

Response to Consumer and Financial Literacy Taskforce Discussion Paper

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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 by information providers in information provision to consumers?

The range of information providers is very broad making it difficult to generalise. In the case of the Australian Stock Exchange (ASX) we are very mindful of the role of economic and government factors in affecting investment outcomes and accordingly investment decisions. The introductory investment education modules cover macroeconomic factors and the online education we provide to schoolchildren participating and adults participating in our sharemarket games also address these influences.

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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? How should they be factored into what information providers produce?

Socio demographic factors are important and should be taken into account when preparing information for particular market segments. Having said that, issues of practicality need to be considered. Production of educational content, updating and providing content in multiple formats is expensive. Further adaptation of that information on the basis of socio-economic or demographic categorisation would increase costs further. Some segments are quite small resulting in no economies of scale.

Most materials will be presented in such a manner as to attempt to resonate with broader socio-economic and demographic groups. This makes it all the more important to reinforce the importance of plain English in documents and the avoidance of jargon. Provision of appropriately pitched materials to smaller market segments may be best left to specialist bodies supported by government funding. Rather than start afresh in preparing these materials, information providers could be encouraged to make their own materials available to these specialists for adaptation in the appropriate manner.

Another thing to consider is how individuals see themselves. Materials that overtly and ineptly target particular socio- economic categories may be counter productive if individuals think they are being patronised.

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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?

A broader understanding of human behaviour is useful for all facets of life – not just addressing consumer and financial literacy. It can be expected to be a complex matter and a topic for lengthy and extensive research. We don't recommend that any substantive literacy initiatives be deferred until the "definitive understanding " becomes available. There is probably no definitive understanding and if there were it would probably only be true for certain period of time because behaviour patterns are not static.

A clear view of the desired outcomes and at least a considered view on the likely triggers for preferred behaviour is the right approach.

It may be helpful to recount some of our findings in seeking to understand the behaviour of Australian share investors and prospective investors. Simplistically, the traditional view is that younger people are less risk averse and are likely to engage in more speculative share investment. This is followed by the asset rich, cash poor period as people settle down, take out mortgages and have families to support. The next stage is the empty nest phase where individuals have a solid base of assets and have cleared a lot of their debt and other obligations but have a fewer years left to earn income. These people are expected to be risk averse, looking to protect their assets and are seeking a stable long-term income source perhaps through fixed interest, rental income and share dividends.

ASX has been doing share ownership research since 1996 to try and find out what drives the likelihood of share ownership. Three separate qualitative studies have confirmed that attitudes towards investment are also important predictors of behavior. Fundamentally, people who invest in shares have a strong sense of personal responsibility for their financial health - they see success or failure as being down to them. The two other key factors are:

1. Emotional attachment / interest in investing
2. Level of perceived knowledge/ confidence

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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?

Most types of education require an element of encouragement – even more so with schoolchildren. Education that motivates tends to be more popular than education that focuses solely on negative issues – how to not get ripped off, how not to let your credit card bill get out of control. These are worthy and important topics but ASX believes that a positive message, something that appeals to people’s aspirations will be more effective than concentrating solely on downside.

Sharemarket education is a case in point. Most experts agree that people need to know more about superannuation and that education on this subject should start at school however, individuals, school children included will probably say they are quite interested in learning how to make money from the sharemarket but are less interested in learning about superannuation. As an alternative, education about superannuation may be more appealing if you educate them about the sharemarket and then link that education to superannuation - which invests a lot of assets in the sharemarket.

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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?

This seems closely related to the earlier question about understanding consumer behavior. Our earlier observations about demographic / life stage versus psychographic factors may be equally relevant here.

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

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?

Others will be better placed to comment. ASX is expanding and enhancing on-line educational. We have found that people have many different approaches to online learning. Some prefer a highly structured approach - start at the start and build knowledge and skills in a highly sequential manner. Others are almost haphazard in their approach. The point of this observation is that whilst information providers and educationalists may develop carefully structured programmes, individuals may take a different approach. This suggests that a range of educational tools and approaches might be the best approach.

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

What information sources to consumers trust? Are consumers confused by different information on the same issue? Is information tailored to the learning styles of the target audience?

How important are intermediaries such as financial advisors in delivering outcomes for consumers?

Intermediaries are critical. Most financial transactions involve an intermediary whereas the involvement of other information providers is less certain. For example ASX offers comprehensive education that individuals may or may not utilise in making their investment decisions. The services of a broker however, are mandatory. This is why ASX encourages intermediaries to provide links to ASX educational materials.

Although certain educational providers may be more trusted than others it does not mean that these information sources are the most popular. ASX is highly regarded for providing high quality, sensible investment education that gives appropriate weight to the risks as well as the benefits of investing in the sharemarket. But other groups, outside ASX and its broking fraternity, sometimes attract better numbers by offering seminars going under the banner of education which focus on upside and underplay risk. Often the purpose of these seminars is not education itself but the sale of some other service or product.

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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 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?**

Based on our own experience we would be surprised if general awareness of information and available information sources was high. ASX is regarded as an obvious source for information on investing in the sharemarket but our own surveys of shareholders reveal relatively low awareness that we offer investment education.

As to the issue of consumer information generally, we find it difficult to generalise on the quality of such a wide variety of materials. Inevitably, there will be variation.

We believe there is a case for encouraging standardisation. Not necessarily standardisation of content but standardisation of format, using common terminology and particularly positioning of web based materials. Inevitably there is duplication and better cataloguing of what is "out there" may assist in reducing duplication and lowering overall costs. . It may be worthwhile

to consider do an audit of which particular segments of the market are not catered for in the existing range of materials. A common problem can be that the majority of material may target one or two segments – such as pre-retirees, leaving other groups without sufficient access to relevant material.

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

Providing a central repository of quality educational materials is an initiative with promise. Equally taking a bottom up approach whereby we get a better understanding of what influences behavior and what will motivate individuals to be better informed is also something we should emulate.

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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 could aim to achieve this through the development of the Consumer Behaviour Model into a tool that can be used by service providers. The body could also be given a number of other functions to do with consumer 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? Should it be Government or industry funded? What functions should it perform?

Some sort of co-coordinating body may serve a useful purpose. If it is preferable to append consumer and financial literacy to existing school subjects there may also be merit in more consideration on whether of the coordinating body should be attached to an existing entity. This may be more cost effective.

The breadth of responsibility for the proposed new body looks daunting. ASX suggests that a phased approach may avoid diluting limited resources on too many initiatives and will encourage better co-ordination.

We have commented favourably on the concept of a central depository of information and education that assists consumer and financial literacy. Educational materials are expensive to develop so it is best to avoid duplication. However, there may be limitations to what can be practically achieved and the task won't be as straightforward as it might seem. When developing educational materials many organisations prefer to provide a complete package rather than relying on the work of others. Furthermore, when relying on the work of other companies there is always a risk that the corporation's business strategy may change resulting in the discontinuation of educational materials upon which other educational resources rely. There are further issues to consider with respect to online materials. Many companies are reluctant to link to educational materials on other web sites if that means their customers leave their site and enter the site of competitors.

ASX endorses the concept of introducing standards for the materials referenced by the new body. These standards should not be unreasonably prescriptive. For long established and highly regarded materials it would be disappointing if a new accreditation regime resulted in

the significant additional modification costs. Many companies, ASX included, have committed substantial resources to education that encourages consumer and financial literacy. Nonetheless these initiatives are competing with a host of other corporate activities. Of course educational materials need to be responsible, well-balanced, well targeted and avoid being a hard sell but at the same time it is a big ask for a corporation to commit significant dollars without any brand recognition at all, or no input into how its funding contribution might be spent. We are mindful to not overstate this issue but it needs to be acknowledged.

Industry may have a role to play in establishing the new body but it would appropriate for Government to take the lead – particularly if the body is to accredit materials prepared by industry and others.