



ASIC

Australian Securities & Investments Commission

Keynote address

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Introduction

Good afternoon, ladies and gentlemen.

I would like to talk about ASIC's initiatives in Australia, to improve people's financial wellbeing through investor education and behavioural change. We have designed dynamic investor education tools and programs for all stages of life.

Today, I would like to cover:

- financial education for children and youth
- programs for people in their working years
- programs to meet the needs of pre-retirees and retirees.

However, before I begin, it's worth noting IOSCO's actions in this space. IOSCO has convened a new Committee on Retail Investors. It's charged with conducting IOSCO's policy work on retail investor education and financial literacy. The Committee will also be a forum to share experiences and develop approaches on investor education and financial literacy.

Coordinating our approach to investor education is important, and IOSCO is well placed to undertake this role. But let's take a step back, and think about the big picture.

Why is investor education fundamental to an efficient and effective financial market?

There are three essential components to having a financial market that is efficient and effective. You can think of it as a three-legged stool. You need:

- a robust regulatory framework that is enforced effectively
- a competitive financial services industry that offers quality products and services, and finally
- investors who feel confident when participating in the market, and are able to make sensible and informed financial decisions.

If one of the legs is missing, the stool will fall over – the market won't be efficient and it won't deliver benefits for the community. And how do we ensure that investors are confident and informed when they participate in the financial markets? Through investor education.

I hope this puts into context how important investor education is. It forms one of the three pillars of our financial markets. It's in the interests of industry, regulators and government to have effective investor education programs. In fact, ASIC's first strategic priority is to ensure financial consumers and investors are confident and informed.

Investor education should not be a mere afterthought that complements our activities as a regulator. We need to think of the big picture (the three-legged stool) and ensure investor education gets the focus it deserves.

In Australia, we are very aware of this. We set a high priority on our financial education work. To give you a bit more context, ASIC has been given national responsibility for financial literacy since 2008.

We have developed an Australian Financial Literacy Strategy, which is a collaborative effort that leverages off partnerships between many agencies and organisations. Our strategy is to improve the financial knowledge and skills of Australians; but, more importantly, to change their behaviour.

Doing this is a long-term initiative that requires a sustained commitment. When allocating resources, it's important to consider:

- what will create broad-based generational improvements
- which groups in society need the most assistance
- what issues are causing the greatest problems.

At ASIC, we've based our work on extensive research about what Australians know and don't know about financial matters, and how they behave. People do not naturally behave like calculators or economic robots; they behave like people. And people have limited time, personal quirks and are driven by emotion. Simply providing information, even if it improves knowledge, is unlikely to change most people's behaviour.

So we have to identify and adopt techniques that maximise the probability of behavioural change. We've found the key is to motivate people to take action, and then give them practical steps they can easily take.

I'd like to take you through some of our initiatives for each stage in life.

Financial education for children and youth

Improving the financial literacy of a community will take at least a generation. In Australia, our work is not just with the adults, it's with the next generation – our children.

MoneySmart Teaching

We are currently piloting a national program to teach financial literacy in our schools. It's called MoneySmart Teaching.

We need to teach our kids the knowledge and skills to establish good financial habits into adulthood.

It's particularly important as young Australians are growing up in a rapidly changing world of personal finance, where decisions are more complex and it's easier to fall into debt.

ASIC and the financial services industry have worked together to get financial literacy embedded in the Australian school curriculum. We have embedded financial literacy topics within maths, English and science subjects. Business and economics is also becoming a compulsory subject for children in Years 5–8 as well as being an elective in later years.

ASIC's MoneySmart Teaching program provides professional learning for teachers, and online resources for teachers to use in the classroom. Over 90 schools have been trialling the program. Over 8,000 teachers have been trained so far. They will teach 200,000 students, and our ambition is to go much further. The activities start from age five (when they learn about the difference between needs and wants) through to age 15 (learning about markets and entrepreneurship).

Banks are also keen supporters of financial literacy in schools, with professional classroom presenters and online games.

Programs for people in their working years

But we know that learning is not confined to childhood or the classroom. People learn throughout their lives, and content and delivery channels must match the different audience needs and different life stages.

Our research has found, people are motivated to look for information when their life circumstances and goals are changing. For example:

- getting their first job
- getting married
- having a baby
- buying a house
- getting divorced
- losing a job
- approaching retirement.

We aim to deliberately catch people at these financial turning points. This is part of what we've learnt from behavioural economists and social marketing experts. The best triggers for changes in behaviour are techniques that reach people at 'teachable moments' and focus on real goals. This is because people are most motivated to change when they have a personal goal in mind.

So we present material in different ways – case studies, video, audio – so people absorb the information in the way that best suits them. We make the behavioural change easy, by helping people down the path they need to take.

MoneySmart website

I'd like to show you our consumer website, MoneySmart.

Here are some key statistics to give you an idea of the reach and impact of our website, which is just two years old:

- each month ASIC's MoneySmart website helps around 300,000 Australians

- according to Google analytics, we have reached almost 5.5 million people in just 2 years – this is in a country of 23 million people
- our three smartphone apps have been downloaded 320,000 times
- our 246 videos have been viewed over 100,000 times
- we distribute 300,000 printed publications each year.

But the most important statistic is that 90% of our visitors say they have taken specific action with their finances as a result of visiting MoneySmart. Ninety percent. Education is effective when it leads to action.

Tools and apps

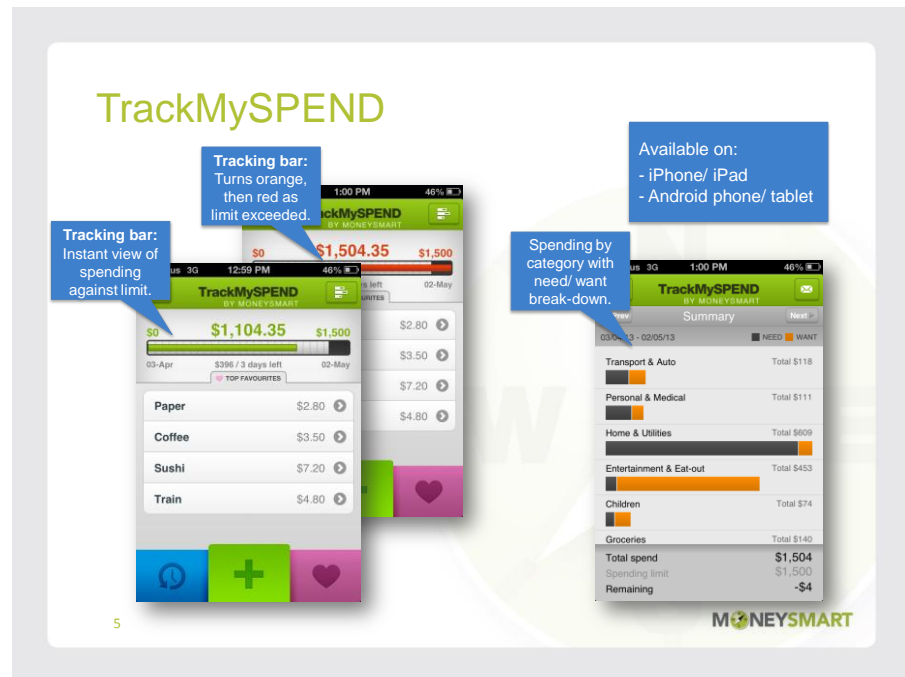
The website has tools and calculators that are highly interactive and personalised, so as to maximise return visits. Users can log in and save and retrieve their results for many of the calculators, which encourages repeat use and a commitment to an ongoing program of money management.

A good example of one of the tools is the ‘money health check’. The money health check helps people identify the areas where their finances are not in order. It lets them take away and print out the top five actions they should take to address these areas. It’s available as a smartphone app.

We also have a suite of tools and advice about budgeting and saving. They are relevant to investing because, unless people spend less than they earn, they will not have the capacity to invest.

Have a look at our popular ‘TrackMySPEND’ app. Many people don’t know where their money is spent. This app helps the user set a realistic spending

limit and stick to it. Expenses are entered by category to ensure the user's money goes towards the things that are important. It gives them an up-to-the-minute snapshot of their spending habits so they can stay within their budget.



Investor education material

The MoneySmart website also has investor education material, to help investors understand the basics of investing and manage risk in a way that suits their risk tolerance and investment goals. We explain the trade-off between risk and return, and the importance of diversification.



We chose the ‘Investing between the flags’ metaphor because it is well understood by most Australians – it’s based on the ‘Swimming between the flags’ safety message that is familiar to all Australian beachgoers.

This metaphor might not resonate with the public in Toronto (on Lake Ontario), but in Australia (given our surf, sharks and life savers) the ‘Swimming between the flags’ metaphor carries a strong association with safety and risk reduction.

MoneySmart also features simple explanations of the features and risks of products such as exchange traded funds (ETFs), contracts for difference (CFDs) and hybrids, so that investors can decide whether or not these products are suitable for them.

We use case studies of people’s experiences with different investments and show videos about practical issues such as how to read a prospectus, and what to consider if thinking about investing in debentures. We find that, for novice investors, personal stories are more effective in conveying messages than dry facts.

The website has won awards for being ‘best in breed’. I would encourage you to take a look: www.moneysmart.gov.au

Programs for pre-retirees and retirees

Many of our investing messages are aimed at pre-retirees and retirees. They are most likely to be making investment decisions, and at their time of life it is very difficult to recover from a bad investment decision. It’s tragic when retirees lose their life savings.

We have specific content and publications to help people make good retirement income choices, including a guide to planning for retirement and information about how to get good financial advice.

As I mentioned earlier, ASIC’s MoneySmart website is deliberately structured to make behavioural change easy for people – that is, we take people one step at a time. We give information in digestible chunks, and then encourage people to take action, not just ‘be aware’.

Retirement planner

One of our most popular tools is the retirement planner. This is also our most sophisticated tool. This tool is equally applicable to young adults as it is to people approaching retirement.

Retirement planner

First name (optional)

Sex Male Female

Age

Retirement age

Annual income (before tax)

Current super balance

Employer contributions (If self employed choose 0%)

Do you make extra super contributions? Yes No

Are you a home owner? Yes No

Do you have a partner? Yes No

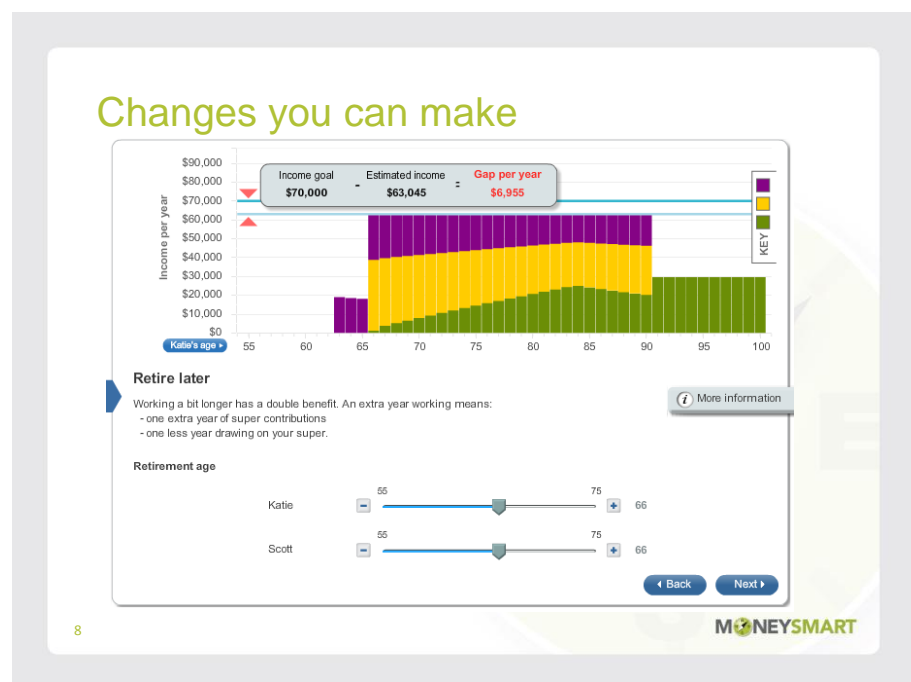
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MONEYSMART

This tool starts by asking a few questions about a person's situation. It then gives them key insights into their situation such as:

- their life expectancy (people aged 60 have an average life expectancy of around 87); and
- their projected retirement income in dollars per year, taking account of both their retirement savings and government benefits.

It then shows the gap between their income goal and what they can expect to receive based on ASIC's forecast.



The planner takes the user some options to improve their retirement income, such as:

- contributing more in retirement savings
- paying less fees
- changing their investment options, or
- delaying retirement.

It also shows how they can adapt to reality, by:

- lowering their income goal, or
- planning to spend less in the early years of retirement.

People can explore the impact of these changes within the calculator, and see the difference each change makes to their retirement income. This is a powerful motivation.

When they reach the end, we give them one final ‘nudge’ – they get an action checklist that shows them what they need to do to carry out each action they identified. They can also print out a letter to give the human resources (HR) department at work, with instructions on how much to take out of their pay to go into retirement savings.

Action checklist

Katie and Scott's action checklist

Summary

Income goal: \$94,000 Estimated income: \$43,519 Gap: \$50,481	The changes you made: <ul style="list-style-type: none"> • Contribute more to your super • Check fees • Check investment options 	New goal: \$70,000 Potential income: \$63,045 New gap: \$6,955
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Action checklist

Contribute more to your super

Contact your payroll office to setup your super contributions. The following smart mix of payments will give your super the biggest boost:

You contribute: \$152 per fortnight before tax (salary sacrifice) \$0 per fortnight after tax	Scott contributes: \$0 per fortnight before tax (salary sacrifice) \$0 per fortnight after tax
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Use the 'how to' steps on setting up super contributions for help on how to make this happen

Check fees

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MONEYSMART

Conclusion

ASIC takes our role in investor education very seriously, and we're encouraged by the fact that our MoneySmart website has won several awards

for excellence in service delivery and interactive media. From a total of 200 investor protection sites ranked by IOSCO, it was one of 10 sites that was rated 'outstanding' and given a 5/5 rating.

As I mentioned previously, it's in everyone's interest that investors are confident and informed when participating in the financial markets. Lifting financial literacy standards means people have more informed interactions with industry and fewer complaints about unmet expectations. Industry can play its role in promoting financial literacy by sponsoring initiatives, but also by helping their own employees manage their money, including pay, superannuation and other benefits. Reducing employees' stress about personal finances can improve productivity, and increase employee satisfaction with their employer and their career.

To reiterate, investor education is a critical part of having an efficient financial market (the three-legged stool). You need:

- a robust regulatory framework that is enforced effectively
- a competitive financial services industry that offers quality products and services, and finally
- investors who feel confident when participating in the market, and are able to make sensible and informed financial decisions.

Investors need to be empowered with the necessary tools and resources in order to feel confident and informed.

In Australia, ASIC's investor resources provide independent and trustworthy guidance. But they don't just tell, they motivate and prompt people to action. They catch people at financial turning points, give them the tools, and make the behavioural change easy.

It's not only about increasing knowledge – we aim to help and empower people to take action and achieve a greater financial wellbeing. The end goal is financial literacy coupled with behavioural change, because that's what will make the difference.