

Financial Literacy Discussion Paper Response

Q2.1. Are economic and government factors sufficiently understood in information provision to consumers?

No. Experience has proved that consumers are totally confused by information given by government agencies and industry about economic factors and government implications. Information tends to be generic – a one size fits all situation – and consumers are confused as to how they then fit their specific concerns into that model. NICRI receives many calls from consumers in this particular situation – that information has been given – sometimes to the extent of overload – but it is not easily understood.

An example of pre and post FSRA is given in the discussion paper – are you aware that in one particular area of the FSR regime it has been made far more difficult for consumers to access history of individual financial planners? This anomaly was voiced by NICRI early in the FSR planning process, but unfortunately was not rectified. Take for example a 78 year old woman on a full pension, her brother dies and leaves her an inheritance of \$250,000. She knows that this amount of money may have some Centrelink implications, so she seeks financial adviser help. A financial adviser prepares a plan for her, and she wants to check that the adviser is licensed and has a history within the industry that puts her mind at rest when deciding whether or not to accept his plan. She goes to the ASIC website to find this information and lo and behold, under the new regime cannot access information about this individual planner. She is 78, never had an investible amount of money before and is unaware of what to do now. Chances are she will give up at this stage, accept the plan and sit back and pray that the adviser is an honest upright citizen that has done the right thing by her. Pre FSRA she would have been able to access the adviser's history on the ASIC website. While NICRI supports the new regime in general, this anomaly needs to be rectified to ensure consumer protection when dealing with the unknown.

Is government making it more difficult for consumers by introducing new regulations without consultation with consumers and consumer organisations?

Your statement that consumers now have more information than ever to comprehend particularly with the consumer credit code regulations and the FSRA, is correct. So much information that it is confusing. While industry is required to ensure consumers are equipped with as much information as is possible, the standard of that information and the way it is presented has not been dealt with particularly well. It is no use sending pages and pages of required information that is tedious to wade through. There should be a requirement that all this information be summarised in a covering document – if the consumer then needs more information it would be their responsibility to wade through the accompanying pages to ensure thorough understanding.

In your posed question it is confusing to ascertain whether the information provider you are talking about is in fact the seller of products and the information is their marketing tool, or information providers in the real sense of consumer advocates explaining what the sellers are marketing to consumers.

The information contained in marketing documents is certainly not clear to consumers and at times this appears a deliberate course of action. We could name many Product Disclosure Statements that have what appears to be misleading or confusing information contained in

them. It is left to the real information providers to explain these documents to consumers who are aware that these consumer organisations exist ... those who are not aware that such services exist are left confused.

It is our hope that when a financial literacy education process is in place, that clear concise information is indeed included in all information documents provided to consumers to enable them to make informed decisions with regard to their savings. It is also hoped that resources are made available to make consumers aware of the existence of consumer organisations that can assist them through the maze.

Q2.2 Are socio-economic and demographic factors that important? How should they be factored into what information providers produce?

NICRI agrees that women are in a particularly difficult situation where saving is concerned, being the main carers and missing out on career opportunities and therefore superannuation savings and indeed, general savings. We see this as a huge problem given that women generally live longer and we would support a significant study into addressing the problem.

Both socio-economic and demographic factors are extremely important in the provision of financial information. NICRI's publications are deliberately written in a very basic, easy to understand format and feedback and evaluations of the publications have proved beyond doubt that they do inform and are successful in providing that basic understanding. Consumers that need more technical information are urged to ring NICRI to speak directly to a technical officer that can provide information to whatever level they require.

Understanding the target audience is particularly important – it is no use providing information that is not understood by all consumers. Levels of information are required, whether it is being targeted to age groups i.e. school children, retirees etc, and levels of understanding need to be taken into account.

Understanding financial jargon can prove difficult despite the individual's level of education as the interest factor also needs to be taken into account. Some very educated people do not understand how financial products work as they choose not to, and entrust that responsibility to a financial adviser. It shows that financial literacy has to be marketed to everybody as being interesting and of value to their future.

We see a need for age group organisations i.e. school age to 18, 19 to 50, 50 (pre retiree) and over. The information and education needs within those age groups are different and separate organisations would better service those needs.

Our suggestion is for a co-ordinating body and 3 sub bodies covering those age groups who in turn would coordinate the myriad of information providers to those selected groups.

More resources are clearly needed in providing information to those in rural areas. While demand is being sated to some extent by access to the internet, many rural families do not have access or simply are not interested in receiving information this way. Seminars are of huge benefit to this demographic where questions can be asked and answered immediately.

Q2.3 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?

As addressed above, understanding why consumers choose not to become literate in regard to their own financial matters needs to be investigated. Is it the way we deliver the information? Is it that specific information to specific problems is not readily available for a reasonable cost or indeed free of charge? Is it because due to lack of reasonable funding, the organisations that can deliver this information are not readily known? NICRI believes it is all three of these things.

Most consumers, if aware that there is free, independent, easy to understand information available would use the service. That service would need to be readily known, easy to reach, suitably staffed to react immediately to questions and concerns and be user friendly.

Having a broader understanding of human behaviour is useful in addressing a myriad of problems, but undertaking more studies, publishing more reports, trying to be discerning about who understands what and to what capacity is not the immediate answer. Surely to put in place a structure where more information is available and is advertised broadly so that people are aware of it, is the priority at this time.

So yes, we do agree that studying consumer behaviour is important but even more important is to get information to the masses now.

Q2.4 Is an appreciation of needs and aspirations useful?

Yes, we think that making the distinction between needs and wants is extremely important and can be done in a robust education campaign. The use of simple calculators on a consumer website to highlight the difference between retiring on adequate savings in comparison to a more comfortable even luxurious lifestyle in retirement could be made available.

Access to a calculator on a website for school age children comparing how regular savings grow over 52 weeks – now look at how much you end up with if you save an extra \$1.50 per week. Pre-retirees could work out how much they need to be putting away out of their weekly wages to attain their savings goal. To be able to see, either on screen or in a publication that if you can save a little each week by not buying that extra CD or pair of shoes, shows an achievable outcome – people respond to the bottom line example. It is so easy to lose sight of that final outcome when you can only put small amounts away each week.

Q2.5 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?

The provision of financial information broadly throughout the community is of paramount importance. It is crucial to target particular areas of people's lives with the information needed to deal with those events. The taskforce seems to be aware of the obvious events – a list that can be added to through consultation with consumers, educators, financial counsellors and community/consumer groups.

An example of a recent call was one where a 27 year old single male buying his first house placed far too much trust in a mortgage broker. Had there been information readily available he could have identified that the mortgage broker was in fact uneducated, sloppy and ill informed and could have saved time, money and heartache. The purchase of the first home is one of the more prominent purchases in one's life and to have to place your trust in a profession that is not regulated is dangerous. The joy of life changing purchases can quickly turn sour if information is not available to make consumers aware of pitfalls.

Q2.6 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?

Basic numeracy and literacy skills should be the absolute minimum in Australian society and government needs to take more responsibility in ensuring this basic human need is delivered through our education system. If these skills are not mastered at an early age, the acquisition of an acceptable level of any other life skill is almost impossible.

The range of skills mentioned in the document is broad and seem to cover all relevant skills required by consumers.

We have no comment on benchmarking of skills as this is outside our area of expertise.

Q2.7 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 are very wary of government and industry information provision. Evaluations into the NICRI service show that consumers really appreciate and trust implicitly an independent source of information i.e. at arms length from government and industry. NICRI and the financial counselling groups are the only truly independent source of financial information for consumers in Australia.

The Centrelink FIS service is trusted but still seen as government ... big brother ...and many consumers would prefer not to have to give details when talking about their savings.

Consumers find industry publications very confusing and rely on organisations such as NICRI to explain details and implications of social security and taxation on their investments. The financial planning industry in general are inefficient at providing this type of information.

As mentioned previously most information provided to consumers is based on a one size fits all model and not tailored to individual's needs.

We do not see that financial advisors provide a robust educational role for consumers. It has been our experience that their understanding of taxation and social security implications on people's investments is in general quite poor. Therefore their delivery of outcomes for consumers is varied.

Q3.1 The availability of information – Are there some topic areas where there is insufficient information?

We have identified aged care as particularly deficient in information for consumers. At a time when decisions are to be made regarding nursing home accommodation etc which carry significant financial implications, it is negligent that insufficient information is available. Again, consumer organisations are trying to deliver such information but are under resourced and find it impossible to cover all consumer needs.

Awareness of the available information and information sources – Do consumers (or teachers and other intermediaries) know what is available?

No. Due to information organisations being seriously under funded they cannot effectively market themselves to make it known that relevant and important information is available.

Access to the available information – Do consumers know how to access information? Are all consumers able to access information?

Once consumers become aware of consumer organisations they do re-use the resource via internet, through publications, phone and attending seminars.

Once again, the problem is consumer awareness that these information sources exist.

The quality of the information provided – Is the available information clear and consistent?

There is extremely clear and consistent information available to consumers, just as there is confusing and inconsistent information. There are many consumer organisations that are doing an impressive job in providing information.

Efficient allocation of resources – Is consumer education delivered efficiently?

In some cases yes, there are many organisations delivering important valuable information.

Q3.2 What elements from overseas approaches should the Taskforce recommend in the context of the current Australian environment?

- We like the idea of a co-ordinating body or clearing house
- Robust education in schools
- Life trigger model

**Q4.1 Is a coordinating body necessary? Should it be Government or industry funded?
What functions should it perform?**

We consider a co-ordinating body, funded by government and industry as a workable model. It should have representatives from government, industry and consumer organisations.

We do not see it as an information providing body but a body to co-ordinate the provision of information in terms of funding allocation to organisations, measurement and assessment of literacy programs, accreditation of information organisations, and collation and distribution of information to intermediaries.

Our suggestions would be for the co-ordinating body to devolve responsibility for information provision to 3 sub-co-ordinating bodies according to age demographic i.e. 5 – 18 year olds, 19 – 50 year olds, and 50 year old and over. These 3 bodies in turn would co-ordinate information provided by the various current provision bodies.