

28 July 2004

Consumer and Financial Literacy Taskforce Secretariat  
SCGSD  
Department of the Treasury  
Langton Crescent  
PARKES ACT 2600



Dear Secretary

Re: Australian Consumers and Money – *A Discussion Paper*

We are writing with reference to the Consumer and Financial Literacy Taskforce's June 2004 discussion paper.

Insurance Australia Group, (IAG) strongly supports initiatives, which increase financial literacy levels and the development of consumer education in the community.

IAG is the largest general insurance group in Australia and New Zealand, employing over 11,000 people and having around 11 million policies in force. IAG's holding company is listed on the Australian Stock Exchange and has a market capitalisation exceeding \$AUD7 billion.

IAG is a fully diversified insurance group, providing personal and commercial insurance products under some of the most respected and trusted retail brands including NRMA Insurance, SGIO, SGIC, CGU and Swann Insurance in Australia, and State and NZI in New Zealand.

**IAG's core lines of business include:**

- Home insurance
- Motor vehicle insurance
- Business insurance
- Consumer credit insurance
- Extended warranty insurance
- Compulsory third party (CTP) insurance
- Workers' compensation insurance
- Retirement financial advice
- Professional risk insurance



Financial literacy is defined as having the capability to make informed judgements and decisions about the use and management of money.

With the continued increase in the range and complexities of financial products and services available to the consumer, the requirement for an explicit focus on increasing financial literacy levels in the wider community is becoming more essential and critical to Australia's economic and social sustainability.

This submission details four specific areas that IAG recommends the Taskforce devote particular attention to:

- Lobbying the Federal and State Education Departments to ensure that financial literacy becomes a compulsory component of the school curriculum.
- Develop and manage a clearinghouse that provides access to a full range of educational materials and programs addressing financial literacy and consumer education. This will provide the community, including educators, with an awareness of educational materials and programs that are already available and how they can be harnessed.

More importantly this clearinghouse needs to assess the quality and educational soundness of these materials and to ensure that the contents address the key learning areas of each school's curriculum.

- Developing teacher professional development programs for educators in schools. Educators require skills, confidence and awareness of financial literacy and consumer education so they can more competently teach students in these subject areas.
- Encourage corporations, industry bodies and community groups to work closely together to reduce duplication of educational materials and programs.

Listed below are responses to some of the questions from the Treasury's Financial Literacy and Consumer Education discussion paper.

For ease of reference, the same numbering has been used.



*Question 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?**

The 'Consumer Behaviour Model', contained in Treasury's discussion paper, is a useful tool in identifying segments of the community in need of focused attention to increase levels of financial literacy.

IAG recommends that any future pedagogy around financial literacy and consumer education place emphasis more on outcomes than tools.

A requirement for effective financial literacy education is to target specific community segments.

*Question 2.4*

**Is an appreciation of needs and aspirations useful?**

Yes, especially for insurance. As most people own something of value, the real consequence of non-insurance or underinsurance could lead to an individual's financial ruin.

With an increased focus on increasing levels of financial literacy and consumer education, an increased awareness of these consequences could aid in changing consumer behaviour and understanding the value of protecting personal assets and health.

*Question 2.6*

**What skills are important to consumers?**

The ability to understand the importance of protecting valuable assets through the appropriate use of insurance is an important skill.

With the aggregate wealth of Australians increasing, there is an attendant need to ensure that the consumers protect their financial assets.

An essential component of any major life financial transaction, such as purchasing a car or a house, should include having insurance. Having a competent understanding of insurance and being able to use insurance appropriately will ensure that there is some protection. This will reduce the risk of an individual's financial ruin, in the event of a disaster or mishap.



## How can we benchmark these skills over time?

IAG considers that it is important to measure financial literacy levels across Australia over a period of time. Any educational initiative of social importance such as improving Australia's financial literacy levels is a long-term undertaking.

There will need to be a long-term measure. A good example is the ANZ survey of financial literacy levels. This survey has provided a useful measurement that has captured and measures the levels of Australia's financial literacy levels as of May 2003 and may provide an indicator from which to work.

### *Question 2.7*

## What information sources do consumers trust?

Educational material or programs must be educationally sound and not overtly commercially oriented. Their purpose should be to impartially inform readers about the various categories of financial service products in a generic manner. This may be achieved without reference to any particular branded product or service.

Educational materials or programs developed in partnerships between corporations, industry bodies, non government organisations (NGOs) and education sectors are usually more effective and add greater value for the community.

For instance, financial services corporations should be developing partnerships with teacher associations and educators to ensure their educational material is educationally sound and able to be readily used.

Anecdotally, evidence suggests that teachers prefer to use unbranded or educationally accredited materials when teaching subjects in a classroom setting. This underlines the need for financial services corporations that have an interest in increasing financial literacy levels in the community need to partner with educational groups and industry bodies. These partnerships will provide more credibility to educational materials or programs that are developed.



## **Are consumers confused by different information on the same issue?**

Yes they are. There is a real need to create and administer a clearinghouse for the educational materials and programs that are available.

Additionally, an essential role of such clearinghouse would be a capacity to assess the educational materials or programs, ensuring that they are educationally sound. For educational materials designed for schools, the clearinghouse could ensure that the materials address the key learning areas of school curriculum.

This will also aid in reducing duplication and provide a more uniform quality and level of the education material and programs that are available. With less duplication of information, educational materials and programs that are used should be more effective.

## **Is information tailored to the learning style of the target audience?**

IAG suggest that consideration be given to the methods of targeting an audience with financial literacy and consumer education information. Good quality educational programs consisting of dedicated educational materials may be developed, and be much more effective, than possibly an advertising campaign.

IAG believes that increasing financial literacy levels across Australia is a long-term objective and will not be effectively addressed by a short-term campaign.

Using real life examples is the best way to educate and improve financial literacy and consumer skills.

Illustrating what to do and what not to do, and more importantly the consequences of consumer decisions, makes for an effective means of conveying the message.

Providing factual information and examples based on real life events may be the best way to address issues such as ad hoc decisions made by consumers without taking proper account of the consequences.

In short, any educational materials, activities and programs developed ought to be relevant, targeting defined community segments and typically long-term.



*Question 3.1*

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

IAG believes that insurance is an important product in the range of available financial services. IAG regards insurance as the ultimate community product; it allows for transferring the risk of an individual by pooling the premiums of many to pay the claims of a few. Because of this, understanding insurance should be viewed as an essential part of financial literacy and consumer awareness.

According to the Insurance Council of Australia's (ICA) survey into non-insurance and underinsurance, approximately 25% of homes in Australia are not insured, and about 40% of homes are underinsured. Refer; [http://www.ica.com.au/publications/noninsurance\\_summ.pdf](http://www.ica.com.au/publications/noninsurance_summ.pdf).

IAG suggests that insurance should be more widely represented in school educational curricula. IAG regards the Taskforce's stated aim of improving the levels of financial literacy and consumer education as critical in assisting the development of a greater understanding of insurance in the community.

**Awareness of the available information and information sources — Do consumers (or teachers and other intermediaries) know what is available?**

With the vast amount of education materials and information available, especially on the Internet, it is becoming increasingly difficult for educators to know what to use and more importantly, what is of good educational quality.

IAG suggest that consideration be given to developing a clearinghouse that can assess educational materials and ensure that these materials address the key learning areas of school curricula. This assessment will aid in increasing awareness of what is available and of what will be relevant for particular audiences.

Teacher professional development is another effective mechanism that can increase the awareness what educational resources are available.



**Access to the available information — Do consumers know how to access information? Are all consumers able to access information?**

There are a variety of ways the community can access good quality educational materials or programs

An initiative that may warrant some exploration is for financial service corporations to explore the opportunity of offering their retail outlets as distribution points for educational materials for the community, particularly for those without Internet access.

However, at least for the initial stages, there should be consideration about developing information that can be downloaded from the Internet free of charge and with relative ease.

Another opportunity worth exploring is the development of a bank of speakers or presenters with a capacity to discuss, face to face with the wider community various aspects of financial literacy and consumer education.

**Efficient allocation of resources — Is consumer education delivered efficiently?**

A clearinghouse could assist in reducing the duplication of educational materials and programs available. This would assist stakeholders to invest in other educational materials or programs that would complement the foundation material.

*Question 3.2*

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

Elements of the Canadian Bankers Associations' financial literacy program provide examples of what can be done. The Canadian Banking Associations' financial literacy program worked with government in directing and managing joint initiatives and included diverse financial services corporations, industry bodies, community groups, educators and NGOs.

Canada's similar geographic attributes with Australia's remote areas and cultural diversity are relevant. Refer;

<http://www.cba.ca/en/viewDocument.asp?fl=6&sl=72&tl=73&docid=430&pg=1>



*Question 4.1*

**Is a coordinating body necessary?**

Yes.

**What functions should it perform?**

IAG suggests that consideration be given to providing a coordinating body with the responsibility of lobbying the Federal and State Education Departments to include financial literacy as a core component of school curricula.

This is a role that cannot be effectively done by any one individual consumer advocate group, industry body or financial services corporation.

Including financial literacy and consumer education related topics in the school education systems is a good starting point. Having financial literacy education being taught through the school system will ensure these skills reach successive generations of Australians.

IAG recommends that financial literacy and consumer education material include material on the importance of asset protection through insurance.

IAG suggest that consideration be given to providing a coordinating body the function of developing and managing a clearinghouse. This would provide the community with an awareness of what educational materials and programs are available and how they can be harnessed.

The clearinghouse could have the added capacity to assess, rate and categorise the educational material and programs being offered.

For educational materials intended for schools, the clearinghouse could be able to clearly assign the Key Learning Area, curriculum strand, (eg Maths, Commerce, Social/Civics Studies), and school year level, (eg Junior Primary to Senior High School and beyond) for which the materials are appropriate.

Without an accreditation function, the materials administered by a clearinghouse may not be as confidently or effectively used by educators.

A good example of an accreditation process is illustrated in the American 'JumpStart' program that focuses on developing financial literacy levels in young Americans, refer; <http://www.jumpstart.org/>



Similarly the British 'pfeg' financial literacy program also provides an example for the Taskforce to consider Refer; <http://www.pfeg.org/>

Creating teacher professional development programs is another important function that a coordinating body should consider specifically. Regardless of how good the educational materials or programs are; if educators do not have the skills, confidence or awareness of how they can better educate their students in financial literacy and consumer education related topics, then little progress will be made.

The proposed coordinating body could actively facilitate and encourage corporations, industry bodies, educationalists and NGOs to work closer together to reduce duplication of educational materials/programs.

Experience from some recent informal forums hosted by IAG attended by various financial sector corporations, including banks and other insurers, highlighted that factors such as branding and ownership of community education programs and materials that corporations develop, are less important than generally believed.

IAG recommend that good quality community education programs and materials be developed addressing financial literacy, this will contribute towards enhancing positive community perception levels of the financial services industry.

In essence, a more informed consumer is able to better interpret information to their advantage. Increased financial literacy and more informed consumer behaviour are essential for Australia's economic and social well-being.

IAG looks forward to actively contributing to this important social initiative. Please free to contact me for any further feedback. My contact details are

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