

Australian Consumers and Money

The Consumer and Financial Literacy Taskforce

Submission by Members Equity

Introducing Members Equity

- Members Equity (ME) is one of Australia's newest and fastest growing Banks.
- The predecessor to ME was Super Members Home Loans (SMHL), established in 1994 as a joint initiative between the ACTU, various Industry Superannuation Funds (ISFs) and National Mutual.
- SMHL utilised a range of innovations to produce a low cost, high quality home loan service including:
 - the creation of a residential mortgage trust.
 - the use of mortgage backed securities to build on going funding capability.
 - low cost operational and marketing initiatives.
- In 2001, ME successfully obtained its banking licence from APRA. ME then progressively launched a wider range of consumer and banking products.
- In 2003, ISFs acquired AXA's (previously National Mutual) shareholding to assume full ownership.
- Any Members Equity profits are distributed to Australian workers who are members of the owning ISFs.
- The Chairman of Members Equity is Mr Bernie Fraser, a former Governor of the Reserve Bank of Australia.
- The name Members Equity derives from the core intention to serve ISF and Union members and to treat all members equally and fairly.

Initial Comments

Members Equity:

- Appreciates this opportunity to make a submission.
- Supports the Government's initiative in establishing the Consumer and Financial Literacy taskforce.
- Recognises the critical need to improve community financial literacy and awareness as an essential precondition to an improved quality of life.
- Commends the taskforce paper as a thorough discussion of the current confusion and uncertainty in the community regarding financial awareness.
- Agrees that the profusion of programs, advice and information initiatives would be more effective if developed and delivered within an agreed framework.
- Agrees with the taskforce proposition that a more financially literate and informed community would drive improved financial services

efficiency, provide a higher level of consumer protection and equip consumers with skills and capability to better manage their affairs.

- Acknowledges that all parties to the financial services sector have to share their respective responsibility for contributing to a solution.
- Believe that financial literacy is essential to ensuring recently enhanced disclosure provisions are effective in protecting and informing consumers.
- Subject to further consideration of the details, supports the main recommendations proposing the development of a consumer behaviour model.
- Supports the call for a co-ordinating body to conduct research, promote financial literacy into the school curriculum, conduct an ongoing awareness campaign and provide 'capacity building' grants.

Some Observations

- Based on Members Equity's close association with 'all profits to members' superannuation funds, we are concerned that recent legislation mandating 'choice of fund' introduces a further level of complexity and potential confusion for consumers. Superannuation providers will now dramatically increase their expenditure on marketing and promotional activity to influence and induce choice in a manner that may not be in the consumer's best interests.
- While recent amendments to corporations law by the Financial Services Reform Act seek to improve consumer protection by imposing a regime of training, licensing and accountability, it is evident that understanding the superannuation choice regime will be a significant challenge to consumers when it takes effect.
- Our proposition is that consumers face a very complex and hazardous financial landscape. Buying a home is the most significant financial decision for most people yet, mortgage brokers, who now constitute a very significant proportion of the home loan market are exempt from FSR. There is inadequate regulation of financial planners' conflicts of interest and the receipt of 'soft dollar' commissions. Where there is regulation, ASIC has recently reported that financial planners are failing to properly disclose a broad range of payments to investors in a clear contravention of consumer protection laws. AFR 28/07/04
- The Australian Consumers Association has concluded, based on surveys over a three year period that the quality of financial planning advice is 'disturbing'. Key concerns identified were that planners ignored clients needs and objectives and produced plans that were careless with insufficient attention to detail. .refer ACA website
- The further imposition of superannuation choice into this environment must be an issue for legitimate consideration by the taskforce.
- This complexity is compounded by generally low levels of financial literacy.
- Respected finance journalist and commentator Alan Kohler, recently stated:

"The retail sector has won an unqualified victory and the business of saving will change forever, for the worse. Perhaps for the first time in history a compulsory product (super) will be sold on commission. It's a bit like brokers getting commission for third party car insurance."

*And also for the first time, competition will push prices higher not lower.....Banks and life offices will **now launch aggressive and expensive ad campaigns and will pay commissions to financial planners to distribute their products**; industry funds will have to respond with advertising and planners of their own. Costs will rise so will prices.”*
emphasis added. Sydney Morning Herald 23/06/04

Issues For Consideration

- As indicated Members Equity supports the overall direction and commentary outlined by the taskforce.
- We note that the task force in framing its general recommendation is adopting a long-term horizon. “...*the taskforce is keen to take a longer term view and to facilitate a greater engagement between stakeholder organisations and the general public in developing a framework for improvement which would better withstand changes in the market and within government*”
- Our view is that while a constructive range of initiatives has been canvassed by the taskforce, the issue of utilising the workplace as a forum to communicate with financial consumers has been overlooked.
- While the taskforce is correct in identifying the importance of school education in establishing a literacy framework, adult education is still very important to avoid or minimise the impact of poor decision making.
- A workplace focus, while being part of an integrated longer term strategy could also have the advantage of effecting positive short-term change and in part at least, address the issue of adult education.
- ME in conjunction with industry superannuation funds has been active in developing a workplace focus to support, educate and inform workers. With increasing demands on the time of working families, information, support and advice at the workplace is convenient and effective.
- Members Equity is committed to developing a particular workplace initiative, designed to improve workers’ financial literacy, skills and capability .We would welcome the opportunity to work closely with the task force to achieve optimum results.
- Industry Superannuation Funds have developed and are progressively implementing a range of initiatives to provide workers with financial information and skills. These programs are designed to provide a basic understanding of budgeting, managing debt and financial planning.
- The Government has identified in its report into intergenerational savings, the critical need for consumers to review and understand the emerging retirement incomes policy debate its implications.
- There are very significant structural changes occurring to the nature of employment .With a proliferation of more peripheral forms of work there will be a consequential impact upon peoples savings and consumer capability.

Recommendations

- That the taskforce consult widely and inclusively in finalising recommendations, with particular reference to the establishment of a co-ordinating body.
- While the task force has preferred to not offer prescriptive recommendations it should consider whether the level of consumer protection enforcement (ACCC and ASIC) is adequate given the increasing complexity of our financial services industry and the increasing risk of scam, fraud and commission driven sales pressure inducing consumers into poor options.
- That the task force examine options and resources to improve opportunities for workplace education.
- That the task force seek the views of the ACTU and Australian Industry Group in considering the issue of the workplace as a mechanism for lifting financial awareness and understanding.
- That the task force specifically consider the implications of the ‘superannuation choice’ regime with a view to ensuring the best possible awareness and protection against the predations of those providers intent on inducing consumers into products that do not best meet their needs.
- While there are many components to financial literacy, based on our experience there are two priorities for the taskforce to promote a specific discussion:
 - High levels of household debt, giving consideration to the causes, remedies and the responsibility of the sector to act ethically and responsibly. For the first time we will have a generation of young people entering adulthood with significant debt (HECS, mobile phone etc)
 - Adequacy of current household savings to fund lifestyle expectations in retirement.

Conclusion

- Members Equity supports the work of the task force in promoting discussion about such an important matter as our community’s financial literacy. The discussion paper is a useful summary of current activity, an accurate portrayal of the dilemma and provides a foundation for action.
- In our submission we have sought to contribute to the taskforce’s work by identifying issues of particular relevance to our stakeholders and customers.
- We are available to provide further information in support of our submission and look forward to an opportunity to meet with the taskforce.