



ASIC

Australian Securities & Investments Commission

Consumers' understanding of financial information

A presentation by

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Launch of Australian Financial Alert

Australian Stock Exchange, Sydney

Monday 19 April 2004

Good evening everybody.

Firstly, I'd like to offer my congratulations to Jenny and her team on the launch of *Australian Financial Alert*.

Tonight, I've been asked to talk to you about consumers' understanding of financial information, focusing on ASIC's work in relation to financial literacy and disclosure under FSRA. This is a very appropriate topic, given that we are here to mark the launch of this new magazine, which provides consumers with another important source of information about financial products and services.

'Financial literacy' is all about people's capacity to make informed judgements and to take effective decisions about the use and management of money. In other words, it's about making the right choices with money and avoiding expensive mistakes. This is a vital skill in today's world of increasingly complex financial decisions, characterised by such things as easy access to credit, a bewildering array of savings and investment products and compulsory superannuation. At a national level, you will all be aware that savings, superannuation and retirement planning have become important strategic issues for the country as a whole.

In March last year, the ANZ bank launched the results of the first national survey of adult financial literacy in Australia. The survey, which was conducted by Roy Morgan Research, shows that there are strong correlations between those with the lowest levels of financial literacy and people with low levels of education; unemployed or unskilled workers; people on low incomes; and 18-24 year olds and the over-70s.

Of course, that's not to say that everyone else is 100% financially literate. Can everyone here for example, honestly say that they fully understand their annual super statement? Or that they read the credit card terms and conditions when they get a

new card, or an insurance policy from cover to cover and understand all of the exclusions?

The ANZ research found that *all* consumers are concerned about retirement planning and investment fundamentals, but many have difficulty understanding these concepts. To illustrate the point, I'll just quote a couple of the results from the survey. On retirement planning, the survey found, amongst other things, that only 37% of people had actually worked out how much they needed to save for their retirement and only 54% of those with superannuation were aware that it is taxed at a lower rate than other investments. On investing, all of us here know that understanding the relationship between risk and return is the key to sound investment and money management. The survey found that whilst 85% of people *said* they knew that high returns generally meant high risk, when presented with an investment advertised as having a return "well above the market rates at no risk", 47% said they would have made some level of investment.

The costs of low financial literacy are high. As the consumer protection regulator for financial services, ASIC sees numerous instances of consumers who have lost money, often at least partly the result of uninformed decision-making about finances. Research shows that financially illiterate consumers have more difficulty choosing appropriate financial products for their needs; they are more likely to fall victim to scams and rip-offs; and they often respond to financial difficulties in ways that result in even more problems. In Australia, ASIC's investigations into scams have revealed losses of up to \$800 million over the last 3 years, and this is probably a conservative estimate – this may reflect the finding about understanding of the relationship between risk and return. And of course it goes without saying, that for people on low incomes, the costs of financial mistakes are even higher.

So in terms of financial literacy, where does ASIC come in? Whilst most of you will be very familiar with ASIC's roles in relation to regulating the financial markets and taking enforcement action against those who breach the Corporations Act, you may not be aware that another one of ASIC's statutory aims is:

"to promote the confident and informed participation of investors and consumer in the financial system".

In other words, it's part of our job to help consumers and investors to understand financial products and services and to use them with confidence. This is all the more important given the new FSR disclosure requirements which mean consumers will be provided with more information about financial products which they are expected to read and understand. Disclosure as a consumer protection tool, will only serve its purpose if people are actually able to understand the information they are given.

Our long term goal, therefore, is the development of a financially literate community in Australia, where consumers can make informed decisions about financial products and services, and identify and avoid financial scams and rip-offs. ASIC is committed to working to raise standards of financial literacy. We do this through our strategic programme of consumer information and education, which consists of both long-term policy work and developing consumer resources for use now. We have produced numerous materials for consumers – and are working on many more – in a variety of formats and distribute these free through many different channels.

Before I outline some of our most recent initiatives in this area, I should say that it's not just ASIC that believes financial literacy is important. This view is shared by the Commonwealth Government and by many in the finance and investment industry. In February this year, Senator the Hon Helen Coonan, Minister for Revenue and Assistant Treasurer, launched the National Consumer and Financial Literacy Taskforce. The Taskforce is charged with developing a national strategy and coordinating a national approach to the provision of financial information and education in order to help all Australians increase their capacity to budget, save, invest and understand risk. Ultimately, the Government hopes that this work will help to reduce poverty, increase economic opportunity, bolster national savings and create well-informed consumers. I am pleased to represent ASIC on the Taskforce, which is chaired by Paul Clitheroe. Other Taskforce members include educators,

representatives from industry, community and welfare organisations, and small business. The Taskforce intends to release a discussion paper in May this year, and to deliver a final report to the Government in August.

This initiative by the Treasury is a great boost for those of us who have been working in this area for some time now and I know that many in the industry have produced or sponsored some excellent financial education programmes. What has been missing to date is a strategic framework to bring together and therefore maximise the efforts of individual organisations.

In terms of our own work, ASIC released a major Discussion Paper last year about the teaching of financial literacy in high schools. The paper reflected our view that, in order to fully realise our goal of creating a financially literate community, it is important that learning about money management begins at an early age so that every school leaver has the necessary basic skills to become confident consumers in adult life.

We received widespread support for our proposals to incorporate elements of personal finance into the school curriculum, provided such teaching is fully supported by professional development for teachers, good quality teaching resources, public awareness and the involvement of parents. We also proposed the establishment of an independent cross-sectoral body to promote and support the teaching of financial literacy. We proposed that this body could act as a central clearinghouse for accredited financial literacy resources. In this way, it would help prevent a lot of the overlap which can occur when people produce similar resources simply because they don't know what else is out there.

We are pleased that the work involved in preparing our Discussion Paper and all of the invaluable responses we received are being taken into account by the Government in its broader work to boost levels of financial literacy nationally.

As I already mentioned, we also develop and produce a wide range of education and information resources for consumers designed to help them understand financial products and services. Some of you may be familiar with our consumer website, FIDO (www.fido.asic.gov.au) which is our main delivery channel and contains a wealth of information about different financial products, financial tips and safety checks, as well as the latest financial news for consumers. We also produce a range of consumer information booklets, in a number of community languages, which are free of charge and cover topics such as selecting a financial planner, superannuation choices and how to make an effective complaint.

In addition to materials which are relevant to all consumers, we also know it is important to target education messages and campaigns to particular groups in the community if we are going to get our message across effectively. This means tailoring the information we provide, or developing different approaches for different groups, so that they can more easily identify with what we are trying to say or achieve. I'd just like to highlight a couple of things we're doing along these lines.

Last year, I was pleased to be able to launch *Moola Talk*, our first educational resource designed especially for Indigenous communities. *Moola Talk* is a comic featuring Indigenous people in everyday situations. Through the stories in the comic, *Moola Talk* gives practical tips about a range of common financial problems, including credit cards, warranties, budgeting, PIN numbers and insurance. It's designed to make people more aware of their rights and responsibilities as consumers, and to feel more in control of their finances. For example, one character, Alison, tells her Aunty not to tell anyone her PIN number even if people are humbugging her for money. Another character, Paul, gets help with budgeting for a car loan, taking into account time off work for sorry business and family business.

In developing *Moola Talk*, we carried out extensive research with local Indigenous leaders and communities in Alice Springs and Bourke and Brewarrina. The research identified all of the issues which are now covered in the comic.

Moola Talk has been a great success and we've found that its colourful format has been hugely popular with all consumers. So much so, that we're currently working on another comic, this time targeted at young people from 14-18 which will also cover financial issues especially relevant to that age group. Research, including some recent work commissioned by the NSW Office of Fair Trading, tells us that young people experience money problems with mobile phone debts, credit cards, and car finance in particular. The new comic, which we plan to release in June this year, will address all of these issues and we hope it will be as popular as *Moola Talk* has been.

This new comic will not be the first campaign we've directed specifically at young people. Research suggests that one of the best ways that young people pick up new concepts is through competitions. I'm sure many of you are familiar with the very successful *ASX Stockmarket Game* that teaches students the basics of share investment in a practical way by getting them to "trade" with an imaginary \$50,000. This has been running for many years now and is extremely popular.

At ASIC, we're currently running a schools competition for students in Years 9 and 10 in the Northern Territory for the first time this year. The aim of the competition is to design a poster with a slogan that conveys a consumer protection message, such as how to use money wisely or how to avoid getting ripped off by a financial scam. Students are encouraged to come up with their design by reading the *Moola Talk* comic or by visiting FIDO, or with ideas from any other relevant information source.

The competition encourages students to think about money matters at an age when many will soon be receiving their first income from part-time work and making their own financial decisions. It will also promote awareness of consumer rights and responsibilities in financial matters. There will be six winners – one from each of the NT's education regions, each of whom will win \$1,000 for their school and \$200 for themselves. Hopefully, the winners will apply some of the saving and spending tips they've learnt about in entering the competition!

There's been lots of interest in the competition so far, and we're hoping as many students as possible will enter. We plan to display the winning posters at ASIC offices around the country.

I hope that this has given you some idea of the importance that ASIC attaches to raising levels of financial literacy in the community. We recognise that this is a long term goal and that there are many challenges involved, not least getting material into the hands of people who need it and actually getting them to be interested enough to read it when they receive it. This is why we use the targeting approach I outlined above, and also why we try to come up with different or innovative ways of getting the message across. Together with the Government, industry, consumer groups and the education sector, we will continue to work towards improving consumer confidence and understanding of financial products.

That said, it would be wrong to suggest that ASIC sees financial education as the ultimate panacea for all the problems people experience with their finances or the solution to all of the consumer complaints which are made each year. (Last year, the independent complaint schemes reported over 10,000 complaints between them, and that doesn't take account of the ones that don't make it that far.)

Whilst it is essential that we raise levels of understanding, education is not a substitute for effective disclosure, regulation and – where necessary – enforcement.

I'd just like to talk about one of these – disclosure – since it is intrinsically linked to people's ability to understand the information they are presented with. Effective communication about financial products and services needs to be addressed at both ends. Whilst we need to work to raise people's ability to understand their finances, that does not do away with need for industry to ensure that product information is not overly complex and as easy to understand as possible.

I'm sure I don't need to remind any of you about the importance that FSRA places on product disclosure in introducing a single disclosure regime for all financial

products. One of the central aims of the FSR disclosure regime is to ensure consumers have sufficient information to help them make informed choices when considering the purchase of financial products and services. The law states that the information contained in disclosure documents must be worded and presented in a clear, concise and effective manner.

We are aware that some licensees are finding difficulty in producing documents that satisfy these requirements. Some industry participants have told us, for example, that their lawyers are advising them to produce Statements of Advice running to 80 or 90 pages in order to comply with the requirements of financial services regulation. This is not what we would expect to see under the law, and it is not helpful to consumers. ASIC sees disclosure under the new law as a consumer-centric regime focussing on the consumer's information needs. We discourage licensees from providing their clients with documents that are overlong long and contain unnecessary information.

We know this is a difficult area and we do understand that many financial service providers will take a conservative approach and produce documents which are "boiler plate". It is important, however, that we get the balance right between providing all the information that the client needs with the requirement for the information to be clear, concise and effective.

We have already issued guidance about disclosure documents – namely the Financial Services Guide, Statements of Advice and Product Disclosure Statements – in Policy Statement 168, Disclosure: Product Disclosure Statements and Policy Statement 175 Licensing: Financial Product Advisers – Conduct and Disclosure. Policy Statement 168 sets out the Good Disclosure Principles, which are designed to help industry produce clear, concise and effective documents that satisfy statutory requirements. The Principles suggest that the most important information in a disclosure document should be highlighted; all relevant information should be presented together or effectively cross-referenced; and industry and legal jargon that consumers do not understand should not be used.

In our view, the law is clear. However, if product issuers and advisers believe they need to produce overly complex documents in order to comply with the law, ASIC is prepared to consult with them and issue further guidance. On this, we have already begun to consider options that will help the industry tailor documents to the particular information needs of their clients. For example, we are considering the extent to which disclosure documents provided to existing clients can 'incorporate by reference' information previously provided to the client. We will also offer to work with industry to assess the feasibility of publishing constructive examples of disclosure that is clear, concise and effective. These are the sorts of issues we will consult on going forward.

To conclude then, I'm sure you will agree with me that it's vitally important that we work to raise levels of financial literacy. This has benefits for everyone concerned, consumers, the industry and Government. At the same time, it's important that consumers are provided with information about the products and services they buy which meets the legal requirements and helps them make the right choices.

Thank you.