



31 August 2004

CFL Taskforce Secretariat
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Dear Sir/Madam,

The Association of Superannuation Funds of Australia (ASFA) appreciates the opportunity to respond to the Discussion Paper by the Consumer & Financial Literacy Taskforce, June 2004.

ASFA is a non-profit, non-party political national organisation whose mission is to protect, promote and advance the interests of Australia's superannuation funds, their trustees and their members. As such it is the "Voice of Super". ASFA has a strong focus on the interests of consumers. These interests range from improving consumer protection to enhancing the financial security and retirement income of all Australians.

Attached are responses to each of the questions posed in the paper. These responses generally focus on our experience in the provision of superannuation. If you would like further clarification of any comment, please do not hesitate to contact me on (02) 92649300

Yours sincerely,

Dr Michaela Anderson
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ASFA Submission to the Consumer Financial Literacy Taskforce

5 August 2004

Chapter 2 The Consumer

Question 2.1

Economic forces and government intervention can both improve and constrict a consumer's ability to understand and act on information. As such, information providers must make assessments about the extent to which information alone can change consumer behaviour.

Are economic and government factors sufficiently understood in information provision to consumers?

Superannuation is a long term investment and a central plank in the government's retirement income policy and, as a consequence, heavily regulated. Economic and government factors are therefore major influences on consumer behaviour. Population, age demographics, the retirement lifestyle expectations of consumers and government initiatives and restrictions (eg compulsory super, co-contributions, tax, access to social security benefits etc) must all be understood by those providing information and communicated well to consumers. The need for consumers to understand investment (not just saving) to make choices in investment strategy adds other complexities (wider economic influences on markets, risk and return and individual tolerances to risk etc).

As with some product providers noted in the Paper ("buy now, pay later"), Governments do not always send appropriate messages when they make changes. An example of this was recent changes to allow a more flexible move into retirement. Flexibility was something ASFA had been advocating for some time because we received complaints from funds and the general public about the rules being out of step with the needs and employment behaviour of older workers. From remarks by the Treasurer the initiative became linked with a notion of "keep working until you are 70" which became "work till you drop" in the media. A very good incentive runs the risk of losing consumer support because of the fear of moving eligibility for the age pension from 65 to 70 years

The worst example of this behaviour was the introduction of choice in the UK (where government TV ads showed breaking chains) which led to very bad decisions by consumers, unlawful and unethical selling practices, horrendous compensation bills and a lingering mistrust of saving/investment.

Question 2.2

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The Voice of Super

Where we come from and our socio-economic status in life are key determinants in how we access and use information. As such, it is important for information providers to recognise the particular disadvantages that some consumers face in both accessing and acting on information.

Are socio-economic and demographic factors that important?

Socio economic and demographic factors shape people's understanding and how they learn. The factors should be considered when preparing any information for consumers. Age, gender, culture, education, occupation, family background and health will all affect how we access information, how we process it and how we utilise it.

Because of the compulsory nature of superannuation information must be understood by people across a much broader range of literacy levels than is the case for other managed investments. Many superannuation fund trustees undertake research into the socio-demographic nature of their membership. They make use of this information and the advice of communication consultants to help design their communication strategies.

How should they be factored into what information providers produce?

Information providers need to consider the demographic and socio economic status of any communication's intended audience. By targeting the specific groups, relevant and understandable information will be most effective.

It should not be forgotten, however, that making assumptions based on these variables can sometimes lead to unfortunate outcomes. Some of those lured into completely inappropriate products in the UK pension fund "misselling" fiasco came from occupations where a sound ability to access and process information might have been expected.

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Question 2.3

Understanding the different personal characteristics that lead to consumer problems helps information providers decide whether they need to target behaviour rather than product knowledge in any information campaign.

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?

Understanding people will help to identify why people act the way they do. Information on human behaviour with regard to consumer and financial literacy is likely to already exist within banks, financial bodies, insurances companies and some large superannuation funds. It may need to be collected and assembled for wider usage. There is also a growing amount of overseas experience that can be tapped. In particular there is a growing literature on behavioural finance. It would be prudent to source this information before further studies are carried out at the expense of the consumer financial literacy program

Question 2.4

Understanding and appreciating the differences between consumer wants and aspirations helps information providers better prioritise information while recognising that many consumers take an aspirational outlook to issues that face them.

Is an appreciation of needs and aspirations useful?

Needs and wants are very different things but sometimes the line between the two is blurred. Some of the work done by ASFA in relation to expectations for retirement may be of value here. We have asked people what they think they need to live on in retirement and whether they think they are saving enough to fund this. We have tried to measure, for example, whether there is a gap between expectation and reality.

One of our most successful information/education tools has been a set of budgets for subsistence, moderate and comfortable retirement lifestyles. Consumers have flocked to the ASFA website to check the costs and measure reality against their expectations/aspirations.

Question 2.5



The Voice of Super

Understanding the life event 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?

Life decisions are usually the catalyst for big financial decisions. Pre retirees will take advantage of finance and retirement seminars offered by superannuation funds and other providers so they can learn more about their options for supporting a desired retirement lifestyle.

Poor or rash decisions at retirement can have a profound effect because there is often no opportunity (or time) to recover financially from a poor decision.

Some funds send out specific targeted information related to the age or other characteristics of members. However care is needed to avoid any offensive stereotyping of members.

How can the Taskforce's understanding of life events be enhanced?

This is probably a task of collating and analysing the masses of work already done on life events and the effect on individuals (education, first real job, marriage, house purchase, children, divorce retirement, death etc). It is likely that a financial dimension is missing from (or inadequate in) much of this material

Question 2.6

Learning consumer and financial skills is all about building our capacity to make better decisions throughout our lives.

What skills are important to consumers?

- Planning/budgeting
- Understanding borrowing
- Understanding saving
- Understanding investment (risk, asset classes etc)
- Understanding interest rates (for credit card, investments, bank accounts)
- Understanding compound interest, the cost of delay in savings
- Understanding the effect of fees over time

Do the consumer and financial skills presented in this section capture all relevant skills?

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The interaction of tax and social security are relevant to superannuation savings.

How can we benchmark these skills over time?

Benchmarking programs are expensive. The testing program for the State Literacy Strategy for school children (literacy is measured by mass testing across the schooling system for years 3, 5, 7 and 10) costs \$1.2 billion. To commit this level of school resources to financial literacy an extraordinary case would need to be made as to the benefits.

In relation to adults, ASFA has conducted comprehension testing on superannuation fund documents. By continually improving the documents after each round of testing, we have been able to significantly increase consumers' understanding. (A different group of consumers is used on each test.) This points to the fact that, in some areas, it may not be just "illiteracy" but the way information is presented to people that impairs understanding. Any benchmarking would clearly need to take this into account.

Question 2.7

Understanding consumers' preferences for information allows information providers to properly target their messages and maximise their reach.

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?

Different community groups trust different sources of information. Some information sources that consumers trust are often not good for them. Part of the task must be to make the consumer question the reliability of their sources of advice and information. This could involve checklists of questions you should ask yourself when confronted with information/advice to decide whether the information is likely to be unbiased and likely to be accurate. There are, for example, a number of checklists available for choosing a professional adviser. This could be generalised to a check list to evaluating all sources of information/advice.

The media plays a role in the sort of information we trust. Newspaper articles, TV interviews and hard luck stories teach consumers that nasty things happen. They rarely, however, show the steps that could have been taken to avoid the nasty situation the consumer is now in.

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In most areas there are particular aspects of knowledge that need to be understood: for example, in superannuation it is important to understand diversification of investment and risk/return. It is important that consumers understand that the some information they receive will be different depending on the purpose of the financial service. Although it may be simple to say “a superannuation account is just like a bank account” it is actually not a good message.

Chapter 3 The information provider

Question 3.1

The extent to which Australians’ needs are met by the currently available consumer and financial education programs needs to take account of a number of factors including the following:

- **The availability of information**
 - **Are there some topic areas where there is insufficient information?**
- **Awareness of the available information and information source**
 - **Do consumers (or teachers and other intermediaries) know what is available?**
- **Access to the available information**
 - **Do consumers know how to access information?**
 - **Are all consumers able to access information?**
- **The quality of the information provided**
 - **Is the available information clear and consistent?**
- **Efficient allocation of resources**
 - **Is consumer education delivered efficiently?**

Generally the answer is that consumers do not know what information is available and the evidence for this is the flurry of consumer activity when they become aware of a source of information. ASFA information is targeted towards workers within the super industry. Some information on our website is, however, specifically targeted at the general public. When the Association has greater exposure in the media, for example when the CEO appears on a current affairs program or the news, we receive many calls requesting information. We also notice very high peaks on our website when our consumer activities are publicised, for example when the Westpac/ASFA budgets were developed and when we launched the calculator on the website.

It is not possible (or our role) for an organisation like ASFA to provide information to the general public in many forms. The Internet is a wonderful cost effective

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conduit for information but we are conscious that it will only reach a small section of the public. We do work with other organisations to reach the consumer in other mediums. For example we often provide our considerable technical skills to organisations preparing publications or seminars aimed at the consumer

We do see our role as assisting funds to provide better services to their members, including the provision of information and advise. We use Best Practice Papers, seminars and awards for good communication to do this. We emphasise the need for clear and accurate content and appropriate styles and delivery methods. We are particularly conscious of the need to achieve both compliance with prescribed rules and effective communication in statutory documents. But we are also looking to encourage wider communication/education initiatives in the knowledge that a person's super fund is often the first (and only) source of information for investment.

These examples of the joining of different skills and avenues of access may point the way to more efficient use of resources. There are organisations in the community which have knowledge and technical skills. Others know the consumers' needs (or particular consumers) and have avenues to reach them. An awareness of possible partnerships could be a good beginning.

Question 3.2

What elements from overseas approaches should the Taskforce recommend in the context of the current Australian environment?

What seems to be needed is an evaluation of what initiatives have worked overseas (the cost/benefit of these initiatives) rather than a description of the initiatives.

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Chapter 4 An integrated solution

Question 4.1

The Taskforce is proposing that a coordinating body be established to promote and facilitate a coordinated and targeted approach to consumer and financial information in Australia.

The body would aim to achieve this through the development of the Consumer Behaviour Model into a tool that can be used by service providers.

The body would also be given a number of other functions to do with consumer and financial literacy that are currently not implemented in a comprehensive and coordinated manner. These include: research, a clearinghouse, an accreditation service to enable consumer and financial literacy to be incorporated into the school curriculum, an ongoing awareness campaign, a capacity-building grants program and a partnerships program.

Is a coordinating body necessary?

There may be a number of ways to achieve co-ordination. These should be explored before another bureaucracy is spawned.

Should it be Government or industry funded?

In relation to superannuation, industry funding is an interesting concept. The taskforce should be aware that any funding requirement would directly impact on the super fund members' retirement savings. Superannuation funds are set up as trusts for the beneficiaries. There is no separate reserve from which money can be used for other purposes. Some organisations that sponsor some superannuation funds, such as banks, investment or insurance companies may have an ability to dip into profits but the funds themselves do not have this ability. Already consumers pay – through their funds- for the prudential and consumer protection supervision of the fund: for example some \$12 million is provided to ASIC from a levy imposed on funds.

Since any coordinating body cover a range of consumer financial products with varying consumer literacy issues, it would be more equitable for it to be funded from everyone's taxes, i.e. from government.

What functions should it perform?

Although ASFA recognises the need for a greater awareness of the programs/information available in the community, we are yet to be convinced that the establishment of a separate organisation would improve the situation.