



## SECURITIES INSTITUTE

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Dear Mr Clitheroe

### **RE: CONSUMER AND FINANCIAL LITERACY TASKFORCE DISCUSSION PAPER**

The Securities Institute of Australia welcomes the opportunity to provide comments on the Consumer and Financial Literacy Taskforce's ("the Taskforce") Discussion Paper *Australian Consumers and Money*.

Generally, the Institute supports the establishment of the Taskforce in February 2004. We commend the Taskforce on its proactive work towards improving financial literacy in Australia, which will bring Australia into line with programs that have already been initiated by other countries such as the United Kingdom<sup>1</sup> and the United States<sup>2</sup>.

The Institute is pleased the Taskforce has undertaken a consultative process comprised of public discussion forums and public submissions with the aim of "examining the wide range of financial literacy information and programs that already exist in Australia as well as looking at the overseas experience".<sup>3</sup> We strongly believe that financial literacy is a life skill that all Australians must, and can achieve.

The Securities Institute is the professional body that represents the securities and financial services industry. It was established in 1966 and has more than 11,000 members and 14,000 students in 59 countries. The Institute is committed to raising standards in the securities and financial services industry by providing practical, contemporary and innovative education; fostering ethical and effective markets; and advocating high levels of professional conduct.

The Institute is also one of the largest financial services adult education organisations in Australia. The Institute is committed to ensuring Australians understand what is often described as a complex and ever-changing marketplace and legislative environment. We support the implementation of a collaborative national strategy.

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<sup>1</sup> Report to the Secretary of State for Education and Employment December 2000, entitled 'Adult Financial Literacy Group', United Kingdom. This report provided recommendations on improving the financial literacy levels of disadvantaged adults in the UK.

<sup>2</sup> 'The Financial Literacy Repository' in the United States is one example of a joint collaboration between the ANR and the National Endowment for Financial Education. It has also developed financial literacy programs for disadvantaged sectors of the population.

<sup>3</sup> Senator The Hon Helen Coonan, Minister for Revenue and Assistant Treasurer's, Media Release, 11 June 2004.

## **General Overview of the Securities Institute's position**

The Institute's view is that consumer and financial literacy programs must be available for all sectors of the Australian population so that consumers and investors can participate in the financial services industry with confidence.

We support Senator the Hon Helen Coonan's assertion that "we must start the process of consumer and financial education with the very young – in schools and in homes. We must carry it through to Australians at every stage of their life, from school students to retirees regardless of gender, cultural background or language".

The Institute considers that the key to designing an effective strategy and delivering successful literacy programs is the identification of the key population sectors in Australia that have the most need for financial literacy skills. The aim of any financial literacy program must be to improve a consumer's knowledge of financial situations and be able to apply this knowledge to their own circumstances and needs.

For example, in the United Kingdom (UK) and the United States (US) financial literacy programs have targeted disadvantaged sectors of the population. In the US for example, the American Institute of Certified Public Accountants (AICPA) has aligned with the National Endowment for Financial Education (NEFE) to launch the first national literacy campaign for women. The NEFE also has a high school financial planning program for teachers and students. The AICPA has also developed a disaster recovery guide and established a National Financial Literacy Commission. Its 360 Degree of Financial Literacy Campaign also highlights target areas/audiences for financial literacy programs and individual life stages such as: retirement, K-12, advanced education, job market, military, change in marital status, parenting, home owner, entrepreneurs, life crisis, sandwich generation (caring for elderly parents while raising children).<sup>4</sup>

Programs that are in existence in the US for example focus on key areas such as:<sup>5</sup>

- Basic personal finance
- Employment
- Families and special family situations
- Health and addictions
- Housing
- Youth and education.

Similar issues are outlined by the Taskforce's Chair, Mr Paul Clitheroe and the Institute supports his recognition that "financial literacy is important to individuals, families and the broader economy" and that "government and financial institutions would make a determined effort to 'lower the bar' in terms of the complexity of products, access to information and multiple regulations".

It is vital that Australians seek to maximise their future income cash flows by putting into place strategies now that go to meeting their retirement circumstances and needs. In order to do this, Australians need to arm themselves with knowledge and develop their competency in managing their cash flows, savings, borrowings and investments.

We believe that this initiative will encourage individuals to take a longer-term view of their retirement savings, and thereby goes to delivering the Government's objectives of providing a more flexible and adaptable retirement income system.

However, this initiative must acknowledge existing consumer education programs and financial literacy initiatives and build on these programs and initiatives.

### **Utilising existing Government and industry structures**

The Institute's view is that the Government must make use of existing structures regarding the skilled workforce that assist with the development of life skills and financial literacy.

For example, we believe that the financial literacy initiative should be a joint project of both the Department of the Treasury and the Department of Education, Science and Training (DEST). The reason for this is that in some instances, such as the Industry Skills Councils (which have developed training programs) and the National Industry Skills Forum (which involves key industry stakeholders), the infrastructure is already in place to deliver programs, for example, in secondary schools.

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<sup>4</sup> AICPA, [www.aicpa.org/financialliteracy](http://www.aicpa.org/financialliteracy)

<sup>5</sup> NEFE 'Financial Literacy Repository'. [www.nefe.nclweb.org](http://www.nefe.nclweb.org)

According to the Australian National Training Authority Board (ANTA), the two key roles of the industry councils are as such:

- Providing accurate industry intelligence to the VET sector about current and future skill needs and training requirements, and
- Supporting the development, implementation and continuous improvement of quality nationally recognised training products and services, including Training Packages.<sup>6</sup>

These roles can be applied to any financial literacy co-ordinating body. If financial literacy programs are rolled out into schools then the teaching profession also needs to be adequately equipped to disseminate information on financial literacy. The Institute, as an educational body, has the resources to, and could potentially assist Government in developing the knowledge and skills base and courses required for teachers to effectively educate students on financial literacy.

As mentioned previously, the NEFE in the US has a High School Financial Planning Program with both a teacher and a student portal. It covers areas such as learning objectives (e.g. differentiating between needs and wants, describing how values can affect decisions and examining the impact of decision making in the financial planning process). It also includes interactive activities to teach knowledge.<sup>7</sup>

A similar model could be adapted for delivering key knowledge elements to both teachers and students in Australia. In terms of stock market education programs, the Australian Stock Exchange has adopted a similar 'games' based learning approach with the ASX Schools Sharemarket game.<sup>8</sup> In addition, each year the Institute sponsors a 'trading game' for students to familiarise themselves with the mechanics of participating in the stock market. The "BRW Student Share Portfolio Award" involves student participants from the Institute and universities. This tool has proven an extremely effective method for engaging students in an alternative form of learning.

Furthermore, as part of the Institute's existing curriculum for adult learning in financial services, we provide online learning modules as part of our open-entry and postgraduate courses. In our experience, interactive learning delivers superior education results. Therefore, the Institute supports such learning methods and encourages the Taskforce to consider how it may be able to utilise existing online and interactive initiatives to deliver widespread learning programs to the community.

Life skills programs should and can integrate and embrace financial literacy. David Hind, Chair of ANTA's Board referred to the importance of a "highly skilled workforce" in the National Skills Industry Report (15 April 2004).<sup>9</sup> It can be argued that education programs (including vocational education programs) on issues such as financial literacy positively affect the development of a highly skilled workforce.

***Institute Recommendation 1:***

*The Institute supports the paper's recommendation for the establishment of a co-ordinating body to connect providers with consumers via a consumer information centre. This will ensure a co-ordinated approach in the dissemination of information to consumers.*

The Institute suggests that the Taskforce give consideration to proposing the formation of an independent Commonwealth statutory office (Financial Literacy Inspector-General or an Ombudsman) to act in an advisory capacity to Government and external stakeholders to review, co-ordinate and implement financial literacy programs across Australia.

However, the Government must be responsible for providing adequate, and ongoing, funding to the office. A Board of Consumer & Financial Literacy, including direct input from key stakeholders such as industry groups, professional associations and community organisations, would need to be established to provide accountable and consultative oversight. Importantly, the office must not be bound by bureaucratic red tape and must operate as an independent agency. The Financial Industry Complaints Service (FICS) currently provides advice to consumers on complaints relating to the financial services industry, and the proposed Ombudsman or Inspector-General should also need to work in conjunction with this body.

***Institute Recommendation 2:***

*The Institute believes that the Government must utilise existing infrastructures within the Federal Department of Education, Science and Training (DEST), various State education portfolios and the financial services sector, to deliver programs.*

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<sup>6</sup> ANTA, [www.anta.gov.au](http://www.anta.gov.au)

<sup>7</sup> NEFE High School Financial Planning Program, [www.nefe.org/hsfppportal](http://www.nefe.org/hsfppportal)

<sup>8</sup> ASX, [www.asx.com.au](http://www.asx.com.au)

<sup>9</sup> ANTA, 'National Industry Skills Report', 15 April 2004.

While the Institute's existing open-entry and postgraduate programs have traditionally targeted providing education aimed at adult learning in the financial services sector, we would be available to assist the Taskforce in designing and delivering an educational product on financial literacy that is implemented, for example, in secondary schools, tertiary facilities and TAFE.

### **Consumers and information providers**

The Institute believes that information providers sufficiently understand economic and government factors in the provision of information to consumers. However, often consumers will not be equally aware of the external environment as it impacts on their finances, such as complex matters and changing regulatory environments (e.g. superannuation reforms is a good example of where consumers may not readily have access to information regarding ongoing statutory changes and the impact on their short and long-term finances).

The main policy aim of the *Financial Services Reform Act 2001* ("FSR Act") disclosure regime is to ensure that consumers of financial products and services receive adequate information about financial products and services so they can make "informed investment decisions". In the early stages of this new regime, anecdotal evidence suggests that compliance costs are significantly burdensome on industry, without transferring the statutory objectives of "better disclosure".

The Institute considers that this largely arises because regulation is too complex. Amendments to various pieces of legislation mean that consumers and information providers face challenges in terms of comprehending complex matters (i.e. financial services, banking, superannuation, insurance and taxation) and keeping up-to-date with an ever-changing regulatory environment.

We believe that a significant challenge for consumers and information providers is lack of stability regarding the legislative and regulatory framework for financial services. While the financial services industry has been communicating clear and strong messages to the Government regarding 'compliance fatigue', one of the significant unintended consequences of all this reform (apart from the cost of reform and compliance costs for industry) is the cost of reform for consumers.

Neither financial services providers giving advice to their clients nor consumers can adequately make long-term judgments about their finances and retirement savings when constant reform changes the saving and investment environment. The complex nexus between taxation, social benefits, and superannuation means that changes in one or more regimes can impact on an individuals' financial position. Therefore, regardless of the level of disclosure, this makes it difficult to put in place long-term financial strategies.

Legislative and regulatory reforms have created substantial short and long-term uncertainty for consumers. There must be a commitment from Government and regulators for the reform process to remove unintended consequences, address legislative anomalies and promote certainty for industry and consumers.

Constant reform restricts a consumer's ability to understand and act on information. Consumers and financial planners need certainty regarding the treatment of their finances and retirement savings. Greater knowledge coupled with financial competence by consumers will improve their decision-making ability, thereby ensuring they have more educated choices. Governments must also safeguard against consumers using information in an intuitive sense as opposed to a deductive sense.

One problem is that often emotion has a huge impact on how consumers decide to invest their funds. You can 'lead a horse to water but you cannot make it drink'. The same applies to consumers when they decide how to invest their funds or spend their income. The desire to get rich quickly and without effort is sometimes too overpowering for some.

The discussion paper itself reveals that recent research by Daniel Kahneman, has found that consumers use information in an intuitive sense rather than in a deductive sense.<sup>10</sup> The Institute supports this assertion. In our experience, there is an assumption by product providers that almost exclusively informed consumers use deductive reasoning. We also agree that socio-economic factors such as a consumer's background affect their approach to decision-making. The Institute supports the Taskforce's view that "legislation and regulation can often affect the complexity of products and thus consumers' ability to properly understand them".

Under the FSR Act, the Government imposed obligations on financial services licensees and authorised representatives to provide specific disclosures to retail investors. In the Explanatory Memorandum to the Bill, it was noted that "often there are tensions between the desire to give consumers all the information they require to make a decision and the need to ensure that consumers can, and do, read and understand the information given to them".<sup>11</sup>

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<sup>10</sup> CFL Taskforce paper, 2004, pp xii.

<sup>11</sup> Financial Services Reform Bill 2001, Explanatory Memorandum.

The Institute makes the observation that in these early stages of the new regime, product issuers (manufacturers and distributors) often provide too much information to consumers. We believe this is occurring for essentially two reasons – firstly, the open-ended nature of many regulatory requirements and the manner in which the law is administered, and secondly an effort by product issuers to limit business, legal and regulatory risk.

For example, Statements of Advice (SOAs) supplied to clients are currently exceeding 50 pages simply to limit the legal, regulatory and business risk to the financial planning business. Based on anecdotal evidence it is agreed amongst financial planning specialists that clients tend not to read these documents. Therefore the policy objective of improving the quality of disclosure is a driving tension in the market and inadvertently (and artificially) working against improving the level of disclosure to consumers. Instead of disclosure documents being clear, concise and effective, issuers are concerned with the consequences of not including all the information required and so are providing excessive information.

Furthermore, anecdotal evidence suggests that the FSRA regime has also led to less investment choice in the retail market as product issuers reduce the availability of products to retail investors. Another unintended outcome seems to be a shift within the financial planning industry, as professionals seek alternative sectors, such as self managed superannuation, where the regulatory burden is not so severe. The compliance cost associated with making available financial products and services available to retail investors is reducing availability of services and compromising access to products.

The Institute strongly advocates the importance of promoting quality of disclosure and quality of advice. Our mission is to promote high standards of professional conduct within the financial services sector. However, it seems that the FSRA provisions have not necessarily provided clients with the tools to be properly informed about the nature of the investments they are making. Both the Government and industry need to work together to achieve better outcomes and remove any unintended consequences or anomalies.

In May 2003, ANZ released information regarding a consumer's ability to act on information<sup>12</sup>. The research found that not all consumers have the necessary skills to manage finances, and in particular young consumers and those from lower socio-economic backgrounds are facing particular disadvantage in making decisions about the management of their money. The Institute believes that access to resources (which can be dependent on various socio-economic factors) is another significant challenge for any initiative aimed at improving financial literacy. The Consumer and Financial Literacy Taskforce's paper is a first step towards addressing such shortfalls.

***Institute Recommendation 3:***

*The Institute believes that consumer education is a joint responsibility for the Government and information providers. We support a strategy that acknowledges this collaboration (or partnership) role. The onus must not solely rest upon business as it is also faced with understanding new legislation passed by Parliament. As recognised by the Taskforce there must be an improved information flow between consumers, business and government. Government must educate information providers about legislative changes so that the information providers can accurately communicate such reforms to clients. Sufficient funding from Government must accompany this consumer education campaign and there must be bi-partisan support for consumer education programs and financial literacy initiatives.*

***Institute Recommendation 4:***

*The Institute supports the Taskforce's recommendation for a Consumer Behaviour Model to ensure appropriate policies are implemented and that the problems associated with consumer decision-making are adequately identified.*

**Socio economic status and impact on consumer education**

Socio-economic and demographic factors are extremely important factors that must be taken into consideration when formulating information for consumers. The Business Council of Australia has examined the social dimensions of Australia and found that there is a "changing of the crew" and different value tensions between different generations in Australia – obviously this also has an impact on education and the type and style of information provided.<sup>13</sup>

The Institute's view is that most private sector information providers do their best to cater for a wide marketplace and the needs of all consumers in the dissemination of information. However, there are problems – some segments of the marketplace are small in number (or perhaps overall do not have sufficient wealth to justify the outlays necessary to reach them).

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<sup>12</sup> ANZ Survey of Adult Financial Literacy in Australia, 2003.

<sup>13</sup> Business Council of Australia, 'Aspire Australia 2025', [www.bca.com.au](http://www.bca.com.au)

Access, availability, social and cultural relationships and reliance on and access to particular information sources are substantial issues to consider in developing and delivering a consumer education strategy. The access and usage of information is also linked to learning methods, ANTA Chair David Hind reported on 15 April that “the way learners learn is changing”. In the ANTA report it also acknowledges that adaptation is required to the changing nature of knowledge, skills and learning.<sup>14</sup> The Taskforce must also decide whether the key audiences that require financial literacy are defined by market participation or demographics such as age group. The Institute would support the latter.

***Institute Recommendation 5:***

*The Institute believes that adequate levels of Government funding, identification and implementation of programs for disadvantaged members of the community must be adopted.*

**Impact of human behaviour in addressing consumer and financial literacy**

The Institute agrees that “more work needs to be done on how consumer and financial education campaigns can affect behavioural change”. One theme of the Discussion Paper is that although there is a wide array of material available to consumers, no one is certain of the success of such programs. Developing and delivering financial literacy knowledge and competence will not only require adequate funding, it will require identifying appropriate and measurable goals.

We note that on 21 June 2004, the Government announced an agreement with the Australian Democrats to pass the Superannuation Choice of Fund rules. The then Minister for Revenue and Assistant Treasurer, Senator Helen Coonan announced that “as part of the Choice of Fund legislation the Government will establish a five person advisory committee to formulate an education campaign for Choice and the Government will commit a further \$2 million to a consumer information centre.”<sup>15</sup>

***Institute Recommendation 6:***

*The Institute welcomes the Government’s recent announcements to support dissemination of information to the community. It is important that the superannuation reforms (“Super Choice”) are accompanied by a dedicated consumer education campaign. The Institute supports the commitment by the Government to fund a consumer information centre. While we are not aware of the tasks that the consumer information centre is meant to satisfy and although its funding basis is somewhat limited at present, the consumer information centre represents a positive development by the Government to acknowledge its role in educating the community. However, we believe that as part of its role, the consumer information centre should commission research into human behaviour (with a wider sociological scope rather than basic consumer testing) and personal characteristics in relation to consumer and financial literacy.*

**Financial Literacy Skills**

In general, we believe that the following skills are important in consumer and financial literacy:

- Mathematical capability including the ability to determine financial calculations, such as compound interest,
- Analytical capability including the ability to reason logically,
- Knowledge of the law including corporations, superannuation, tax, social security and consumer protection rules.

**Consumers trusting information sources**

The Institute does not have empirical data on consumers trusting information sources. However, we believe that consumers tend to trust information sources that they perceive to be credible. For example, a credible source is a recognised financial planner. However, equally a credible source may be a media journalist. While the journalist may provide valuable information regarding financial services, they may not be a financial services professional. Professionals who have membership of a professional association (such as the Securities Institute) should be promoted by Government as the most appropriate information providers.

For example, members of the Institute must adhere to professional codes of ethics that do not support “unethical” behaviour towards consumers. Therefore consumers are more likely to trust information provided. In fact, consumer protection is part of the premise behind the Institute’s Code of Ethics (Appendix 1).

At present, intermediaries, such as financial advisers, who are members of professional associations, are essential in delivering outcomes for consumers. Intermediaries have a place because the financial services “external environment” (the term used by the Taskforce in its Consumer Behaviour Model to describe economic, regulatory, political and market activity) has become incredibly complex. Indeed it is so complex that it is impossible for ‘ordinary Australians’ to be experts in the external environment area. Financial advisers play a vital role in upholding codes of conduct and understand the importance of integrity and duty of care.

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<sup>14</sup> ANTA, ‘National Skills Industry report, 15 April 2004.

<sup>15</sup> Media Release, Senator Helen Coonan, 21 June 2004.

**Institute Recommendation 7:**

*The Institute believes that the Government must promote the importance of professional bodies and their members in ensuring high qualities of information and codes of conduct are adhered to for consumers. According to the Discussion Paper, the FSR Act "established a harmonised licensing, conduct and disclosure regime for all financial product providers and advisors with the aim to improve the level and quality of information that is available to consumers"<sup>16</sup>. Government, regulators and industry must work together to ensure that high standards of professional conduct promote the objectives of better disclosure, better advice and informed consumers.*

**A central co-ordinating body for financial literacy and consumer education**

As previously noted, the Government has announced its commitment to establish a central co-ordinating body. The Institute supports establishing a co-ordinated body that is responsible for developing a cohesive strategy that builds on existing consumer education programs and financial literacy initiatives. (The Institute's views are contained in **Recommendation 1**). We highlight that it is essential that part of the co-ordinating function must be to identify strategies that acknowledge existing sources of consumer education so that resources are not inappropriately apportioned.

**Institute Recommendation 8:**

*The Institute believes that a central co-ordinating body must be adequately funded to co-ordinate existing consumer education programs and financial literacy initiatives; work with educators to deliver a national strategy that targets various demographic groups; encourage the development of programs that recognise socio-demographic drivers based on transparent research results; and develop and support national consumer and financial literacy concepts within our community.*

**Conclusion**

The Institute supports the basic principles and notions contained in the Consumer and Financial Literacy Taskforce's Discussion Paper *Australian Consumers and Money*. We endorse the Government's commitment to ensure Australians become more educated and competent in the financial literacy area. We consider that improving consumers' ability to manage their own finances will compliment a "highly skilled Australia" and thus benefit individuals, families and the wider economy.

We believe that it is only through an integrated approach that all key stakeholders can work together to help consumers "understand how money works, to save, to make good spending choices and sound investment decisions"<sup>17</sup>.

The Institute would welcome the opportunity to become more involved in projects and working parties undertaken by the Taskforce, as appropriate. We would be pleased to discuss our submission further with Treasury.

We look forward to receiving the final report from the Taskforce.

If you have any queries about any issues raised in this submission, please contact me on (02) 8248 7567 or the Institute's Senior Manager, Policy & Public Affairs, Kristen Foster on (02) 8248 7660 or via email ([k.foster@securities.edu.au](mailto:k.foster@securities.edu.au))

Yours sincerely

**Brian Salter ASIA**  
Chief Executive Officer

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<sup>16</sup> CFL Taskforce paper, 2004, pp 16.

<sup>17</sup> CFL Taskforce paper, 2004, pp vii.

# Appendix 1

## Securities Institute of Australia Code of Ethics

The Institute's Code of Ethics states the following:

Members of the Securities Institute of Australia should uphold the Institute's commitment to raising standards in the securities and financial services industry by observing the highest levels of professional conduct in undertaking their business activities, in light of the core values of:

- Trust
- Integrity
- Honesty
- Respect

Accordingly, members should conduct their business affairs in accordance with this Code of Ethics by:

- Acting in the best interests of their clients and not allowing their own interests or those of their employer to override the interests of their clients
- Acting with due skill, care and diligence in conducting their business
- Preserving client confidentiality at all times
- Respecting the intellectual property rights of others
- Protecting and promoting the integrity of the market
- Avoiding and/or disclosing any real or perceived conflicts of interest
- Being true to their word
- Respecting the dignity of others
- Never knowingly misleading or deceiving others