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CFL Taskforce Secretariat
SCGSD
Department of the Treasury
Langton Crescent
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Dear Sir

**Australian Consumers and Money
Consumer and Financial Literacy Taskforce**

ICA strongly supports raising the level of financial literacy in the Australian community and welcomes the opportunity to provide feedback on the questions asked in the discussion paper.

Financial literacy offers a real opportunity to improve many consumers ability to make informed decisions about the use and management of money. This means obtaining the skills and knowledge necessary to make informed judgements. ICA believes financial literacy in insurance matters offers a proactive approach to consumer protection. A fully literate community means there is far less need for prescriptive legislation and the compliance costs this brings.

The insurance industry through ICA has long been a supporter of financial education in schools. There is a need to educate the community about the benefits and basic concepts of insurance starting at a young age. Despite the time, effort and costs involved a major constraint has been the lack of a simple means to measure the results achieved. ICA believes the proposed coordinating body offers the best approach to overcome these difficulties.

ICA believes the ongoing development of the "Consumer Behaviour Model" is a research project for the proposed coordinating body to consider. The model may be useful in setting priorities provided reference is made to the practical experience and successes of overseas schemes.

Questions 2.1 to 2.7 of the discussion paper relate to the consumer including the impact of economic and government factors, behaviour, product knowledge, needs and aspirations, life events and sources of information consumer's trust. ICA believes the provision of factual information and examples based on real life events may be the best way to address issues like, ad hoc decisions being made by consumers without taking proper account of the consequences. ICA believes care needs to be taken to ensure that detailed analysis of the problem does not divert attention from the main task of reaching as many Australians as possible.

ICA believes the starting point should be through the school system. This provides one of the best ways to reach large numbers of Australians on an ongoing and progressive basis. Financial literacy education through the schools system will reach each successive generation of

Australians and all socio-economic groups. This should include material on the importance of insurance to the economy and the Australian community. An awareness of the need for consumers to protect their assets.

Question 3.1 relates to the information provider and seeks feedback on topics like the availability of information, access and awareness, quality and the efficient location of resources for consumer education delivery. ICA believes that a major task for the proposed coordinating body will be to assess the quality and suitability of currently available material both in Australia and from overseas. The proposed clearinghouse function should be capable of putting in place mechanisms that will encourage quality information and advice.

The discussion paper talks about trusting intermediaries like financial advisors. One of the main aims of the Financial Services Reform Act 2001 is to licence and supervise the activities of advisors in the financial services sector. It is reasonable to suggest that ASIC will monitor and enforce compliance. The proposed coordinating body should be in a much better position to determine and recommend the most suitable means of delivery based on the target audience.

In Question 4.1 the Taskforce proposes a coordinating body be to promote and facilitate a coordinated and targeted approach to consumer and financial information in Australia. ICA believes it is essential for the proposed coordinating body to be established as soon as possible. A priority task should be to make certain that financial literacy becomes part of the education system. This is the most appropriate means to build the knowledge and skills of young Australians.

ICA believes that the proposed coordinating body should be funded by Government. This is essential for it to have the necessary authority to promote financial literacy through the public, private and tertiary school system.

Many of the issues are also covered in the ASIC discussion paper, Financial Literacy in Schools June 2003. For example, options for incorporating financial literacy into the curriculum, financial literacy competencies, general standards and skills, the overseas experience and best practice principles. Attached is a copy of the ICA submission September 2003 in response to the ASIC paper.

Yours sincerely



Brian Hollis
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**Submission on the ASIC Discussion Paper:
Financial Literacy in Schools June 2003**

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Introduction

The Insurance Council of Australia (ICA) is the representative body of the general insurance industry in Australia. ICA members account for over 90 per cent of total premium income written by private sector general insurers.

ICA members, both insurance and reinsurance companies, are a significant part of the financial services system. Recently published statistics from the Australian Prudential Regulation Authority (APRA) show that the private sector insurance industry generates direct premium revenue of \$17.8 billion per annum and has assets of \$63.5 billion. The industry employs about 25,000 people.

ICA members issue some 37.7 million insurance policies annually and deal with 4 million claims each year.

The case for financial literacy in education

The definition of financial literacy adopted by ASIC refers to the ability to making formal judgements and to take effective decisions regarding the use and management of money. This definition places a clear emphasis on the skills and areas of knowledge that are necessary to make informed judgements.

The insurance industry, through ICA has long been a supporter of financial education in schools. ICA recognises there is a clear need to educate the community about the benefits and basic concepts of insurance, starting at an early age. To do this, the insurance industry, through ICA, has worked closely with national curriculum services to develop insurance-based resource material. For example, "Insurance is Everyone's Business" (Years 11 and 12) and "Take Care" (Years 9 and 10).

Efforts have been made to update this resource from time to time. ICA does acknowledge that despite the time, effort and costs involved, a major constraint has been the lack of a simple means to measure the results achieved. ICA strongly believes that the current ASIC proposals will overcome these difficulties.

ICA Recommendation

ICA strongly agrees there is an overwhelming case to pursue financial literacy in schools as this is essential for the Australian community and for sustainable economic growth, ie the ability to make informed and effective decisions regarding the use and management of money.

Curriculum – Where to from here?

ICA believes the greatest drawback revealed by the curriculum research is the fact that financial literacy is not a formal course of study or a “subject” in most states and territories. The research states there is no systematic approach to teaching financial literacy. There is great diversity in the manner in which financial literacy is taught, its nature and content.

The discussion paper presents five options for incorporating financial literacy in the curriculum:

- a) Do nothing
- b) Advocate for the inclusion of specific financial literacy learning outcomes in the curriculum frameworks for the SOSE and Maths in each jurisdiction in a systematic way
- c) Advocate for the inclusion of specific financial literacy learning outcomes in the curriculum frameworks for Health and Physical Education
- d) Advocate for the incorporation of financial literacy into the Life Skills cross-curricular outcomes in each jurisdiction in a systematic way
- e) Advocate for the incorporation of financial literacy into the transition from school agenda, specifically vocational learning and enterprise education in compulsory years and post-compulsory years of secondary school.

Q 4.2 Which option/s do you support and why?

ICA Recommendation

ICA is not in a position to comment on the suitability of each option other than to stress that Option (a) Do nothing should be discounted out of hand. ICA recommends that the final choice needs to be made by the proposed financial literacy institute.

ICA agrees with the ASIC comment that without a clear identification of financial literacy within syllabuses, it is impossible to develop any co-ordination across these curriculum areas for learning to be reinforced.

Q 4.3 Do you agree that financial literacy competencies should be developed with general standards and skills for different levels?

ICA Recommendation

ICA supports the development of financial literacy competencies with general standards and skills for different levels. This will provide a clear prospect of obtaining measurable results.

Resources – Where do we go from here?

The ASIC Discussion Paper includes an extensive listing of resource material aimed at various aspects of financial literacy in Australia. The task will be to draw from these resources the best material available and draw upon the expertise and knowledge of each of the organisations involved in the financial services sector. An initial and ongoing programme of review and revision is required to ensure the material is current and keeps pace with changing economic conditions and innovative business developments.

An obvious resource not mentioned in the Discussion Paper is the possibility to draw upon the overseas experience and material produced by the Professional Finance Education Group (PFEG) in the United Kingdom and "Jumpstart" in the United States.

Q 5.3 Do you agree with our proposed best practice principles?

ICA Recommendation

ICA agrees with the principles that educational resources should be:

- Independent
- Aligned to curriculum
- Designed for teaching
- Accurate and current
- Inclusive
- Accessible

Key Stakeholders – Where do we go from here?

Involving the Financial Services Industry

The Discussion Paper specifically lists the Financial Services Industry as a key stakeholder group whose support will be critical in achieving the long-term aim of raising standards of financial literacy. ICA sees clear benefits for the community and the Australian economy in pursuing this long-term aim.

The Insurance Industry has a key role to play in the Australian economy and the protection of the assets of the community. This is particularly evident at the time of natural disasters, which are a regular feature in the Australian landscape. For example, consumers face the personal and financial effects of natural disasters like bushfires, hail storms, cyclones and earthquakes on a fairly regular basis. It is also true to a large extent that individuals are often under insured

or do not insure their home and contents. This usually places the burden on governments and the goodwill of the community, rather than individuals taking responsibility for the proper planning and management of their financial affairs. Refer Appendix 1 – Report on Non-Insurance/Under-Insurance in the Home and Small Business Portfolio – October 2002.

ICA is keen to be involved in improving the financial literacy of the community as the benefits for the Insurance Industry might include:

- Benefits stemming from a better informed purchaser – greater clarity and understanding in the purchasing process
- Greater understanding of the importance of insurance in protecting personal risks, and potentially greater propensity to buy cover
- Understanding of how insurance benefits the community and the economy
- Greater understanding of how the insurance mechanism works on an individual basis and how insurance markets can be affected by global market, as well as local conditions
- Improved image of the industry through greater understanding of its role.

Q 6.4 As a stakeholder in the financial services industry, what are your comments on the issues raised in this discussion paper?

ICA Recommendation

ICA is in strong agreement with the key objective of raising financial literacy in the Australian community.

ICA believes financial literacy offers a very pro-active approach to consumer protection. We believe the consumer, with the necessary skills and knowledge is more likely to make better and more informed purchasing decisions.

ICA believes that a financially literate community will place insurance customers in a better position to understand insurance products and how the insurance sector works.

ICA believes that with a financially literate community there is a far lower need for prescriptive consumer protection legislation. The cost savings to the community and business should not be underestimated.

Proposed Cross-sectoral Partnership

The Financial Literacy Institute

The ASIC Discussion Paper explores the possibility of establishing an independent partnership organisation with representatives drawn from all interested sectors. The basic aim is to champion the financial literacy cause and provide a focus for the co-ordinated development of resources, training and research. This initiative would be similar to the "Personal Finance Education Group" (PFEG) in the United Kingdom and "Jumpstart" in the United States.

Q 7.1 What do you think of the idea of establishing such an independent body?

ICA Recommendation

ICA strongly supports the establishment of an independent organisation to champion financial literacy, set objectives and time frames and closely monitor progress. An independent, stand-alone organisation with responsibility to achieve results is essential.

Q 7.2 What do you think of the name the "Financial Literacy Institute"? Can you suggest any alternatives?

ICA Recommendation

ICA supports the suggested name, "Financial Literacy Institute". (It may be more progressive to use the name Financial Literacy Australia, as the term "Institute" implies a too formal and perhaps less up to date and progressive approach, even though the acronym "FLI" may be attractive).

Q 7.3 Would you or your organisation be interested in being involved in FLI?

ICA Recommendation

ICA, on behalf of the general insurance industry, would be keen to participate.

Q 7.4 What would be the nature of your involvement?

ICA Recommendation

ICA would be the focal point representing the general insurance industry, including a resource for access to and the development of insurance-based, financial educational material.

Q 7.5 Do you have any suggestions or comments on the structure and funding of FLI?

ICA Recommendation

The establishment of an independent body is essential and this should be as streamlined as possible. A model for an appropriate structure may be the National Motor Vehicle Theft Reduction Council Inc., established under a Memorandum of Understanding between the Commonwealth, State and Territory Governments for the implementation of the National Motor Vehicle Theft Reduction Strategy.

ICA believes the Financial Literacy Institute must be results orientated, which requires the development of initiatives with measurable results.

ICA strongly supports the concept of raising financial literacy. ICA is open to approaches on the level of membership fees and the costs associated with the preparation of resource material.

22 August 2003