

ANZ response to Consumer and Financial  
Literacy Taskforce discussion paper:  
Australian Consumers and Money

July 2004



## **Executive summary**

Financial literacy is the ability to make informed judgements and effective decisions about the use and management of money (ANZ Survey of Adult Financial Literacy in Australia, May 2003). Financial literacy skills are critical for achieving financial independence and improving our opportunities and standard of living.

While good progress has been made in raising community awareness of the need for financial literacy education, more effort is needed to 'mainstream' the importance of financial literacy. In order to achieve this ANZ recommends:

- ASIC be given explicit responsibility for financial literacy in Australia.
- a coordinating body similar to the Personal Finance Education Group (pfeg) in the United Kingdom be established to better connect information providers and consumers. The coordinating body should have input from all key stakeholders — government, business, community groups and educators.
- issues and groups be identified which need priority attention. The ANZ survey of adult financial literacy highlights that these may include:
  - those in the workforce across a broad age range (say 20-50 year olds) on saving for retirement and basic investing;
  - vulnerable groups such as those on lower incomes, those with low education levels, those with low savings, those out of work or in unskilled work;
  - young adults (18-25 year olds); and
  - school children.

## **Introduction**

ANZ recognises the importance of improving the level of financial literacy in the community. Australian consumers are living in an increasingly complex environment, where deregulation of financial services and improvements in information technology and telecommunications have led to a dramatic increase in financial products and services and related information. Financial literacy skills are therefore critical for our ability to sift through this information, achieve financial independence and improve our opportunities, our standard of living and our ability to guard against frauds and scams.

## **Signposts from ANZ's survey of adult financial literacy**

ANZ's survey of adult financial literacy (May 2003) highlighted that many Australians have a good foundation of basic skills but it is clear there remain challenges.

The survey found a widespread need to increase understanding in the areas of investment, superannuation and retirement planning. While investment fundamentals are understood with 85% of people knowing that high returns equal high risk, investors were potentially susceptible to misleading claims with 47% indicating they would invest for "well above market rates and no risk".

Further, planning for retirement was low with only 37% of people saying they had worked out how much money they need to save for retirement. Many also had unrealistic expectations with 50% expecting to be living "at least as comfortably in retirement as they are today". It is clear that many people start saving for retirement too late and stop saving when they retire early – at 55, so the overall period of saving is quite short.

Consensus exists about the need to address adequacy issues and provide further incentives for people to provide for their retirement. For instance, the Government's recent announcements of changes to the retirement income system such as the introduction of 'choice', removing the work test for superannuation contributions for adults under 65, simplifying work test rules for those aged over 65 and allowing access to a superannuation income stream before retirement, should further encourage people to save for their retirement.

However, incentives will be most effective where people are aware of them and are motivated and equipped with the skills to take advantage of them. For example, an increased level of financial literacy may equip people to choose more appropriate investment strategies to increase their investment returns over their working lifetime. An investment strategy that improves returns even slightly, say by 1%, can have a considerable impact on the funds available for retirement and reduce the need for additional contributions.

ANZ's survey of adult financial literacy found that beyond the basic facts, knowledge about superannuation is low and the majority of respondents appeared 'disengaged' from the issue of superannuation and saving for retirement. This 'disengagement' is likely to reflect a number of factors. For many, retirement seems a distant prospect and while many employees have had limited choice within their fund, they have not had real choice about who manages their money and how.

The survey found on the other hand, some issues will vary according to a person's stage of life and current financial situation. In these instances, there will be no 'one size fits all', programs will need to be tailored to suit the needs of their target group and delivered in a way that will reach the target group.

For example, the survey highlighted groups in our community that have the most to gain from improved financial literacy, including those on lower incomes, those with low education levels, those with low savings, those out of work or in unskilled work and those at both extremes of the age spectrum, i.e. young people aged 18-24 and older people aged 70 and over.

The way to reach young people will be different from the way to reach older people. Like Australia, financial literacy research in the United Kingdom focused on adults in the first instance. What became apparent to United Kingdom authorities was the need to also address the lack of financial education that school age children were receiving. If adults do not have sufficient financial literacy skills, it is highly unlikely their children are learning the financial skills needed in later life. In the United Kingdom financial literacy education is delivered through schools with the objective of breaking this cycle.

The United Kingdom experience also demonstrates that money management can be a dull topic for the majority, so many people do not 'lock on' to messages or seek out information until they are in crisis. With this in mind, ANZ has sought to develop a program aimed at assisting the most vulnerable members of the community. MoneyMinded is a web-based adult learning program, developed in conjunction with the Financial Counsellors Association Inc of NSW, the NSW Department of TAFE and Open Training and Education Network. MoneyMinded covers six core topics, including living with debt, planning and saving, and everyday financial products. The program is being piloted through financial counsellors and its effectiveness evaluated by an independent reviewer.

The ANZ Survey also revealed a need for programs targeted at those at the margins, which aim to prevent people moving beyond the margins. In October 2002 ANZ and the Brotherhood of St Laurence established a partnership to develop Australia's first matched savings pilot in Frankston Victoria. Saver Plus is a matched savings program based on the notion that with the right motivation, low-income earners can build assets and break out of the poverty cycle. It aims to improve the savings habits of low-income earners so they have the ability to save for assets and to cushion against unexpected changes and build financial security.

The Saver Plus pilot offers parents or guardians of children in secondary school the opportunity to save for education-related costs. Program participants identify an education-related savings target and work toward this goal by regularly saving a portion of their income in an ANZ Progress Saver account. They also participate in training opportunities that enhance and develop their financial skills. At the conclusion of the pilot, each \$1 saved by participants will be matched with an additional \$2 by ANZ. Matched funds are capped at a maximum of \$2000.

Throughout the program, participants work with a Relationship Manager who oversees participants' progress and acts as a facilitator of the training, a mentor and a personal coach. Participants are invited to join Saver Plus through local school networks. To be eligible to join Saver Plus, the account holder and/or their partner must:

- be a parent or guardian of a student/s who will be attending secondary school in 2005; and
- have children attending government schools in the Saver Plus pilot program areas; and
- have a current Health Care Card or Pension Card; and
- have regular income from paid employment; and
- be able to demonstrate a capacity to save after regular expenses have been paid.

The pilot now has 268 families participating and is being run in three locations:

- Frankston, Victoria in partnership with the Brotherhood of St Laurence (from July 2003);
- Shepparton, Victoria in partnership with Berry Street Victoria (from October 2003); and
- Campbelltown, NSW in partnership with the Benevolent Society (from November 2003).

### **The role for financial institutions**

ANZ believes the promotion of financial literacy and related programs is fundamental to meeting its responsibilities as a respected, leading financial institution. The reality is that at the heart of a customer's relationship with a bank is trust. Unless customers are aware of their financial position, understand the services the bank is providing and feel comfortable in accessing them, developing and maintaining trust will be impossible. Banks have been criticised in recent years for failing to keep in touch with their customers and in essence, failing to retain their trust. Financial literacy initiatives are a crucial step in regaining customers' confidence and trust.

ANZ understands that educational initiatives aimed at improving financial literacy are not sufficient in themselves. To be properly effective such measures need to be accompanied by action to improve consumer

accessibility to financial services. ANZ is therefore focussing on four key areas to help improve financial literacy:

- to have the most 'financially fit' workforce in Australia. e.g. ANZ OneWay – a staff training program to help staff identify and assist customers with low levels of financial literacy;
- to promote widespread community awareness of the need for financial literacy education;
- to develop innovative programs to improve financial literacy and financial inclusion in Australia; and
- to ensure our products, services and customer communications are easy to use and understand.

Financial service providers have a responsibility to make products simple and easy to understand and to communicate them in simple language.

ANZ reaped the benefits of simplifying its products for consumers when it streamlined its Access transaction accounts in January 2002. Customers responded to the simple and more transparent pricing structures of these new accounts and by June 2004, ANZ had opened 125,000 net new accounts. Account closures were down by around 15% in the same period.

### **A coordinated approach**

ANZ is realistic about the impact its own contribution to financial literacy can make. In order to lift the level of financial literacy in Australia a co-ordinated and sustained approach by all stakeholders — government, business, community groups and educators — will be required.

ANZ strongly supports the Taskforce's proposal to establish a coordinating body to better connect information providers and consumers. The organisation should be independent, with representation from all sectors — government, education, for-profit and not-for-profit.

ANZ recommends the Taskforce consider the Personal Finance Education Group (pfeg) model in the United Kingdom as a model for this coordinating body. Pfeg is an independent, not-for-profit body structured into a Board and an Advisory Group of specialists from the financial services, education, consumer and other sectors. Input is sought from the Advisory Group on specific issues or programs including:

- promoting the teaching of financial literacy in schools and raising awareness in the community — the Taskforce may wish to examine the United Kingdom experience, which demonstrates that a key to achieving this is to build the confidence of teachers to provide financial education to youth. Brunel University has conducted an independent evaluation of pfeg's Excellence and Access pilot program, strongly endorsing pfeg's approach to working with teachers to develop financial capability programs;

- establishing financial literacy benchmarks and key competencies for the development of curriculum;
- reviewing and assessing educational material against benchmark standards;
- facilitating partnerships to develop and deliver professional development programs for teachers;
- developing financial educational materials targeted at the general community using financial services; and
- developing programs aimed at low literacy groups within the community.

Within an independent coordinating body, individual taskforces or working groups could be established to tackle specific issues or programs. The taskforces or working groups would report to the board with members selected on the basis of their expertise in a particular area of focus. Some taskforces or workgroups could be ongoing or 'standing' working groups, while there would need to be scope to establish taskforces to manage specific issues as they arise. The Taskforce may wish to consider the projects established by the United Kingdom's Financial Capability Steering Group (FCSG), addressing priorities for its national strategy for financial capability. The project areas were defined following feedback from stakeholders emphasising the FCSG should not try and address all parts of financial illiteracy. The seven projects – each led by a dedicated Working Group – are based on providing information to consumers at different life stages: Schools, Young Adults, Work, Families, Borrowing, Retirement and Advice ([www.fsa.gov.uk](http://www.fsa.gov.uk)).

Financial services organisations such as ANZ are likely to add the most value in providing technical expertise in developing programs and educational materials aimed at financial services consumers. Bankers are not teachers and therefore do not have the expertise to address financial literacy in schools.

Funding should be voluntary. Some organisations will be in a better position to provide direct financial assistance than others, so other forms of funding, such as providing research support or staff secondments, should be considered. It would be worth considering whether to follow the JumpStart model in the United States, where members pay a nominal annual fee of \$300 to cover basic costs of communication with members and annual general meetings.

It is also important the funding base be wide and diverse to further strengthen independence. Once fully established, some organisations set a maximum limit on the contribution from any single source and perhaps on a single sector. For example, the Institute of Public Affairs in Australia accepts funding from individuals, corporations and foundations, however, no single source accounts for more than seven per cent of total contributions.

ANZ also believes the Australian Securities and Investments Commission (ASIC) should have explicit responsibility for improving financial literacy. The experience in the United Kingdom indicates that giving the Financial

Services Authority (FSA) explicit responsibility for financial literacy was a 'turning point' in the financial literacy debate, an important factor in bringing the issue into the mainstream.

The ASIC Act 2001 requires ASIC to "promote confident and informed participation by investors and consumers in the financial system". In ANZ's view, this should be strengthened along the lines of the FSA to explicitly state that financial literacy or financial capability is ASIC's formal responsibility. Under the United Kingdom Financial Services and Markets Act, two of the FSA's objectives are consumer focused — promoting public understanding of the financial system and securing the appropriate degree of protection for consumers. The FSA achieves these objectives through two work streams:

- "education for financial capability — to give individuals the knowledge, understanding and skills necessary to become questioning and informed financial consumers; and
- consumer information and advice — to give impartial information and general advice to help consumers plan their finances and make informed choices" ([www.fsa.gov.uk](http://www.fsa.gov.uk)).

### **Raising awareness of the importance of financial education**

ANZ believes while good progress has been made in raising community awareness of the need for financial literacy education, more effort is needed to build mainstream understanding of the importance of financial literacy.

ANZ has conducted research analysing the coverage that financial literacy has received in the United Kingdom. This analysis found that financial literacy has become a mainstream issue. This is somewhat attributable to a number of high profile incidents of product mis-selling in the United Kingdom, such as mortgage endowments, which have affected a substantial number of consumers and have led to Parliamentary inquiries.

One of a number of factors that has led to a more sophisticated debate in the United Kingdom is the presence of credible spokespeople on financial literacy such as Ron Sandler, Chairman of pfeg, and John Tiner, Chief Executive Office of the FSA, whose statements are generally considered newsworthy.

The release of research and programs has also gained much coverage in the United Kingdom, generating further informed debate. Coverage of education programs tends to require the support of other newsworthy items.

## Conclusion

ANZ recognises the importance of improving the level of financial literacy in the community. Financial literacy skills are critical for our ability to sift through information, achieve financial independence and improve our opportunities, our standard of living and our ability to guard against frauds and scams.

ANZ believes while good progress has been made in raising community awareness of the need for financial literacy education, more effort is needed to 'mainstream' the importance of financial literacy. A key to 'mainstreaming' financial literacy in the United Kingdom was the adoption of responsibility for financial literacy by the FSA. ANZ recommends ASIC be given explicit responsibility for financial literacy in Australia.

ANZ understands that for educational initiatives to be properly effective such measures need to be accompanied by action by financial service providers to improve accessibility to financial services.

However, ANZ is realistic about the impact its own contribution to financial literacy can make. In order to lift the level of financial literacy in Australia a co-ordinated and sustained approach by all stakeholders — government, business, community groups and educators — will be required.

ANZ strongly supports the Taskforce's proposal to establish a coordinating body to better connect information providers and consumers. ANZ recommends the Taskforce consider the pfeg model in the United Kingdom as a basis for the coordinating body.

As a first task, the body should identify priority issues and groups which need attention. The ANZ survey of adult financial literacy highlights that these may include:

- those in the workforce across a broad age range (say 20-50 year olds) on saving for retirement and basic investing;
- vulnerable groups such as those on lower incomes, those with low education levels, those with low savings, those out of work or in unskilled work;
- young adults (18-25 year olds); and
- school children.

ANZ looks forward to working further with the Taskforce on this important initiative.