeting, perhaps a minimum requirement for any person to be considered financially literate, requires an ability to distinguish between needs and aspirations. These elements are critical for individuals to be able to prioritise and manager their limited resources. The credit union sector has recognised this in its development of simple and effective budgeting initiatives, particularly those targeted at low income and unemployed people. For example,

> *Fitzroy Carlton Credit Co-Operative (FCCC) employs a full time budget officer who assists low income members to work out a budget, advocates with utility and*

accommodation providers and sets up repayment schedules for members to control their bill payments and expenses. There are approximately 450 people relying on this scheme to help them learn and manage their way out of financial hardship. FCCC also have an employment and education scheme. For example, FCCC negotiated with the contractor of housing commission accommodation to employ 30% of its staff from the resident population for onsite roles such as cleaning and security. Subsequently, FCCC held a series of educational seminars for these resident-employees to help them learn how to manager their new incomes and money.

Budgeting is a critical skill a person needs to discern their needs and their aspirations, any programs towards this goal should focus on assisting people to learn to prioritise and manage their limited resources. These programs warrant the support of any proposed national scheme.

- ***Question 2.5 – Understanding 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?***

Targeting financial literacy at school children and youth is critical to the long-term improvement of consumers' ability to make informed decisions about their financial futures. In fact, Island State Credit Union believes an opportunity lies in improving financial literacy in schools so that 'retirement' becomes the fourth 'R' in the curriculum.

The Taskforce's consumer life events continuum is a useful illustration of the types of challenges consumers face and highlights the different financial literacy needs they require. However, individuals may dwell in certain stages or their transition through their consumer life events may be indistinct. Therefore, the Taskforce should be cautious against a model that overly compartmentalises consumers.

A good example of effective bridging initiatives, which assist people through their life consumer events, are online computer training programs. These are often targeted towards older people or those who've already retired. This form of financial literacy is tailored to people with particular needs and facilitates their continued access and understanding of financial products and services. Credit unions are aware of these types of differences and seek to focus their literacy programs accordingly. For example:

CPS Credit Union (SA) has developed a community seminar on online banking services. The seminar series, Online Banking Made Easy, was developed in conjunction with Ngapartji Multimedia Centre (a Government funded centre). The program seeks to ensure all members of the community have the opportunity to benefit from the speed, efficiency and convenience of online banking.

BCCU also provide a seminar on modern banking to the 'Just for Older Men' group. The event focuses on telephone and Internet banking and is directed towards the needs of older men, many of whom are widowed and must learn to do their banking and financial services on their own later in life.

Another example of credit union's understanding of life event triggers are literacy schemes that are tied to other support services or community-orientated lending activity. Credit unions are aware that consumers need support as they embark on new and difficult stages in their financial lives. For example:

> *FCCC have a micro-business loans scheme delivered through the Brotherhood of St Lawrence. This scheme operates for people who undertake a relevant TAFE course, provides them with a mentor who assists them to prepare a business plan, which is then assessed and if successful results in the receipt of a $10,000 loan to assist the start-up of their business ideas.*

Life events prompt people to acquire new financial information and skills in order to make informed decisions. Credit unions account for these consumer life events and seek to provide meaningful and effective support for consumers.

- ***Question 2.6 – What skills are important to consumers? Do the consumer and financial skills presented in this section* [literacy and numeracy, planning, investing, borrowing, spending, risk, market awareness, rights and responsibilities] *capture all relevant skills? How can we benchmark these skills over time?***

Empowered consumers, capable of making informed decisions about their financial future, must have certain basic literacy and numeracy skills. However, before these consumers can then embark on financial planning, investing, borrowing and evaluating risk they must first understand simple budgeting. The credit union sector recognises these competing imperatives and has developed numerous basic financial literacy and budgeting initiatives. For example:

> *WAW Credit Union has produced a children's book entitled 'Buck's Big Adventure', which is designed to educate children about the importance of money and how it works in the local community.*
>
> *Queenslanders Credit Union (QCU) runs Personal Better Budgeting seminars that have provided learning opportunities for over 7,000 people. This initiative is not a workshop or product promotion tool, instead it is designed to equip families and individuals with skills to establish and successfully run budgets. QCU also offers children's budgeting sessions working with Brisbane City Council's community education program and offers budgeting sessions through venues organised by the council to Brisbane residents.*

Additionally, if a national co-ordinating body is established it should provide guidance as to what the base standards are so that providers can set appropriate goals and work towards them.

Remember also that authorised deposit-taking institutions, like credit unions, are subject to the FSR regime, which means they must provide certain prescribed information to consumers before they engage in particular financial products and services. As discussed in Question 2.1 above, there is a growing disconnect between that prescribed information and the apparent needs of consumers.

- ***Question 2.7 – 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?***

Consumers may be inclined to source and trust information from family, friends and the media because, unlike information from government and corporate providers, this information is typically condensed and translated into a format that is palatable. Compare that to the oversupply of information that is required under FSR, as discussed in Question 2.1 above.

As mutuals, credit unions have a common set of values and ethics that govern their operations. These values and ethics are focused on delivering the best possible outcomes for their members. Credit unions seek to empower their members so that they can make informed decisions about their financial futures. This approach engenders significant trust and confidence among credit union members, of which there are over 3.5 million across Australia. As a result, credit unions believe they are a preferred source of financial information from their members, and the community. This view is supported by a 2003 *Eureka Strategic Research* customer satisfaction survey that stated that 84% of credit union members rated their credit union as “excellent” or “very good” compared to less than 40% of major bank customers. Also, *ACCORD* recently reported that 60% of respondents to their survey on co-operatives, which includes credit unions, agreed that they make the market fairer.

Conscious of the confidence members bring to their relationships with credit unions, credit unions seek to tailor their financial literacy programs to the socio-economic and individual needs of their members. Particular examples of this are identified in response to Question 2.2 and Question 2.3 above.

Information Providers

- ***Question 3.1 – Are there some topic areas where there is insufficient information? Do consumers (or teachers or other intermediaries) know what is available? Do consumers know how to access information? Are all consumers able to access information? Is the available information clear and consistent? Is consumer education delivered efficiently?***

In the absence of guidance from government, regulators or educators, credit unions have instead assessed the needs of their local communities and developed achievable programs to bolster financial literacy standards. Common threads run across these initiatives, such as a general focus on the financial literacy needs of children and youth and basic budgeting information. There is also a consistent focus on delivering achievable local outcomes. The credit union sector has considerable experience in these areas that includes, in addition to the various examples identified above:

CUSCAL has produced a series of publications entitled “Take Control”, which cover topics such as buying a property, managing credit cards, protecting your assets, buying a car, managing credit, powers of attorney, budgeting, wealth creation, dealing with financial crises and making a will. CUSCAL has also released a separate youth-based publication called “The Good Dosh”, which *provides tailored information to teach financial responsibility and discusses consumer life events typically encountered by youth.*

BDCU developed workshops on money skills for year 6 primary school students and year 12 high school students in the Southern Highlands and Tablelands. The program will continue annually with participating schools.

Additionally, these sources of information should be balanced against the difficulties identified in the response to Question 2.1 above.

- ***Question 3.2 – What elements from overseas approaches should the Taskforce recommend in the context of the current Australian environment?***

A significant feature of an effective financial literacy framework is the active participation of industry in developing and delivering meaningful and useful initiatives and an awareness by consumers of the benefits of being financially literate. Therefore, the provision of effective and collaborative support for industry-based and other financial literacy providers is essential and the promotion of the benefits of literacy to consumers is a necessary corollary. CUSCAL believes that the Taskforce and any subsequent co-ordinating body should consider those international experiences that adopt a supportive and co-ordinated approach that also promote consumer awareness of the benefits of being financially literate.

Integrated Solution

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

Generally, CUSCAL supports the creation of a national co-ordinating body and believes that credit unions should be represented on it. Other participants should broadly include consumers groups, educators and other associations that represent providers of financial literacy. It would be disappointing if organisations with the scope of experience and commitment to financial literacy such as credit unions were not actively involved in the establishment and operation of such a body. At the very least, interested parties should be involved in setting the body's terms of reference and be able to access regular consultation as a feature of its operations.

Additionally, because individuals are increasingly encouraged by government to take more responsibility for their own financial arrangements and decision-making, there is a corresponding responsibility on behalf of government to provide the funding for the financial education of Australians. If this responsibility were placed on providers of financial literacy, such as credit unions, the costs could stifle locally-based outcomes-focused initiatives rather than stimulating the development of best practice literacy programs.

If industry contributions were required, then a broad interpretation of who might contribute and the relative size of each organisation should also be considered. For example, financial literacy might appear to be a responsibility of banks, credit unions and building societies, but the Taskforce's consumer life events continuum also identifies other sectors that contribute to consumers need for financial literacy. For example, the inclination of young people to regard mobile phones as a need brings in the telecommunications sector, the purchase of a family home brings in the real estate sector, the purchase of a car brings in the automotive sector, the purchase of insurance and financial planning brings in those industries and the use of credit for household purchases also brings in retailers. Other possible contributors might include regulatory bodies with statutory responsibility to protect consumers' interest, such as ASIC or the ACCC and the Sate fair trading and consumer affairs offices. Clearly, there is a broad range of relevant contributors that the Taskforce should consider when developing its funding model.

While best practice should certainly be promoted, caution should be exercised when implementing any type of accreditation service. It would be unfortunate if individual community-based financial literacy programs were adversely affected by an accreditation scheme that did not consider these programs in their local context, in effect creating a two-tiered view of financial literacy. An overly bureaucratic co-ordinating body could create barriers to locally driven and implemented financial literacy initiatives. CUSCAL believes that the Taskforce should consider these comments before finalising its recommendation on the proposed co-ordinating body.

Aboriginal and Torres Strait Islander Peoples

Apart from the fleeting reference in Part 2.4 of the discussion paper, it is not clear how the Taskforce might seek to address the particular financial literacy needs of Aboriginal and Torres Strait Islander peoples. It is also disappointing that these needs are not explored in the consumer life events continuum nor is there reference to them in the proposed national co-ordinating body. The credit union sector already undertakes significant work in this area, for example:

Traditional Credit Union (TCU) and First Nations Credit Union (FNCU) have developed and implemented a significant range of positive, effective and culturally appropriate financial literacy initiatives. Many of these were highlighted and recognised in the Parliamentary Joint Committee on Corporations and Financial Services' recent report 'Money matters in the bush: Inquiry into the level of banking and financial services in rural, regional and remote areas of Australia'.

Established in 1984, TCU provides culturally appropriate financial services to Aboriginal people living in remote communities in the Northern Territory, particularly those disadvantaged by a lack of existing services. TCU aims to build skills for economic self-reliance in families and communities in locations such as Ramingining, Milingimbi, Gapuwiyak, Maningrida and Ngukurr and has established relationships with community groups, schools and CDEP schemes.

TCU is currently seeking to restore government funding to run a financial literacy program in Arnhemland. The project builds on a pilot that sought to deliver education on managing money for daily living and future planning and would cover budgeting, loans and fees and charges.

CUSCAL believes that it is imperative that the Taskforce and any subsequent co-ordinating body consider these particular needs before launching any broad national programs. Credit union experience in Indigenous literacy programs – together with local communities own activities and those of ASIC – are invaluable and the Taskforce is encouraged to ensure they continue to be supported. Ultimately, any recommendations by the Taskforce must include the financial literacy needs of Aboriginal and Torres Strait Islander peoples.

Consumer Behavioural Model

CUSCAL believes that the Taskforce should exercise caution when applying the proposed consumer behavioural model. As it is currently drafted, there is a danger that it will be self-fulfilling. That is, uninformed consumers may be destined to make uninformed decisions, while informed consumers can continue to develop their knowledge and make informed decisions. In this context, without a benchmark to compare consumer behaviour, it is difficult to imagine how individual providers can use this model.

The Taskforce could consider recommending that the national co-ordinating body identify a set of basic criteria that denote a financially literate person, or the criteria or indicators of financial literacy at the various stages along the consumer life event continuum. Once that benchmark is established then providers of financial literacy can apply the model against particular individual or sectoral needs and adjust or develop their programs accordingly.

Further, the Taskforce should model effective financial literacy programs on those delivered and partnered by the credit union sector. These programs illustrate best practice for producing outcomes-focused and achievable financial literacy for particular needs in particular communities.

More information

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