



Brotherhood  
of St Laurence

Working for an Australia free of poverty

# Submission to ASIC National Financial Literacy Strategy 2014–16

Brotherhood of St Laurence

June 2013

Brotherhood of St Laurence  
67 Brunswick Street  
Fitzroy Vic. 3065

ABN 24 603 467 024

[www.bsl.org.au](http://www.bsl.org.au)

For further information or to discuss this submission, please contact:

Tony Robinson  
Senior Manager, Financial Inclusion  
Brotherhood of St Laurence  
Email: [trobenson@bsl.org.au](mailto:trobenson@bsl.org.au)  
Ph: (03) 9445 2425

## Summary of recommendations

- 1 That the proposed definition of financial literacy be amended to:

a combination of financial awareness, knowledge, skills, attitudes and behaviours necessary to make sound financial decisions *through life* and ultimately achieve individual financial wellbeing.
- 2 That ASIC work with state consumer agencies to ensure a more consistent and direct linkage of their respective websites.
- 3 That ASIC facilitate the automatic linking of its MoneySmart e-newsletter service to financial literacy program participants.
- 4 That ASIC continue to support asset-building programs as an element of Australia's National Financial Literacy Strategy.
- 5 That the National Financial Literacy Strategy include a focus on ways in which insurance products can be made more affordable for low-income Australians.
- 6 That the Australian Prudential Regulatory Authority (APRA) instigate the collection of hardship claim data from superannuation funds, with a view to identifying common factors and developing evidence-based support programs that might assist in reducing the incidence of these claims.
- 7 That ASIC support the establishment and maintenance of forums that will facilitate discussion of issues relevant to the National Financial Literacy Strategy.

## Introduction

The Brotherhood of St Laurence (BSL) is an independent non-government organisation with strong community links that has been working to reduce poverty in Australia since the 1930s. Based in Melbourne, but with a national profile, BSL continues to fight for an Australia free of poverty. We undertake research, service development and delivery, and advocacy with the objective of addressing unmet needs and translating the understandings gained into new policies, new programs and practices for implementation by government and others.

BSL promotes social inclusion through the development of effective financial inclusion programs for low-income Australians, as well as advocacy for policies and programs that enable the building and protection of assets over the life course.

To this end BSL recognises that access to fair and affordable credit and financial services allows Australians to take advantage of both economic and social opportunities. For a large number of Australians access to these services and products is limited. Whether a result of family disruption, low levels of education, a poor credit rating or a lack of work, financial exclusion can have extremely serious consequences.

## Current BSL activity

BSL is involved in a number of relevant activities. Chief among these is the Saver Plus program, a unique partnership with ANZ that enables Australians on low incomes to participate in a matched savings scheme. For many participants the program represents the first time in their lives they have ever set and worked towards a savings goal. The program results are highly impressive. Research undertaken in 2011 indicated that a year after completing the program:

- 87% of participants reported saving as much if not more
- 85% of participants felt more in control of their finances
- 81% of participants had encouraged their children to save
- 78% of participants felt better able to make ends meet
- 70% of participants reported increased savings and assets
- 93% of participants reported higher self-esteem.

BSL is also involved in providing ANZ's financial literacy program, Money Minded. The program provides ten hours of instruction for participants and assists them in developing awareness and skills about financial management.

BSL also remains involved in the No Interest Loans Scheme (NILS) which is offered at our Frankston office. BSL currently manages around 100 NILS loans.

BSL has recently embarked upon two further initiatives. The Aged Care Financial Health Care Project aims to provide assistance to older Australians living at home who experience difficulty in making informed financial management decisions. As more Australians grow older and remain living at home, BSL believes this pilot project will help identify ways in which a service of this kind can meet expected future rising demand.

Decisions about energy use are also increasingly impacting on the financial health of households as both energy prices and marketplace competition increase. BSL has received Commonwealth

Government funding to assist 1400 low-income Victorian households to upgrade their hot water services to more energy-efficient systems and, through the program, identify behavioural responses to subsidy levels. The Home Energy Efficiency Upgrade Program is anticipated to run for three years.

BSL's advocacy objective is served through membership of forums including the ACCC's Consumer Consultative Committee and the Australian Financial Inclusion Network.

## National Financial Literacy Strategy responses

### Defining financial literacy

There are numerous ways of defining financial literacy, just as there are countless ways of defining financial inclusion and exclusion. The OECD defines financial literacy as:

the knowledge and understanding of financial concepts, and the skills, motivation and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial wellbeing of individuals and society, and to enable participation in economic life.

BSL believes that a broader definition of financial literacy better fits the range of circumstances Australians face through life in which greater familiarity with financial services and products is needed to realise economic and social goals.

In its Consultation Paper, ASIC proposes that the definition of financial literacy be altered to:

a combination of financial awareness, knowledge, skills, attitudes and behaviours necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.

BSL supports this definition of financial literacy as it links knowledge with decision making and life outcomes. We believe such a definition more accurately reflects the way in which financial inclusion helps define social inclusion. However, we would encourage a minor amendment in recognition of the recurrent need to make judgements through life in respect of financial matters.

### Recommendation 1:

**That the proposed definition of financial literacy be amended to:**

**a combination of financial awareness, knowledge, skills, attitudes and behaviours necessary to make sound financial decisions *through life* and ultimately achieve individual financial wellbeing.**

### Key issues in shaping the 2014–16 strategy

In shaping the 2014–16 strategy, ASIC needs to take account of:

- the likelihood of reduced federal government budget outlays
- continuing high levels of high financial vulnerability
- the ageing and increasingly single population
- the growing strength of superannuation funds as financial institutions.

Even as the Australian economy continues to outperform most of the developed world, the National Financial Literacy Strategy will be shaped by key changes within Australia.

Significant attention will be paid to budget management during the 2013 federal election campaign. There will be a renewed focus on reducing the current budget deficit regardless of the election outcome, a consequence of which will almost certainly be a reduced capacity to fund financial inclusion programs. For the strategy to be successful up to 2016, ASIC cannot presume that government investment in relevant programs will increase.

At the same time significant levels of financial exclusion will remain in Australia. BSL believes the NAB Financial Exclusion Report series is a good guide to the vulnerability of Australians to financial exclusion. Using a transaction account, general insurance and access to a reasonable amount of credit as its three key indicators of financial inclusion, the report found 17.7% of Australians were totally or severely financially excluded.

A continuing feature of the Australian economy will be the superannuation industry, based as it is on the mandated obligation of employers to make contributions to their employees' superannuation accounts. Data from the Australian Prudential Regulation Authority (APRA) indicates continuing strong growth in the volume of superannuation funds under management. Recent legislative changes in respect of superannuation are also likely to generate increased competition for membership. Over the next few years, mergers of funds are likely to continue, possibly even accelerate.

Australia's ageing population presents diverse challenges to policy makers. The Australian Bureau of Statistics reports that:

In the 12 months to 30 June 2010, the number of people aged 65 years and over in Australia increased by 97,600 people, representing a 2.4% increase [while] the number of people aged 85 years and over increased by 20,900 people (5.3%) to reach 415,400 (ABS 2011, *Australian Demographic Statistics, June*, cat. no. 3101.0)

Of these older Australians more will be living alone. The Australian Institute of Family Studies has noted that:

There has been a steady increase in the percentage of lone person households and the number of people living on their own. [There has been] a steady increase in lone person households from 21.1 per cent in 1991 to a quarter of all households in 2001. This increase is likely to continue and has been projected by the Australian Bureau of Statistics to reach 30.2 per cent of all households by 2026 (AIFS 2009 *Diversity and change in Australian families*, <<http://www.aifs.gov.au/institute/pubs/diversity/09livingalone.pdf>> ).

Many of the older Australians living alone will have the capacity to confidently manage their finances. Others, particularly those who used to rely on partners who predeceased them, will likely find these tasks challenging and confusing.

## Coordination with other relevant national policies, programs and services

ASIC's current financial literacy strategy aims to keep consumers informed and confident. These are worthy aims. BSL believes that as a centrepiece financial literacy resource ASIC's MoneySmart web site should be given greater prominence by relevant state agencies. A recent brief BSL survey indicates more needs to be done in this respect. Entering 'MoneySmart' into the search engine of four state consumer agency websites reveals a diversity of information sources:

- Victoria – a search for MoneySmart did not generate any links to the ASIC site.
- New South Wales – searching for MoneySmart produced a link to the ASIC MoneySmart site, followed by eight other websites.

- Queensland – the Queensland Office of Fair Trading web site search engine directed MoneySmart inquiries to the ASIC site via a *Get Out There* e-newsletter, a resource targeted towards young adults.
- South Australia – the South Australian Consumer and Business Services site search engine provided no direct link to the ASIC MoneySmart site.

The ASIC Consultation Paper rightly notes that progress has been made since 2011 in developing trusted and independent information. However, consumers across Australia would benefit further if established consumer agency information channels consistently directed financial advice inquiries to the ASIC MoneySmart web site. A relatively simple means of achieving this would be the inclusion of the MoneySmart icon as a feature on all consumer agency websites.

BSL also believes that the financial literacy levels of low-income Australians could be enhanced by integrating ASIC's MoneySmart service into financial literacy programs such as Saver Plus. After up to twelve months of contact with a program worker, including ten hours of contact with the manager and others through the program's Money Minded component, clients exit with higher levels of knowledge and enthusiasm about their financial future. At that point, however, contact with program clients ends.

Clients of financial literacy programs such as Saver Plus are encouraged to take advantage of the numerous sources of advice available free of charge but it is unclear how many actually subscribe to information services thereafter. This discontinuity of advice could be addressed by introducing an automatic pathway from programs to the MoneySmart e-newsletter service. Integration would increase the opportunity for the enhancement of knowledge gained through the financial literacy program. Establishing a direct ongoing link between financial literacy programs and the MoneySmart service would also enhance ASIC's role in respect of financial literacy, as well as providing additional valuable support for low-income Australians.

**Recommendation 2:**

**That ASIC work with state consumer agencies to ensure a more consistent and direct linkage of their respective sites.**

**Recommendation 3:**

**That ASIC facilitate the automatic linking of its MoneySmart e-newsletter service to financial literacy program participants.**

## Strategic goals for 2014–16

If the 2014–16 strategy is to build on the existing one, BSL believes the following strategic goals should be considered:

- Further develop the quality and relevance of financial information and resources.
- Harmonise the financial information and resources provided by different public sector agencies and authorities.
- Pay special attention to the immediate post-secondary education life stage.
- Identify those non-government institutions that could play a greater role in promoting financial literacy to members.

The need to continuously develop financial literacy resources is self-evident. Consumer behaviour continues to change in response both to new products and services and to changing economic circumstances. Higher savings rates today are no guarantee of higher savings rates in future. It is vital that resources are refined and developed to take account not only of research but changing market conditions. For example, as the property market resumes higher levels of activity, there needs to be greater focus on the risks associated with speculative property investment.

ASIC's work in incorporating financial literacy into the Australian school curriculum is commendable. This ensures that Australians leaving school are more aware of the need to exercise care in financial matters. Their level of awareness at this stage, however, does not necessarily mean that their consciousness, confidence and capability in respect of financial matters progresses steadily from that point.

The 2011 ANZ Adult Financial Literacy Survey identified that lower levels of financial literacy exist among Australians aged under 25 with no formal post-secondary education. The survey also identified low levels of income and assets, and blue collar occupations as markers of lower financial literacy. (*ANZ Adult Financial Literacy Survey 2011*, pp. 13–15).

The finding suggests that while a school environment can provide guidance to young Australians, the post-secondary schooling environment can be less supportive. Identifying ways to promote financial literacy among this age group would reinforce the curriculum changes now being embedded, and provide valuable support to a cohort of Australians identified as most vulnerable in respect of their financial decision making capacity.

Harmonisation of financial information and resources provided by public sector agencies is also worth considering as a strategic goal. The brief survey undertaken as part of this submission demonstrates that even among leading consumer protection agencies there are no clear and consistent pathways to relevant information. Inviting public sector agencies with an interest in information provision to propose how high-quality information sources can be harmonised would be a useful step in pursuit of this goal.

While ASIC as a public sector agency has responsibility for developing and implementing the National Financial Literacy Strategy it does not follow that the opportunity and responsibility to promote financial literacy lies only in the public sector. The vast majority of financial transactions undertaken in Australia instead involve private sector institutions. Some of these institutions, such as superannuation funds, have substantial scope for promoting financial literacy. Industry superannuation funds, in particular, often represent lower paid workers who are disproportionately

numbered among financially vulnerable Australians. As entities that were established explicitly to provide retirement savings for members, superannuation funds are in an excellent position to assist members in developing skills, capacity and resilience, outcomes that contribute to asset building for retirement. BSL believes that more could be done by superannuation funds to strengthen financial literacy provision in Australia.

## Key focus areas under the 2014–16 strategy

### 1 Asset building programs

BSL strongly supports asset building as a key focus in the 2014–16 strategy.

As the world's longest running and largest matched savings program Saver Plus has made a very significant impact in the lives of thousands of Australians, many of whom have for the first time set themselves and achieved a savings goal. Asset-building programs like Saver Plus are built on the innate human desire to improve one's circumstances, and the even stronger instinct to make personal sacrifices and change behaviour for the benefit of dependent children.

The example set by a saving parent for children should not be underestimated. In its Big Money Index Report earlier this year, AXA reported that:

When asked why some people struggle to stay afloat and manage their finances, almost half of respondents (49%) said it's because people weren't taught money management by their parents (p. 9).

Interestingly, of the same group a markedly lower proportion (38%) suggested the people were not taught money management at school.

These findings, while not derived from Australian consumers, nonetheless highlight that financial literacy within the formal education sector has a role to play in upskilling Australians. The success of the Saver Plus program represents a substantial step forward for financial literacy and it is vital that this advance be built on in the next iteration of the national strategy.

#### **Recommendation 4:**

**That ASIC continue to support asset building programs as an element of Australia's National Financial Literacy Strategy.**

### 2 Insurance

BSL believes that insurance provision should be another focus in the 2014–16 strategy.

In a 2011 study of insurance cover among low income Australians, BSL identified that 79% of Progress Loans clients and 32% of low-income Australians did not have home contents insurance. The same study found that 26% of Progress Loans clients who owned a vehicle reported no car insurance (Collins 2011, *Reducing the risks: improving access to home contents and vehicle insurance for low income Australians*, BSL).

An earlier BSL study of the insurance coverage of 126 individuals, 80% of whom were in receipt of Centrelink benefits, found 55% lacked home contents and vehicle insurance. (Sheehan & Renouf 2006, *Risk and reality: access to general insurance for people on low incomes*, BSL)

This finding was reinforced by the 2011 ANZ Financial Literacy in Australia survey which found that one in five Australian home-owners did not have building insurance while one in four home-owners and renters lacked contents insurance. Insofar as other insurance products was concerned:

79% (not significantly different from 80% in 2008) of those who either owned or who were purchasing their home had building insurance and 75% (not significantly different from 74% in 2008) of those who owned, who were purchasing or who were renting their home had contents insurance. Both types of insurance were less likely to be held by people under 35 years of age and by those with personal incomes of less than \$65,000 (*ANZ Survey of Adult Financial Literacy 2011*, p. 83)

Clearly the vulnerability of low income Australians to financial shock is exacerbated where insurance coverage is not maintained on home, contents and motor vehicles. At the same time the cost is frequently nominated as a reason that coverage levels are not higher. Identifying affordable ways in which greater insurance cover could be achieved would undoubtedly lessen the vulnerability of many lower income Australians, and BSL believes this warrants a strategy focus in 2014–16.

#### **Recommendation 5:**

**That the National Financial Literacy Strategy include a focus on ways in which insurance products can be made more affordable for low-income Australians.**

### **Resource needs in support of key actions**

The ability of a refreshed National Financial Literacy Strategy to inform Australians, build confidence and influence behaviour depends largely on the extent to which the strategy is complemented with program funding.

Federal funding for programs which support the National Financial Literacy Strategy is currently largely derived from ASIC and FaHCSIA. Neither of these funding sources can be guaranteed beyond the short term.

BSL believes that to be fully effective program funding in support of the National Financial Literacy Strategy needs to be:

- coordinated by ASIC as the agency that carries responsibility for the strategy
- consistent, allowing a higher degree of confidence that the strategy's aims can be realised
- sustainable, preferably generated in ways that do not impact on the capacity of ASIC or the federal government to meet other budgetary obligations.

### **Priority community segments**

BSL's traditional focus is Australians living in poverty. However, BSL acknowledges that beyond this group there is a larger cohort of vulnerable Australians at risk of falling into poverty due to their precarious financial position, shaped in part by their lack of access to mainstream financial services. It is this group that BSL believes should be given greater priority in the 2014–16 period.

The NAB Financial Exclusion Report series uses the absence of financial services products as an indicator of full exclusion, and access to only one service as a marker for severe exclusion. NAB's 2013 report estimates that 194,000 Australians are completely excluded and a much larger group of 3.1 million are severely excluded.

The report uses a transaction account, general insurance and access to a reasonable amount of credit as its three key indicators of financial inclusion. Of those Australians found to be totally and severely financially excluded (17.7%) the vast majority were so classified because they had no access to a reasonable amount of credit and no general insurance (16.4%).

The NAB report identifies a large group of lower income Australians who are vulnerable to financial shock. The group is similarly identified through superannuation account holder data.

Of some 2 million active superannuation accounts in the accumulation phase in mid 2007, ABS data indicates that 29% held less than \$10,000. Of account-holders under 35 years of age, 49% had accounts of less than \$10,000 (ABS 2009, *Employment arrangements, retirement and superannuation, Australia, April to July 2007* (re-issue), cat. no. 6361.0). The \$10,000 limit is significant because it represents the maximum withdrawal amount allowable in hardship circumstances.

The indicators suggest that a significant number of Australians each year are experiencing financial hardship leading them to access funds designed to be preserved until their retirement. Access undoubtedly assists in resolving immediate financial problems but inevitably undermines the capacity of many claimants to withstand longer term financial pressure.

BSL believes that greater attention needs to be given to the reasons why Australians are seeking early access to retirement funds with a view to further developing relevant support programs aimed at lessening the incidence of hardship applications. To this end the Australian Prudential Regulatory Authority (APRA) should collect and publish data relating to hardship claims.

#### **Recommendation 6:**

**That the Australian Prudential Regulatory Authority (APRA) instigate the collection of hardship claim data from superannuation funds, with a view to identifying common factors and developing evidence-based support programs that might assist in reducing the incidence of these claims.**

## **Partnerships**

BSL supports measures that will encourage more partnership formation, particularly between not-for-profit agencies and the corporate sector.

Partnerships are attractive because they can enable intellectual and financial resources to be applied to identified problems in a disciplined environment, thus maximising the chances for productive outcomes.

BSL's experience of partnering with the ANZ over recent years in the development of Saver Plus has been very positive and provides a platform for discussions and further innovation.

BSL believes that ASIC's best contribution to further partnership formation is through the establishment and maintenance of forums dedicated to discussion of issues relevant to the financial inclusion strategy. Such exchange of ideas gives rise to consideration of how partnerships might help address identified shortfalls in product and service delivery.

#### **Recommendation 7:**

**That ASIC support the establishment and maintenance of forums that will facilitate discussion of issues relevant to the National Financial Literacy Strategy.**