



ASIC

Australian Securities & Investments Commission

30 July 2004

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

DETTA RICKARD
ACT Regional Commissioner &
Deputy Executive Director
Consumer Protection & International

6th Floor, 15 London Circuit, Canberra
GPO Box 9827 Canberra ACT 2601
DX 5696 Canberra

Telephone: (02) 6250 3801
Facsimile: (02) 6250 3811

Dear Simon

ASIC Submission to *Australian Consumers and Money*

This letter sets out the response of the Australian Securities and Investments Commission (ASIC) to the Consumer and Financial Literacy Taskforce's Discussion Paper, *Australian Consumers and Money*. We are grateful for the opportunity to comment on the issues raised in the Paper and hope the following points will be helpful in taking this work forward.

This response is submitted in addition to the input of ASIC Commissioner Berna Collier on the Taskforce itself. In submitting this response, we have drawn on our experience as a source of independent and trusted information for consumers of financial services, as well as our own consumer research and analysis.

Introduction

ASIC is the consumer protection regulator for financial services. In this role, we protect investors, superannuants, depositors, borrowers and insurance policy holders. We also regulate and enforce laws that promote honesty and fairness in financial products and services, in financial markets, and in Australian companies.

One of ASIC's statutory aims is the promotion of confident and informed participation of investors and consumers in the financial system. In order to fulfil this statutory objective, we have developed a strategic programme of consumer education and information as outline in our *Consumer Education Strategy 2001-04*. Our long-term aim is the development of a financially literate community, where Australian

consumers can make informed about financial products and services and avoid financial scams and rip-offs. We believe that informed consumers can not only look after their finances better, which is vital given today's world of increasingly complex financial decisions, but also help to foster competition and higher industry standards.

ASIC's commitment to raising standards of financial literacy comprises both the development of consumer resources for use now as well as longer-term policy work. In terms of policy work, the Taskforce will be aware that ASIC published a Discussion Paper, *Financial Literacy in Schools*, in June last year. The Discussion Paper sought views on how financial literacy might be incorporated into high schools' curricula and proposed an independent, coordinating body to promote and support personal finance education in schools. We received 60 responses to our Discussion Paper, which were unanimous in their support for financial literacy education, from a good cross-section of stakeholders representing the financial services industry, the education sector, consumer and community groups and Government departments and agencies.

ASIC was pleased to be able to share the results of our consultation with the Taskforce as the responses we received are highly relevant to the work the Taskforce is undertaking. We are, therefore, pleased to see that our earlier work has been built on in the proposals set out in *Australian Consumers and Money*.

As the consumer protection regulator, ASIC is keenly aware of the need for appropriate regulation and, where necessary, enforcement, in addition to increased levels of education. Whilst the benefits of education are unquestionable, we do not see education as the panacea for all financial problems faced by Australian consumers. The consumer protection provisions of the ASIC Act, especially the prohibitions against misleading and deceptive conduct, undue harassment and coercion and unconscionable conduct, and the new FSR licensing and disclosure obligations are fundamentally important in securing an appropriate degree of consumer protection.

Moreover, we would caution against education being seen as a way of placing too much responsibility on consumers to make the right decisions and protect themselves against scams and swindles. As the Consumer Behaviour Model makes clear, people act in different ways due to a range of influencing factors. Their level of education/understanding about financial products and services will not always mean that they are in a position to secure the best deal, or avoid a sophisticated financial scam. Many scams involve sophisticated psychological prompts to attract victims, which prey on their vulnerabilities, regardless of their level of financial sophistication. There is no equity in allowing a scamster to retain the profits of their fraud at the expense of their victims, regardless of how obvious the fraud might appear. ASIC's firm view is that enforcement action in appropriate cases is absolutely critical to maintaining consumer confidence. Furthermore, we believe higher levels of consumer education and understanding should be complemented by such things as good disclosure, greater simplification of financial products and improved communication between industry and consumers.

I turn now to the questions contained in the Discussion Paper.

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

The Discussion Paper articulates economic and government factors which affect consumer behaviour, including the new FSRA disclosure obligations.

These disclosure obligations require licensees to give certain information to consumers about the financial product or service they are buying. One of the central aspects of FSR disclosure regime is that the information contained within disclosure documents must be presented in a *clear, concise and effective* manner. ASIC is aware that some licensees are experiencing difficulties in producing documents that meet these requirements, largely because they are concerned that they may attract legal liability if they omit something from the disclosure documents. We have been informed by some industry participants that they have received legal advice that the length of Statements of Advice will run to 80 or 90 pages in order to be compliant.

This is not what ASIC would expect from a compliant financial services licensee and it is not helpful to consumers. We understand that this is a difficult area and we have provided guidance regarding the preparation of disclosure documents (see, most recently, Class Order [CO 04/0576] which is designed to facilitate shorter Statements of Advice in the context of an ongoing client relationship). Currently, we are considering options that will assist industry in tailoring documents to the particular information needs of their clients. We are also considering collaborating with industry in the publishing of constructive examples of disclosure that is clear, concise and effective. Ultimately, our aim is to achieve harmony between the requirement that all the information the client needs is provided with the requirement that the information is clear, concise and effective. We believe that these aims are both important and reconcilable.

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

Consumers are not a homogenous group. Not only do various groups within the community have different information needs, which should be addressed differently, but they also respond to different methods of information delivery. Socio-economic and demographic factors are, therefore, important and should be factored into what information providers produce so that information can be targeted so as to meet the specific needs of different consumers.

ASIC has adopted this targeted approach to its consumer education work. Whilst much of our material is relevant to all consumers, we also know its important to target education messages to particular groups in the community in order to ensure that our information is received by as wide number of consumers as possible. For example, a number of our consumer publications are available in a range of community languages. We also co-funded the development and production of a range of Arabic radio programs addressing debt and other financial problems. Our *Moola Talk* comic, which is set in remote Indigenous communities, has been translated into the traditional languages spoken in remote areas of the Northern Territory – Walpiri, Arrernte and the Pit land languages (Pitjantjatjara). The translations will be broadcast through the Broadcasting Remote Aboriginal Communities Scheme. Most recently, our *To The*

Max comic is targeted specifically as 14-18 year olds in a format that will be most appealing to that age group.

For education initiatives to be successful, information providers need to ensure the involvement of the community group(s) or organisations that represent or support the members of the group they are aiming to address. In producing all of the consumer education materials outlined above, we conducted focus groups drawn from the relevant target audiences, to ensure that the language and message was appropriate. For example, in preparing and developing *Moola Talk*, a consultation process was undertaken with Indigenous leaders and communities in Alice Springs, Bourke and Brewarrina. This process was crucial in assisting ASIC to identify the specific types of money problems most commonly faced by Indigenous people in remote and regional areas.

Given our experience in producing resources for different groups within the community, ASIC has produced two best practice guides, which we are happy to make available to assist other agencies in developing new materials. First, *Good Practice for Consumer Education for Indigenous People* is designed to help with the production of Indigenous-specific education material. Amongst other things, it sets out 10 good practice principles, namely:

1. understand the context
2. ensure effective community involvement in all stages of the project
3. consider partner organisation's resource limitations
4. acknowledge cultural diversity and consumer's existing knowledge
5. use appropriate planning and evaluation
6. consider consumers' motivation to learn
7. engage in dialogue with consumers/two way learning
8. use appropriate formats and distribution channels
9. promote longer-term sustainable activities rather than pilot projects and *ad hoc* responses; and
10. contribute to coordination, collaboration and networking.

We have also produced *Communicating Effectively with non-English speaking background groups*, an internal best practice guide for developing and promoting materials for NESB consumers.

2.3 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?

2.4 Is an appreciation of needs and aspirations useful?

Through our own consumer research, ASIC has been able to identify that human behaviour does play a role in the decision making process. It is, however, very difficult to make generalisations about the way that people behave faced with different circumstances. A broader understanding of human behaviour would certainly be useful in ensuring that consumer and financial literacy programs were more effective. More research into the impact that human behaviour has on how and when people acquire knowledge and its impact on the financial decision making

process would therefore be beneficial and we hope that the coordinating body will have resources to commission further research.

One relevant piece of research is that undertaken by ASIC to investigate consumer behaviour in relation to foreign investment cold-calling scams. This research was published in *Hook, Line & Sinker: Who takes the bait in cold calling scams?* which examined how some consumers came to trust cold callers and others did not. In total, it is estimated that Australian consumers lost more than \$400m to these scams between 1999-2002.

ASIC interviewed 80 people who had been contacted by cold callers offering foreign shares about their experience. Forty-one consumers invested over \$2.5 million and thirty-nine did not invest. The scams described were effective and sophisticated operations. A range of props and techniques were employed, such as expensive documentation including brochures, tax exemption forms, the use of web sites and/or referees to reassure the potential investor the, to make the operation seem legitimate.

The research found that some investors ignored warning signs – such as the promise of high returns in a short space of time – that should have made them decide to reject the offer. Greed, or at least a willingness to gamble, was a contributing factor in terms of susceptibility to scams. Other investors were able to accept the promises of the cold caller by justifying their claims through various means. For example, some investors saw the offer as normal sales hype and/or conceived of the "investment" as a gamble dependant on luck, where the realities of market forces and business practice were side-stepped.

This is a good example of how consumers react differently when presented with the same or similar sets of circumstances and information. Many will ignore warning signs that would usually make them wary, if presented with sufficient inducement. Research such as this helps us to discern the different personal characteristics of people in the community, and helps us design education and other activities.

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

ASIC supports an approach that targets information at different stages in people's lives and we have sought to adopt such an approach in providing information on FIDO, our consumer website. We know that most people only actively seek information when they actually need it, and this is usually triggered by life events, such as retiring from the workforce etc. ASIC also supports an approach that recognises the diversity of people's lives.

ASIC recently commissioned Chant Link & Associates to conduct research into consumer decision-making about retirement income streams and superannuation ie research built around a particular life event. This was qualitative research amongst groups of pre-retirees and retirees.

Whilst the report is still being finalised and not yet released, the early research findings show that prior to reaching the point of retirement, few people were aware of the main options available for their super benefit. At the point of retirement, they had suddenly become aware of the need to make a decision and at the time, most thought they had sufficient information. However, the research found that, afterwards, they all agreed that there were knowledge gaps and they would have liked a better understanding when making their decision. This suggests that an approach built around life events would not only be welcomed by consumers but also more useful for them.

2.6 What skills are important to consumers? Do the consumer and financial skills presented in this section capture all relevant skills? How can we benchmark these skills over time?

The skills outlined in the Discussion Paper give a good picture of the skills required by a financially literate consumer. For a more detailed analysis of skills, we would recommend the framework used by Roy Morgan Research in conducting the ANZ survey of adult financial literacy (ASIC was represented on the Steering Committee which approved the framework). This framework, which takes account of similar work carried out in the UK, groups skills into four broad areas, namely:

- mathematical literacy and standard literacy
- financial understanding
- financial competence
- financial responsibility

Each broad area is made up of a number of key skills and attributes, which are themselves further divided into basic requirements and advanced competence.

In testing people's levels of financial literacy for the ANZ survey, the researchers only tested their knowledge against each person's needs and circumstances, rather than against the full array of products and services.

It is important that an agreed set of benchmarks for measuring financial literacy is developed, and we have suggested that this should be one of the roles of the co-ordinating body. Work in this area should take account of both the need to be able to measure changes in literacy (and this would suggest having regard to the ANZ survey work), as well as ideally, facilitate a degree of international comparability. On this later point the current work of the OECD is likely to prove useful. The Taskforce will be aware that the ANZ have committed to carrying out the financial literacy survey every 2 years. Over time, this will give us a good picture of the financial literacy levels of Australian consumers.

**2.7 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?**

Our recent research into consumer decision-making about retirement income streams and superannuation referred to above also looked at which sources of information consumers were most likely to use or rely on when making decisions about their retirement.

The research found that most people felt they had sufficient access to information about the main options facing them. However, there were many difficulties in absorbing and analysing the significant quantity of information available. Indeed, many commented about “information overload”. Generally, retirees felt that there was too much information, the information was almost always too complex, the rules surrounding superannuation and income streams were too complex for them to fully understand, available information used too much jargon, and much of the information was presented by advisers or institutions, bundled with advice or sales literature.

In terms of information sources, there was a wide range used by consumers. These included:

- Financial planners
- Respected colleagues, networks or family members
- Accountants
- Trade unions
- Bank advisers
- Super funds
- Other fund managers and insurance companies
- Seminars
- Magazines, newspapers, radio talkback, televisions
- Websites and emails
- Employers
- ATO, Centrelink, NICRI etc

Whilst financial planners were the most consulted source of advice, since they were seen as the most qualified given the complexity of superannuation, this did not necessarily translate to financial planners being as the most trusted source.

For a sizeable minority, the most important source of advice was an individual or group of individuals whom they respected and who was believed to have expertise/experience in making a decision about retirement incomes and superannuation benefits. This could be a retired family member or a respected senior colleague. The main value in this source of information was found to be:

- speaking in plain language, rather than jargon
- being able to raise fundamental questions about the individual's context, so the individual could later seek expert answers to such questions
- being able to offer a fully independent and unbiased view, with the retiree's interest uppermost
- opening up new options for consideration

3.1 The availability of information — Are there some topic areas where there is insufficient information?

Awareness of the available information and information sources — 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?

Section 3.1 of the Discussion Paper provides a good summary of the current position as regards the provision of consumer information in Australia. In conducting the preliminary stocktake at Appendix 1, the Taskforce has provided a comprehensive snapshot of the amount of information available for consumers (and it does not include statutory disclosure documents which are given to consumers by financial service providers). It is a positive step that so many different organisations seek to put information in the public domain to help consumers make financial choices and decisions and to understand their rights.

As articulated in the Discussion Paper, it is difficult to conclude, without further research, the true extent to which there is overlap or duplication in the provision of information, nor is it possible to say whether consumer needs are currently being met.

As noted, different programs may be produced for different audiences and address different issues. For example, the stocktake indicates that there is considerably more material available on credit, at least in terms of the numbers of publications available. This is partly the result of each State and Territory fair trading or consumer affairs agency producing information about credit, since credit is regulated primarily at a state level.

There is also little or no information on the take-up of resources by consumers, or how that information might have an effect on consumers' decisions. In the absence of a coordinated approach, it is possible for a well-meaning agency to produce a resource, which may be excellent in content, but which duplicates with one produced by someone else.

As a key provider of consumer information about financial services, one of the main challenges for ASIC is not producing more content, but ensuring that materials actually get into the hands of people who need it. As stated above, we would support development of the life events approach to providing information as this is when people actively seek out information.

It is vital that information is accessible to people. This means coming up with innovative and effective strategies for disseminating information. It is also important that distribution channels and formats are appropriate for the target audience. For example, many seniors prefer materials to be available in hard-copy. Through our

consumer education work, we have generally found that the most effective way of delivering information is face-to-face.

Specifically in terms of schools, our research into existing levels of information for teachers found that:

- resources were not necessarily well known to teachers, nor were they accessible in a way that enables teachers to make informed decisions about their suitability or relevance.
- the lack of an agreed framework for financial literacy education meant that resources have been produced on an ad-hoc basis, without wider consideration about how they might be linked to any broader agenda for the teaching of financial literacy.

In our Discussion Paper, we suggested that the development of resources for schools needed to be thought about in a holistic way closely linked to the learning outcomes sought by the curriculum and professional development for teachers.

In terms of quality, we said that resources needed to be relevant, current and stimulating. They should be linked to practical, real-life experiences wherever possible and encompass contemporary case studies, built around contexts to which students can relate.

In our Discussion Paper, we outlined a number of best practice principles for financial literacy education resources. These received broad support from respondents. The aim of the principles was to assist organisations that were considering producing a resource for the teaching of financial literacy in schools and provide the basis for a code of practice. Our suggested principles, which are applicable beyond resources for schools, are:

- **Independent:** resources should not promote branded products, although limited branding of a resource to indicate who produced it may be acceptable
- **Aligned to curriculum:** resources must be linked to learning outcomes sought by schools curricula and the content must therefore be relevant to those outcomes and the learning levels of the target groups.
- **Designed for teaching:** resources should include teachers' notes, lesson plans, case studies and topical content to stimulate teaching of financial literacy in the classroom. Resources should be user-tested during production.
- **Accurate and current:** the accuracy and currency of resources should be kept under review to ensure they are maintained beyond initial production. The date resources were produced or last amended should be included on them.
- **Inclusive:** resources should recognise that students are likely to have different home and cultural experiences of financial situations.
- **Accessible:** resources must be easily accessible for teachers.

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

In our *Financial Literacy in Schools* Discussion Paper, ASIC looked at the situation in the USA, the UK and New Zealand.

Like the Taskforce, we found that other countries were tackling similar issues to those in Australia and that there was a range of measures in place to try and raise low financial literacy levels. However, we found that it was in the area of schools and youth that the most cohesive initiatives were taking place. For example, the coordinating bodies in the US (Jump\$tart) and the UK (pfeg) specifically deal with promoting and supporting financial literacy in schools. Introducing financial literacy into the schools' curriculum, as has happened in the UK and some states in the US, is a more measurable and achievable way of effecting change, than would be many programs for adults. Moreover, it appears to stand the best chance of being sustainable and producing improvements in financial literacy over the longer term. ASIC will continue with its efforts to effect curriculum change in Australia, which we know in itself is a long-term process.

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

ASIC welcomes the Taskforce proposal to establish a coordinating body and supports all of the proposed objectives and functions outlined in the Discussion Paper. As the Taskforce will be aware, in our schools Discussion Paper, we suggested a similar body (the Financial Literacy Institute) comprising representatives from Government, education, industry and the community sector, to champion financial literacy education in schools and for those who currently have the lowest levels of financial literacy and to provide a focus for the coordinated development of resources, training and research. The comments below are based on our own experience and, given the similarity, on the responses we received to our own Discussion Paper.

Structure and Funding

All of the submissions received by ASIC gave broad support for the establishment of a coordinating body to promote and support the teaching of financial literacy. They were particularly attracted by the idea of an independent body that had cross-sectoral participation which would facilitate partnerships between organisations from different sectors.

In terms of funding, we would support the proposal to give the body some level of baseline Government funding. Respondents to our Discussion Paper thought that funding for a coordinating body, at least initially, should come from the Government, as this would send a clear message that it was committed to financial literacy education. We would, however, also strongly support the idea of securing contributions from industry. During our consultation period, we found that many in the industry were keen to contribute towards the cost of an independent organisation (for example, in the form of membership fees), as well as individual projects, and it would seem advantageous to harness this good will. That said, many industry respondents wanted more detail about the proposed organisation before they were prepared to commit themselves to actual funding levels or in-kind support.

Whilst there are many decisions still to be taken about the structure and funding of the coordinating body, ASIC would be happy, at least in the first instance, to provide

accommodation and support for the new body. Not only would this be a cost-effective option for the Taskforce, but would also allow synergies between the work of the coordinating body and ASIC's financial literacy and consumer education work to be developed.

Roles and Functions

We support all of the proposed roles and functions for the coordinating body and have the following comments and suggestions to offer. Naturally, final decisions about the body will depend on the level of stakeholder support and the level of funding obtained.

Measuring and benchmarking improvement in consumer behaviour

ASIC strongly supports the need for the development of benchmarks to measure consumer and financial literacy over the longer term. We would encourage the coordinating body to work with Boards of Study and adult educators in the development of financial literacy competencies. As noted in the Discussion Paper, the ANZ survey provides a useful starting point for assessing financial literacy levels.

Providing a clearinghouse website for consumer and financial information

The role of a central clearinghouse for consumer and financial literacy resources is important for the reasons outlined in the Discussion Paper. In our own Discussion Paper, we suggested that the clearinghouse function could be facilitated by maintaining a searchable directory of available resources and projects. This is similar to the model adopted by pfeg (UK) and Jump\$tart (US).

The stocktake of resources set out in Appendix 1 to the Discussion Paper provides a good starting point for the clearinghouse. However, we believe that in operating the clearinghouse it is necessary that some form of quality control be exercised, especially in relation to whether materials are unbiased, pushing particular products, current and accurate. Resources should be assessed against clear and transparent criteria (see our best practice principles outline above).

Where resources have not been assessed against any criteria developed for the purpose, they either should not be included or there should be a prominent warning that the organisation cannot vouch for the accuracy of content. This is important since the mere appearance on information on the clearinghouse is likely to provide it with credibility in the eyes of consumers. Our experience in the clearinghouse area also suggests that it is essential that sufficient resources be devoted to ensuring that the clearinghouse does not contain resources that have become dated. Trust is a critical issue when considering the provision of information to the community.

School Education

Given our earlier work, ASIC strongly supports a role for the coordinating body in promoting consumer and financial literacy education in schools. Our consultation found strong support from all sectors for financial literacy to be taught in schools, although there were lots of different views about how this should be achieved.

We would agree that consumer and financial literacy would be better integrated into schools by incorporated it within existing subjects, rather than seeking to introduce a it as a new discipline. Our consultation found that:

- most respondents felt that financial literacy was, by its very nature, a cross-curricular subject (with most opportunities in SOSE (HSIE in NSW) or Maths);
- respondents from the education sector noted that a separate subject could not be accommodated within already crowded curricula.

In terms of supporting financial literacy education in schools, we found that the following were essential requirements if it is to be successful:

- professional development for teachers so that teachers themselves are confident about teaching the subject
- the development of competencies, which catered for the diversity of curricula across Australia
- good quality teaching resources, using a variety of formats, which met set criteria
- public awareness campaigns
- the involvement of parents

Given our experience and research in the area of school education, we are happy to discuss this further with the Taskforce and/or the coordinating body in due course.

The Discussion Paper does not make clear whether the coordinating body would have a role to further the work to get financial literacy education incorporated into the schools' curricula across Australia. We hope that it will become involved in this long-term task, which we view as essential if financial literacy is to become a permanent part of our education system. Given that opportunities to influence curriculum change are sporadic and infrequent, ASIC proposes to continue its own work in this area, liaising with education departments and MCEETYA as appropriate. For example, we have already worked closely with the NSW Board of Studies to incorporate key financial literacy learning outcomes into the NSW Commerce syllabus.

ASIC supports the Taskforce's proposal for the coordinating body to develop an accreditation system for schools resources (and, as outlined above, for all resources). This has been a key role of both pfeg and Jump\$art. Accreditation of a resource gives both educators and those who fund or produce resources certainty as to their independence, quality and relevance. In our Discussion Paper, we suggested the establishment of a review committee to assess resources against published standards. This would be particularly beneficial as teachers and others in the education sector would begin to recognise and trust the quality mark.

Conducting consumer awareness campaigns

ASIC supports the need for community awareness campaigns to raise the profile of information that is available to consumers.

Building capacity amongst small information providers

ASIC supports the idea that the coordinating body would provide grants to programs designed to target disadvantaged groups within the community.

Facilitating partnerships

ASIC supports the Taskforce's proposal that the body encourage private sector participation in consumer and financial literacy activities. In particular, the body could develop models for partnerships between the private sector and the community or education sector that allow both parties to participate in a project whilst preserving their independence and integrity.

One model which has worked well is the YWCA/Citigroup partnership in the development of *Finance First*, a financial literacy initiative for NSW primary school children and their parents. ASIC has participated in this program in an advisory capacity.

I hope the above comments are helpful. Please do not hesitate to contact me on 02 6250 3801 or my colleague, Miles Larbey on 02 9911 2477, if you would like to discuss further anything raised in this submission.

Yours sincerely



Delia Rickard
Deputy Executive Director
Consumer Protection and International