

26<sup>th</sup> July 2004

CFL Taskforce Secretariat  
SCGSD  
Department of the Treasury  
Langton Crescent  
PARKES ACT 2600

Dear Sir/Madam

**Re: Discussion Paper Feedback – The Consumer and Financial Literacy Taskforce**

Please find below feedback to questions on the issues and proposals in the discussion paper. We accept that our feedback is not confidential.

Chapter 2 The Consumer

Q.2.1. Economic forces and government intervention does play a part. The push for market share by credit providers can at times result in financial difficulty for a consumer who has been sent an unsolicited credit offer or increase. Governments seem happy for market forces to determine behaviour of credit providers in these instances even though for some consumers in society this is quite dangerous. Consumers who get into difficulty with consumer credit generally are not aware that financial institutions are looking to increase their market share by sending unsolicited credit offers and can sometimes think the financial institution is aware of their financial position.

Q.2.2. Socio economic factors and demographic factors are important. Some credit providers such as short-term lenders can be attractive for consumers who find themselves in financial difficulty as a way to get through. This only compounds the problem of financial difficulty. In recent times they have been brought somewhat into consumer legislation, however, when consumers are in desperate circumstances financially they don't always take as much notice as would be best about interest rates and fees/charges at the time of borrowing. For young consumers mobile phones seem to be a huge problem and more information needs to be provided to consumers about costs and

contractual requirements. There needs to be more information to consumers about the consequences of not adhering to the contract signed.

Q.2.3. It is helpful to understand human behaviour to some extent and also important to understand human circumstances as well. Some consumers may overextend themselves with borrowing when times are good without thinking times may not be so good in the future. Jobs can be lost; health can be a problem and may lead to time off work without pay. It is important to educate borrowers to be more cautious, although with unsolicited offers of credit and credit increases, when times are good this can encourage consumers to behave in a way that times will always be good and take the credit. Some consumers think, "if the financial institution thinks I can afford it then I must be able to". Circumstances may have changed and the consumer may not be able to afford the credit. Another problem arises if consumers only look at the minimum payment required and don't realise that only paying minimum payment on a credit card or line of credit will cause the debt to increase sometimes beyond their ability to manage. Education of consumers about how credit card and line of credit interest is charged, that it is compounding interest, and how that can increase the debt if relying on minimum payment may encourage some to think twice about an offer or increase in credit limit.

Q.2.4. An appreciation of needs and aspirations is useful. The problem again arises about the availability of credit and whether the aspirations are realistic. It is the case that some borrowers have wants beyond what they can afford and if credit is presented to them already approved they will take it and get into financial difficulty. There needs to be more assessment carried out by financial institutions before lending.

Q.2.5. There will be some life events that consumers can't prepare for. Marriage breakdown, death of a partner, being left with debt from a failed relationship with joint debt, illness, unemployment are in many cases unexpected and can leave consumers with unexpected financial difficulty. The education of consumers needs to include the importance of not overextending financially and education about responsibility jointly and severally for a joint debt. Many consumers don't realise that they are responsible for the whole of a joint debt. Even though consumers cannot live their lives worrying about the types of life events mentioned, it is important that consumers are educated to be more careful of credit. Once again this also depends on credit providers in many cases not providing unsolicited offers, as this can be very tempting for some consumers.

Q.2.6. The most important skill is to develop the behaviour of doing a money plan (budget) of income and expenditure before any financial decision is made. Prevention is better than cure. Consumers also need to know about debt recovery and what happens if consumers get into financial difficulty. Many think, "there is nothing they can do to me as I have no assets", without knowing about judgement, garnishee or the sheriff taking goods. There are also issues surrounding the fact that insurance to cover property damage by a motor vehicle is not compulsory and many consumers are not aware that they

can be sued for the cost of the damages to any property that they caused the damage to. In many cases it is thought that the compulsory “green slip” covers property damage. Many consumers present at financial counselling with a summons over a car accident and no insurance because they weren’t aware of the importance of property damage insurance. Consumers also need to know about contracts, that when they sign a document to borrow money or a mobile phone or whatever they are entering into a contract to meet the obligations as set down in the contract. Many are not aware that their signature is binding them in a contract. There is not enough importance placed on a signature in society. Some sign without even being aware that their signature is binding them to the terms and conditions of a contract.

Q.2.7. There may be consumers who are completely overwhelmed by information if they are in a time of emotional stress and borrow during that time. There are consumers who weigh things up carefully and are aware that the information is extremely important to know rights and responsibilities when borrowing. Decisions are quite often made in very different circumstances in society. Some consumers can feel it is all too much to take in the information and just sign. It would certainly be of assistance if during school years the information on rights and responsibilities when borrowing were introduced to children in a way that made it interesting enough to be retained. Financial advisors have their role to play to inform consumers about certain products, however not all in society are able to engage the services of a financial advisor. It would be of great assistance to consumers if the importance of doing a money plan (budget) were promoted more in society and assistance given in their early years to develop this skill.

### Chapter 3 The information provider

#### Q.3.1

- More than the availability of information it is the type of information provided to consumers that is insufficient to enable good financial decisions to be made. For instance the way that credit card, line of credit interest is charged is not generally known. Maybe if people were aware of the compounding interest they would not so readily take the credit. Interest rates are often discussed but not how that interest is actually charged and the result of relying on minimum payment to service the debt.
- Some consumers will seek out good financial information to enable them to make good decisions. Many consumers are not aware they need to know sound financial information before they make borrowing decisions. The importance of seeking good financial information needs to be taught early in life and teachers resourced appropriately.
- Many financial institutions certainly provide information in their centres and those who know they need to be aware will access this information. It would be helpful to consumers if literature also included tables on how long it would take to pay off a credit card relying on minimum payment.

- The information provided is lacking in the detail of the type mentioned above. It may also be helpful to some consumers if details of the legal process of debt recovery were also provided, as there are consumers who are not aware there is a legal process.
- In this organisation we deliver some consumer education to make consumers aware of what can cause financial difficulty, not only with credit but also with the importance of motor vehicle property insurance, what signing a contract binds someone to along with how to do a money plan (budget), mobile phone contracts and what happens in the legal debt recovery process. The consumers we speak to are adults who are generally not aware of these things. Consumer education needs to start early in life to help consumers avoid financial problems where possible.

#### Chapter 4 An integrated solution

Q.4.1 A co-ordinating body is necessary to ensure an approach to target all Australian consumers. The funding needs to be part government and part industry funded. There is a social responsibility for governments as well as industry to ensure a duty of care in relation to lending in Australia. Service providers as well as governments need to ensure they are fully informing all consumers and work to understand that there are those in society who do not understand different types of borrowing and how this impacts on their finances. Governments as well as industry also need to work to ensure that consumers are assessed before credit is offered or credit limit increase is offered.

It cannot be stated too strongly that the impact of a consumer taking credit because the financial institution offered it without assessment can be devastating. It is important in a society that values all consumers that a duty of care is extended in this regard.

Yours faithfully

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