



# Financial Literacy Australia

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Financial System Inquiry  
GPO Box 89  
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Dear panel members,

## **SUBMISSION TO THE FINANCIAL SYSTEM INQUIRY**

We thank you for the opportunity to provide a submission to the Financial System Inquiry.

This submission argues:

- A financially literate population is essential to the proper functioning of Australia's financial system.
- A 'lack of information' is not the barrier to improving financial literacy in Australia; 'engagement' is the key challenge.
- Until such time as financial literacy is a ubiquitous part of the school curriculum, the majority of Australians will not have had the benefit of developing financial skills in a formal education setting.
- It is essential that a concerted, long-term national effort be supported to engage Australians with their finances (MoneySmart Week plays a key role in this effort).

## **Background**

Financial Literacy Australia Limited (FLA) is a not-for-profit company set up by members of the Australian Government's Financial Literacy Board to run MoneySmart Week. Established in 2012, the MoneySmart Week initiative aims to highlight the importance of financial literacy and encourage all Australians to take simple steps to make a positive difference to their finances. In 2014, the company will also launch a Grants program to fund projects that will advance financial literacy in Australia.

Financial Literacy Australia is registered as a charity (for the advancement of education) with the Australian Charities and Not-for-profits Commission. Its Board members all provide their time on a pro-bono basis. The Board members are:

- Mr Paul Clitheroe AM (Chairman) - Executive Director, ipac securities



# Financial Literacy Australia

- Air Commodore Robert Brown AM - Chairman of the ADF Financial Services Consumer Council
- Ms Elaine Henry OAM - Company Director
- Mr Hamish Douglass - CEO, Magellan Financial Group
- Mr Craig Dunn - Company Director
- Ms Linda Elkins – Executive General Manager, Colonial First State
- Ms Fiona Guthrie - CEO, Financial Counselling Australia
- Mr Anthony Mackay – Executive Director, Centre for Strategic Education
- Mr Ian Silk – CEO, AustralianSuper
- Mr Mike Smith OBE – CEO, ANZ
- Mr Robert Thomas - Director, Bank of China Australia

Financial Literacy Australia Limited has negotiated a trademark licence agreement with the Australian Securities and Investments Commission (ASIC) for use of its MoneySmart brand in MoneySmart Week.

MoneySmart Week is entirely funded by sponsorship and run by two employees and many volunteers.

The FLA Grants program has a different source of funding: Voluntary contributions from companies that have entered into Enforceable Undertakings with ASIC. It is currently in start-up phase.

## **Introduction**

Since the last inquiry into Australia's financial system 16 years ago, there have been momentous changes to the financial landscape: The number and complexity of financial products has increased, more Australians than ever have superannuation accounts and technology has fundamentally changed the way people are interacting with money.

Further, we have continued to see Australians lose significant savings in a series of collapses by firms including Storm Financial, Banksia Securities, and Trio.

Developing informed consumers who can manage money, plan for the future, and make informed and effective choices will make the financial services industry more competitive and have a positive effect on the economy as a whole.

We believe MoneySmart Week's national effort to improve financial literacy can play a key role in the effective operation of the modern financial system.

## **The current state of financial literacy**

In Australia's National Financial Literacy Strategy 2014-17, financial literacy is defined as:

*'a combination of financial knowledge, skills, attitudes and behaviours necessary to make sound financial decisions, based on personal circumstances, to improve personal financial wellbeing.'*

While it is hard to categorically state the level of financial literacy in Australia, several reports provide some clues.

The *ANZ Survey of Adult Financial Literacy in Australia 2011* identifies five groups where lower levels of financial literacy are likely to be encountered<sup>1</sup>:

- People who are relatively young (under 25 years);
- People with no formal post-secondary education;
- People with relatively low levels of income and assets (e.g. those whose main source of income is a Government benefit or allowance; those with annual household incomes below \$25,000; those with less than \$2,000 in savings and investments);
- Those working in lower blue collar occupations; and
- Females.

In an adult literacy and life skills survey, conducted by the Australian Bureau of Statistics in 2006, 7.9 million Australians (53%) aged 15 to 74 were found to have low scores on the numeracy scale<sup>2</sup>.

The Commonwealth Bank Foundation surveyed 5,000 Australians in 2004 with questions designed to test the ability of respondents' to make financial decisions. A significant proportion of respondents performed poorly on questions related to controlling mobile phone bills, the benefits of a savings account, how to deal with spiralling debt and important factors in investment decisions<sup>3</sup>.

There is little evidence to suggest there have been any significant changes to the level of financial literacy over the past 10 years in which these surveys have been conducted. Clearly, there is significant room to improve the financial literacy of Australians.

## **The role of MoneySmart Week**

The overarching vision of MoneySmart Week is a long-term one: A financially literate population. Our mission is to enhance the financial wellbeing of Australians. However, there is no easy fix and the issue requires a multi-pronged, long-term approach.

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<sup>1</sup> *ANZ Survey of Adult Financial Literacy in Australia 2011*, pp 1-2, ANZ:

<http://www.financialliteracy.gov.au/media/465153/2011-adult-financial-literacy-full.pdf.pdf> (retrieved 28 March 2014)

<sup>2</sup> *Adult Literacy and Life Skills Survey – Summary Results 2006* (4228.0, reissue), p 5, Australian Bureau of Statistics:

[http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/B22A471C221C7BADCA2573CA00207F10/\\$File/42280\\_2006%20\(reissue\).pdf](http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/B22A471C221C7BADCA2573CA00207F10/$File/42280_2006%20(reissue).pdf) (retrieved 28 March 2014)

<sup>3</sup> *Improving financial literacy in Australia: Benefits for the individual and the nation*, p 6, Commonwealth Bank Foundation: [https://www.commbank.com.au/about-us/download-printed-forms/FinancialLiteracy\\_Report2004.pdf](https://www.commbank.com.au/about-us/download-printed-forms/FinancialLiteracy_Report2004.pdf) (retrieved 29 March 2014)

Members of the Board of FLA are also members of the Australian Government's Financial Literacy Board and strongly support developments that will embed financial literacy in the school curriculum to create generational change. However, we recognise that for many years to come, the majority of Australians will not have had the benefit of developing financial skills in a formal education setting.

The question is 'how to make a difference for this majority?'.

There is already a significant amount of good, free, independent information available to people who choose to seek out information on money management, financial decision making and related topics.

ASIC's MoneySmart is a valuable resource with significant breadth and depth. Increasingly, industry associations, community organisations and financial services companies are also working to provide free tools, calculators and tips to consumers. For the consumer looking for impartial information, there is now a wealth of options available.

One could argue that there is in fact a surplus of information, leading to 'information overload'. Either way, the issue is not a lack of information but how to engage people with that information.

This is where MoneySmart Week can, and does, play a role.

MoneySmart Week works in partnership with the private, public and community sectors to shine a spotlight on the issue of financial literacy during its annual campaign (in the first week of September). We recognise the significant diversity of circumstances and attitudes towards money that exists in the population, which is why it is so important that national efforts to improve financial literacy are not 'one-size fits all'. This is why it's imperative the initiative works in partnership with all sectors to reach as many different 'communities' as possible.

The three main strands of the Week are:

1. MoneySmart Week-approved **events** held in workplaces, schools and the community (more than 300 events held in one week in 2013);
2. The MoneySmart Week **Awards** which recognise best practice in financial literacy programs, resources and communications; and
3. A communication **campaign** urging Australians to take "simple steps to make a positive difference to their finances".

MoneySmart Week is a new initiative but has ambitions to become a key driver of behavioural change among Australians in relation to how they manage their money. The Week's tagline "Simple steps to help yourself" is the key to this. Each year, during MoneySmart Week, Australians are encouraged to "take the next step" in their



# Financial Literacy Australia

finances. The idea of annual 'money health check' should become part of the way we talk about managing finances.

This submission seeks the panel's endorsement of the proposition that national efforts to improve financial literacy are fundamental to the effective operation of a modern financial system.

Yours sincerely,

A handwritten signature in black ink, which appears to read 'Paul Clitheroe'.

Paul Clitheroe AM  
Chairman, Financial Literacy Australia Ltd