

FAIR TRADING ADVISORY COMMITTEE



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Dear Consumer and Financial Literacy Taskforce,

Thank you for the opportunity to comment upon the Discussion Paper entitled 'Australian Consumers and Money'. Our Committee makes the following submission in relation to some of the questions raised in the Discussion Paper.

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?

The best way to discern the personal characteristics of people in the community is to develop personal assistance rather than producing information en masse. A broader understanding of human behaviour may be useful in addressing the broad issues in consumer and financial literacy but consumer and financial behaviour is greatly influenced by personal circumstances. If information about transactions is to be truly effective, it should not be mass-produced. Rather it should be tailored to the needs of individual consumers.

For example, page 23 of the Report refers to the study by Cape York Family Income Management project which found that most indigenous consumers prefer face-to-face assistance when seeking advice on money management. There is no doubt that uniqueness of Aboriginal and Torres Strait Islander cultures must be appreciated in any attempt to improve financial literacy, but we suggest that the findings of the Cape York study can be extrapolated into the wider consumer community.

By way of comparison with optimal face-to-face contact, the current federal regime (requiring the provision to consumers of financial products of Product Disclosure Statements) has encouraged the dissemination of mass-produced, generic information which create few incentives for consumers to genuinely understand the products. The information that must be understood in large consumer contracts and forward-looking financial commitments such as superannuation schemes, personal and home loans is very complicated and the current regime



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still overwhelmingly places the responsibility for understanding the information upon the consumer. This has become a critically important issue for our future social planning as Australians are expected to save for their retirement and the concept of ‘saving’ requires a complex set of consumption and investment decisions. Long gone is a time when saving meant putting some money in the bank for a rainy day.

We therefore would urge the Taskforce to consider the following discussion points that arose out of the Australian Banker Association’s “Broadening Financial Understanding” Workshop about providing information to consumers. The Summary of Outcomes stated that people can broaden their financial understanding by receiving information that:

- is prepared from their point of view rather than from the supplier’s perspective
- includes real people talking about real experiences in “bite-size pieces”.
- includes face-to-face contact
- offers choices for receiving information rather than relying just on print

The Presentation Slides (from the same workshop) of Professor Elaine Kempson of Bristol University stated that most people want tailored advice and help on financial services. There is a need for information to be disseminated in a way that is efficacious and creates incentives for people to plan their finances. Mass produced information is alienating and cannot help those who it purports to target.

Question 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?

Figure 2.5 in the Report on pages 32-33 uses an individual model of life events which could be extended to include more group examples. This is particularly relevant to the large numbers of Australians who live in extended families and communities like the indigenous and multicultural communities. For example, a common life event for individuals, families and communities is the care of elderly people. Often the care of elderly parents in combination with educating children can cause significant financial stress.

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? Do the consumer and financial skills presented in this section capture all relevant skills? How can we benchmark these skills over time?

A problem which is highlighted in the Report is the context in which advice should most effectively be given. It is important that the financial implications of large-scale consumer contracts be considered at the point of sale. As stated in the Report on page 40:

Retail shopping is also an area where advice is not necessarily given in a financial context. Depending on the training of the sales person and the policy of the retailer, the consumer may not receive a full explanation of the financial implications associated with credit and forward commitments such as mobile phone lease

agreements. As a result, many consumers take on financial obligations they later have difficulty meeting. With some of the more problematic product purchases, this is an area where educative strategies might extend beyond consumers to include retail staff.

We agree that educating retail staff to be aware of the financial implications of forward commitments and large scale purchases is an important strategy.

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?

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

We refer you again to our comments for Question 2.3, which indicate that often information about financial planning is not sufficiently tailored to the learning styles of the target audience. Financial information is inherently complex. People often make cost benefit assessments and thereby conclude that attempting to understand these transactions is not worth the effort. This is borne out by the information in the Collard study of UK consumers (cited in the Report at page 46) which found that 70 per cent of recent financial purchases were made using just one source of information and usually with minimal shopping around. The most commonly used information source was financial advisers. Financial advisers are often the only group of people who have sufficient expertise to assist consumers make financial decisions but they are not only costly to consult, consumers often report concerns about their independence and competence. These concerns are indeed substantiated by the studies conducted by ASIC and ACA on the financial planning industry (available at <http://www.choice.com.au/>, with commentary at <http://www.onlineopinion.com.au/view.asp?article=1659>).

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? Should it be Government or industry funded? What functions should it perform?

We agree that a central coordinating body should be established. It is difficult for consumers to access all relevant information, especially with its proliferation on the Internet. A clearinghouse for consumer and financial literacy information would be very helpful. We consider that a central coordinating body should be government funded and overseen by a

Senior Minister in the Federal Government with a portfolio responsibility which includes consumer matters. Such a structure is vital in the light of the strategy placed by the Federal Government upon people saving to fund their own retirement and the uncertainty associated with the competence and independence of financial intermediaries. It is also important that the proposed structure be adequately funded by Government, though private sector participation should be encouraged by partnering with relevant providers.

Yours sincerely,

Peta Spender
Chair