

SUBMISSION TO THE CONSUMER AND FINANCIAL LITERACY TASKFORCE

AUSTRALIAN CONSUMERS ASSOCIATION

(August 2004)

ACA welcomes the opportunity to make this submission to the CFLC.

There is overwhelming evidence of the need to improve consumer literacy in Australia, and ACA strongly supports the objective of raising financial and consumer literacy levels. However, such support is hardly unique – indeed there is almost universal support for this objective – so the more important issue now for Government is to put in place some concrete measures to improve financial literacy. The Taskforce represents an opportunity for Government at the national level to demonstrate a serious commitment, including a commitment of meaningful resources, to the task of raising financial literacy levels.

Fundamental to this goal is the establishment of a national body to coordinate and facilitate consumer literacy developments, including at the school level. Importantly, this body also needs to be able to undertake targeted research on financial literacy issues, in particular to identify problem areas and to measure the effect of different programs.

These two broad roles address the two major problem areas identified in the report. The current problems are not caused by a lack of contributors to literacy initiatives, and the report clearly demonstrates there are a plethora of programs and projects in the community, many of them quite innovative. Rather, there is a lack of clear focus across these initiatives, a lack of understanding of “who is doing what” and insufficient connection between related initiatives, and too much unnecessary duplication. As a result, in ACA’s experience, there is a tendency towards an overly short-term approach to addressing financial literacy, which after all is a long-term challenge. In the current environment:

- many initiatives bloom but often quickly die for lack of funds and/or because they are not effectively connected to other related programs or to an ongoing regulatory or educational framework;
- the paucity of relevant research on best practice consumer education means that resources are wasted on poorly-targeted initiatives, again contributing to a short-term focus; and
- measuring the impacts of financial literacy programs, particularly over time, tends not to happen, again leading to a short term focus with organizations “reinventing the wheel” as they find it difficult to assess what improvements are occurring and where this may be happening.

The proposed financial literacy centre would effectively address the problems, and importantly could contribute to a medium to long term approach to this issue, especially through well-targeted research on both the groups in the community that require greater assistance and the types of programs that are more effective. In particular, work that goes beyond the content of such programs to look at how best to deliver them to a diverse range of consumers would be very valuable, in particular in schools but also to more vulnerable groups within our community.

The proposal to establish an online “clearing house” of educational material would also contribute to addressing these problems. It is important, however, that adequate resources are devoted to maintaining and promoting such a service.

The Discussion Paper has also pointed to the vital issue of research on human behaviour if we are to make an impact in this area. Recent economic research on behavioural finance, especially in the United States, points to the importance of taking a broader view of people’s motivations and level of understanding in targeting financial messages. This could be an area of cost-effective and practical research by the proposed centre. Its usefulness would also extend to the school level.

ACA strongly believes that a national financial literacy centre should be primarily funded by government, and should be properly resourced to undertake the roles outlined above. Industry funding of discrete projects could also be obtained, and would help increase the profile of the Centre, but should not be the major source of funding. Feedback from consumers has consistently shown that they value independence from industry very highly in the area of consumer education, and it would be inappropriate to therefore rely heavily on such funding in a national body set up to play a constructive role with all stakeholders.

It would also be very helpful to look at increasing the funding for the complimentary educational work undertaken by ASIC and the ACCC at the time this issue is being considered. These regulators would work closely with any centre that was established, including through the provision of material for research, and they are poorly funded for educational work at present.

The economic benefits of these proposals are likely to be very significant. It is hard to measure future benefits, but the losses that Australians experience through scams or poor decisions around retirement indicate that even small improvements would greatly outweigh the likely costs of any such proposal.

- To use but one example, assume that the number of consumers who fell victim to the offshore telemarketing scams in the late 1990s (documented by ASIC) had been just 5% lower because of a small increase in financial literacy. This 5% difference would have seen, on a conservative estimate, around \$20m of consumers’ investment monies kept in Australia rather than going offshore to criminal syndicates in Asia.

Many more such examples, using conservative assumptions, could be developed to demonstrate the potential impact of improvements in financial literacy.

Finally, ACA notes that improving financial literacy is only one of the mechanisms needed to address problems in the market for consumers. We also need well-designed regulation and strong regulators who are prepared to enforce the law and stamp out poor practices and rip-offs. So financial or consumer literacy is not going to be the only answer to the problems of poor market practices or bad advice - but it's an important part of the answer, which is why ACA supports the proposals outlined in the Discussion paper. If the Centre can make a substantial contribution to improving literacy standards it will also substantially reduce the impact of any such market problems. Useful financial literacy research could also help regulators more effectively target their efforts, improve their regulatory toolkit, and thus operate more efficiently over time. In other words, consumer education of this sort should not be seen as a replacement for regulatory activity, but in fact can help improve regulatory initiatives and work as a partner to effective regulation.