



AUSTRALIAN BANKERS' ASSOCIATION

David Bell
Chief Executive Officer

Level 3, 56 Pitt Street
Sydney NSW 2000
Telephone: (02) 8298 0401
Facsimile: (02) 8298 0447

4 August 2004

Mr Simon Cobcroft
Manager
CFL Taskforce Secretariat
SCGSD
Department of the Treasury
Langton Crescent
PARKES ACT 2600

Dear Mr Cobcroft,

The Australian Bankers' Association (ABA) welcomes this opportunity to comment on the Consumer and Financial Literacy Taskforce's Discussion Paper, "Australian Consumers and Money".

The ABA is very supportive of the Government's initiative in this important area, reflected by the participation of the Chairman ABA, John McFarlane, as a member of the Taskforce. In the process of the Taskforce preparing and finalizing its report, the ABA also made a submission to the Taskforce Secretariat, and our views have been reflected in the Discussion Paper.

The ABA has identified financial literacy as one of its key program areas and has set itself the goal of contributing to the improvement of the community's financial literacy skills. We believe that the better informed consumers are, the more appropriate and effective their financial choices can be.

ABA's Financial Literacy program

Our program has three key areas of focus, namely:

1. Advocacy Program

The objective of the program is to lead banking industry advocacy concerning financial literacy so that:

- (a) *Public policy makers play an appropriate leadership role in assisting the development of a coordinated and national approach, built on stakeholders' financial literacy programs; and*
- (b) *The community is aware of individual banks' financial literacy initiatives and is able to access and take advantage of them.*

2. Research Program

The objective of the research program is to provide thought leadership by publishing commissioned research, with the ABA research complementary to banks' own research in this area. This will guide the banking industry's efforts to provide Australians with the information they need to improve their financial literacy skills.

3. Information Dissemination Program

The primary objective is to increase the awareness and use of banks' own programs, by drawing attention to the wide range of information, tools and materials available through ABA member banks' existing programs.

To achieve this, the ABA will provide generic and introductory level information that will provide a context for the range of materials, resources, expertise and programs available from banks.

ABA Top Level Response to the Report's Key Recommendations

The ABA supports both of the key recommendations in the Report, namely:

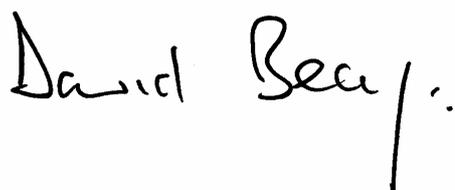
- The development of a Consumer Behaviour Model for "...better understanding the factors that contribute to consumer decision-making"; and
- In particular, the establishment of a "...coordinating body that better connects information providers with consumers and that is able to take a more strategic view of consumer information issues".

There is a lot of effort and attention being directed towards financial literacy at the current moment. It is important that this goodwill and energy is being harnessed to achieve the most desirable outcomes with all this activity. There is elaboration on this matter under the response to Q4.1.

Attached to this letter is the ABA's response to each of the questions asked in the Feedback section of the Taskforce Report.

I would like to take this opportunity to congratulate the Taskforce, and the supporting Treasury secretariat, for preparing a comprehensive paper for consideration by the community in such a short period of time.

Yours sincerely,



David Bell

ABA'S Response to questions in the Taskforce Report

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

It is unlikely that these factors are sufficiently understood by all information providers. The range of skills and capacity of providing the best possible content by the many different organisations that wish to provide information on financial literacy will be variable.

Banks, however, would typically have access to this information, and understand its importance, given the industry's compliance and customer focused approach to business.

This question does highlight one of the potential and important roles of the proposed central coordinating body, namely to work with information providers to ensure that an appropriate process, or standards, are agreed upon, to ensure that education resources do achieve appropriate financial literacy education outcomes.

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

ABA notes the ANZ survey of adult financial literacy which found strong correlation between financial literacy and socio-economic status.

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?

ABA does not have the expertise to answer these questions.

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

ABA believes this is an important consideration. Providing financial literacy material without taking account of these factors is unlikely to generate interest in the subject. For example, people make decisions in an environment which takes account of differing time horizons. Retirement planning, and subsequent selection of superannuation products, is an example of the need to take account of future needs and aspirations.

Q2.5 Understanding the life 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?

Understanding life triggers is important to understanding consumer motivation in targeting information for consumers. This can be viewed in two ways. First, understanding the critical turning points in life when people need to review or make new financial decisions, eg when starting a new family. Second, understanding the impact of unplanned events that cause major changes in life which, in turn, potentially lead to financial problems or a need to address financial circumstances, eg loss of employment.

On the first matter, ABA member banks do take these life triggers into account when designing targeted customer information.

On the second matter, Insolvency and Trustee Service Australia (ITSA) tells us that most debt problems are caused by unforeseen changes in personal circumstances such as unemployment, illness and family break-up, which are the major causes of default. It would be worthwhile for the Taskforce to understand this phenomenon by interviewing ITSA.

Further, the taskforce can better understand these triggers by reviewing other existing research that exists on these issues, and then commissioning research which is relevant to the Australian context if there is an incomplete understanding of the phenomenon. The Taskforce may wish to consider joint or cooperative research with the Financial Services industry.

Q2.6 What skills are important to consumers? Do Consumer and financial skills presented in this section capture all relevant skills? How can we benchmark these skills over time?

The outline of skills in this section appears to cover the important skills that are required for effective consumer behaviour. It will be important, however, to determine the hierarchy of importance of these skills and how they fit together. There maybe a need to define an overarching skill (which requires further exploration and definition), which allows the consumer to weigh everything up that they have been presented, and are aware of, and translate that into the correct decision. The simple possession of the skills identified in this section may not be sufficient to determine the most effective consumer behaviour.

The ANZ survey of adult financial literacy provides researched information on the issue of what skills are important to consumers. A review of research on financial literacy, proposed in 2.5 above, will determine the need to establish benchmark and tracking research in this area.

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?

It is important that consumers receive information from sources they trust. ANZ's survey provides information on these different types of sources.

Information that the ABA received during its Financial Literacy workshop held in early 2004, indicates that there is a general view held that in some circumstances the more neutral a source, the more likely it is to be trusted.

This reflects the approach adopted by the banking industry where the ABA, as appropriate, complements the work done by individual banks. A particularly relevant example is the work the ABA is doing in the area of educating consumers about the potential risks associated with cybercrime.

Q 3.2 What elements from overseas approaches should the taskforce recommend in the context of the Australian Environment?

The ABA recently sponsored a visit by the Canadian Bankers Association to explain their industry driven financial literacy program. It should be noted that

the Canadian model is different to the British model, and the proposed Australian model, as it does not include a strong element of Government leadership.

That being said the Canadian Bankers Association identified the following principles upon which they built their program:

- Developing trustworthy and credible information – it should be non-commercial, neutral and objective;
- Ensuring the information is up-to-date and kept current;
- The information should be kept simple with the end-user kept in mind; and
- The need to measure performance and report results.

The key leanings from the Canadian experience, which has been running for over four years, have been:

- Where information already exists, there is no need to duplicate it. It is best to establish links and networks and collaborate;
- The public looks at what is considered to be the “natural source” or authority for information on a given topic;
- There is a need to appeal to the innate curiosity of people;
- Engage as many individuals and organisations as possible;
- Integrate the efforts of all organisations involved in financial literacy; and
- Be patient – success in implementing a comprehensive financial literacy program takes time.

There are other examples of very successful overseas models, which other submissions from ABA members will be likely to elaborate upon, including:

- The MoneySmart adult learning program in the United States - partnership between the Federal deposit Insurance Corporation and many other organisations.
- The projects initiated by the UK’s Financial Capability Steering Group (FCSG) addressing financial capability and the pfeG (Personal Finance Education Group) initiatives in Britain to assist teachers engage with students on personal finance matters.

Q 4.1 Is a coordinating body necessary? Should it be Government or industry funded? What function should it perform?

The ABA agrees there is great value in a central coordinating body with a properly defined function. The essence of that function should be that the body demonstrates leadership in developing a national approach to building financial literacy. This will involve setting national strategies based on benchmark research with research-based validation. The body should also have the capacity to influence the material that is being produced for financial literacy purposes without adopting an accreditation role (see further comments below).

The body will need to work with existing organisations (both government and non-government) and structures which already operate in the financial literacy area.

The body will need to be independent to exercise leadership in financial literacy. To achieve this independence there will be a need for core Government funding with the opportunity for industry to contribute on a voluntary basis, in a manner that does not imply influence as to outcomes.

The ABA's response to the detail of this question is contained under each of the functions identified on pp. 77-8 of the Discussion Paper:

1. Develop and facilitate the take up of the Consumer behaviour model as a framework for all information providers.

ABA agrees. There is a need for a central and independent body to develop the model in consultation with information providers and users.

2. *Conduct research on levels of consumer and financial literacy using the Model.*

ABA agrees. This is a critical element for advancing financial literacy. Overseas experience, especially in Britain and Canada, shows the need to have access to benchmark information about financial literacy and then be able to validate the effectiveness of programs over time through tracking research. This is an area where industry could contribute with either co-branded research or industry branded research which meets the requirements of the body.

3. *Provide a Clearinghouse for consumer and financial literacy information; that would maintain an up-to-date stock take of consumer and financial literacy activities and provide a quick reference guide to assist both consumers and providers to be better informed about the services that are available.*

ABA agrees. It is important to have a central repository of information and a guide to accessing appropriate information.

4. *Provide an accreditation service for consumer and financial literacy information to be used in schools.*

ABA agrees that there needs to be a national approach to providing information to schools. The ABA understands that there is the potential for overlap with existing accreditation functions provided by state and territory education authorities, however, we believe there is great value in either the Taskforce, or the coordinating body, examining the successful British pfeg and the US Jump\$tart accreditation functions. The basis for this recommendation is that accreditation of financial literacy education material is a specialist skill which may properly be the responsibility of the coordinating body.

5. *Conduct community awareness campaigns on important issues.*

ABA agrees. However, it would be important for the body to work closely with the industry which is responsible for the target area or issue.

6. *Provide a modest grants program (approximately \$500,000 in total) to build the capacity of activities that demonstrate a strong ability to improve consumer and financial literacy.*

ABA agrees. However, it would be important to ensure that the work was integrated into the mainstream of financial literacy programs rather than a series of one-off programs. It would also be important that the grant money is restricted for education programs only and not used for any program with a commercial element.

7. *Encourage private sector participation in consumer and financial literacy activities, particularly by partnering within community and public sector service providers.*

ABA agrees. See our previous comments.

8. *Through all of the above functions, promote a coordinated and targeted approach to consumer and financial information and education.*

ABA agrees. See our previous comments.