# Do we really have to find out whether it is better to burn out than to fade away?[1] – 'Future proofing' the focus on financial literacy and inclusion

## A speech presented at the Financial Literacy and Inclusion Forum Melbourne 28 June 2006

There are two major national conferences being held today relating to financial literacy – one being hosted by the Australian Bankers' Association in Sydney and this meeting in Melbourne. The two meetings are even linking by video-conference to share reports on their deliberations. It would be hard to think of a better example of the energy and enthusiasm the subject of financial literacy has engendered in recent years.

Rapid growth alone is not necessarily a good indicator of longevity. Policies that quickly become flavour of the month can just as quickly whither and die. If financial literacy were to be headed for such a fate, interest groups including consumer agencies might see benefit in making as much use of the attention as they can to promote their area of interest as quickly and as loudly possible. In such a scenario, it might really be better to burn out than to fade away. I am sure most people here today would hope that financial literacy as an issue of priority might be longer lived and capable of accommodating a variety of needs. That would make better sense given the effort and resources that have been invested in generating the attention the subject currently commands.

The questions then that I would like to pose today are:

- Does the current financial literacy push in Australia have a sufficiently solid foundation to support its continued growth and development? And
- If the answer to the first question is yes, where to from here?

**Does the focus on financial literacy have a solid foundation?**
To tackle this question, I am going to start by asking another one. From a consumer advocate's perspective, what does the policy commitment to financial literacy actually mean?

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[1] Acknowledgement to the song lyric *It's better to burn out than to fade away.* Neil Young and Crazy Horse, *Hey Hey, My My,* from *Rust Never Sleeps,* 1979.

Financial counsellors focus their service delivery and policy efforts on the needs of low income and vulnerable consumers. Who are these consumers? From my own experience in a direct service delivery agency, there are some key characteristics that make people more likely to need and to seek assistance from a financial counselling agency. Those characteristics include being:

- Female,
- Single or a sole supporting parent,
- Aged between 20 and 50 years old,
- In receipt of an income of less than $20,000 per annum, with the main source of that income a Centrelink benefit and
- Living in rental accommodation[2].

There are some trends suggesting the base of the client group just described is broadening in ways that will not only challenge service providers but should probably command the attention of governments and policy makers. I will provide some observations about those changes later in this presentation. The core service users of financial counselling agencies are however the same consumers who always struggle, not only financially but in making and sustaining meaningful connections with the communities in which they live. They may be less likely to be judged in a pejorative sense than was the case in decades past and that is a good thing. Providing structural support and encouragement to deliver meaningful inclusion is still a work in progress.

In terms of the design and delivery of current government policies, the majority of financial counselling clients have not fared well from the focus on a more traditional view of family. I do not make that observation to turn this into a debate about welfare policy. It is simply a reflection of what is occurring at the demand end of community service delivery. With the focus switching next week to participation encouragement driven by more sanctions for non-participation, the circumstances of some of these consumers are only likely to get worse.

Things are also pretty gloomy for the financial counselling client group when assessing safe, fair access to markets. Markets, financial services included, recognise the limited power, economically and otherwise, that low-income single or single parent households represent and have therefore largely ignored them in the design and delivery of products and services. The obvious exception is in sub or fringe markets that have evolved to successfully exploit vulnerability, disadvantage and an absence of the ability to exercise choice.

Financial counsellors and advocates for low-income consumers have been clear and robust in insisting that their clients' needs are accommodated in the framework of financial literacy. The success of any such accommodation will depend on the extent to which the definition and practical application of financial literacy as a policy priority is flexible. For example, if financial literacy is entirely focused on packaging information for consumers to act on for themselves, then the core users of financial counselling

[2] Care Inc Financial Counselling Service's recent annual reports, providing demographic information about service users, are available at www.carefcs.org .

services are unlikely to see any benefit from its existence[3]. If on the other hand, the gathering and exchange of information is broader and contemplates that markets left alone might not necessarily be able or willing to provide safe, fair options to certain types of consumers, then financial counselling clients may over time see real improvements.

There is considerable room for optimism that the flexibility consumer advocates have been looking is evolving. The fact that this Forum is happening at all is extremely positive. Not just for the sake of holding an event but because the program directly ties inclusion with financial literacy and is squarely focused on the needs of low income and vulnerable consumers. Reaching out to engage different types of stakeholder views could be an extremely useful way to increase the depth and relevance of the work of the Financial Literacy Foundation. It provides a most practical opportunity to expand and appropriately personalise the well-being framework that has been core to the work of the Treasury in recent years[4]. Policy that is designed to play out at a broader all of economy level can benefit from a better understanding of individual failure as an indicator of structural exclusion.

Of course talking about problems and solutions is a fairly pointless exercise in isolation. Financial counsellors deal with real problems impacting real people. Those people need and should be able to expect action, individually through service provision and collectively through systemic change. It is therefore very encouraging that some of the largest financial institutions in Australia have expanded their corporate social responsibility programs to stretch financial literacy from simply brochure based information delivery. Innovative action research is being undertaken, including pilots that seek to make selected mainstream financial services available to consumers usually exiled to the fringes[5]. Activities of this type fit comfortably within a broader working definition of financial literacy and inclusion.

The poor still pay more for the products and services they can access – if access is available at all. There has been no sharp decline in the numbers of people seeking assistance from financial counselling agencies. Services generally operate at full capacity all of the time, many juggling agonisingly long waiting lists. Nevertheless, some positive signs are clear and recurring and financial literacy is a term frequently found in material supporting, describing or reporting some of the most innovative undertakings. That suggests encouraging growth of a solid foundation, interested in longer-term structural improvement, as opposed to short-term, feel good marketing opportunities.

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[3] The limitations of disclosure alone in dealing with consumer vulnerability has been a recurring theme in recent presentations by the CEO of the Australian Consumers' Association, Peter Kell. For example, a transcript of Peter's speech at the 2005 National Consumer Congress in Sydney can be found at www.fairtrading.nsw.gov.au/pdfs/corporate/peterkell.pdf.

[4] Secretary to the Treasury, Dr Ken Henry has presented a number of papers and speeches exploring 'wellbeing' as a policy driver, in recent years. The most recent of those, prior to this Forum, was entitled "Wellbeing and Public Policy" and was presented to the Population Wellbeing Data Gaps Workshop, Australian Bureau of Statistics in Canberra on 8 June 2006. Copies of Treasury papers can be located on the Department's web-site www.treasury.gov.au.

[5] Examples of these activities include the ANZ's Saver Plus and Progress Loans programs and the NAB's investment in micro-lending and No Interest Loan inititatives.

**Where to from here?**
This question is potentially a paper all on its own. Fortunately today's program will be exploring a number of examples of the innovative activities I referred to earlier and in the process should provide opportunities for more development in the months ahead. The tack I will take is how we might learn from emerging problems and prompt proactive responses.

Earlier and in the context of describing the characteristics of the core client group for financial counselling services, I indicated there was evidence of a broadening across that same client base. In the agency in which I work, that broadening has been observed in a number of ways, for example:

- increases in the number of consumers over 50 years of age seeking assistance, at a rate not explained entirely by the aging of the population,
- increases in the number of moderate and higher income consumers seeking information from financial counsellors, and
- a greater proportion of presenting clients either paying off or already owning their homes.

The reason why these changes are so significant is not any proportional decrease in the numbers of other service users with different demographics and profiles. For me, the central issue is that many of these *new* clients might not previously have ever sought the intervention or support of a financial counsellor.

Let me provide an example that was recently presented at the Financial Counselling Association of NSW State Conference[6]. It is a non-identifying amalgam of several matters of which I have been made aware in recent months:

> *A major national investment company has gone into receivership. Many investors from all around the country have lost money. The regulator is investigating what is clearly a highly complex web of corporations and financial arrangements. That process is likely to take years to unfold.*
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> *An elderly couple seek assistance from a financial counselling agency. They both receive the age pension. They previously had a small sum of cash for investment purposes to supplement their pensions and had sought financial advice from an apparently reputable and licensed financial planner. The planner had recommended that they invest all of their cash in the now failed investment company. The planner also recommended that they borrow a modest sum against the home that they owned outright to make the investment more sustainable and give them a better quality of life. A bank readily agreed to the loan.*
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> *The investment is apparently gone, the planner denies any responsibility and claims he was duped too, the couple cannot pay their loan and the bank has commenced proceedings to take their home.*

[6] Tennant D, *Financial Counselling in 2006 – Riding the roller coaster*, Financial Counsellors' Association of NSW Conference, 22 May 2006, p 3. (Paper available on Care's web-site www.carefcs.org)

I am not going to say anything more about the nature of the options that might exist in sorting out the conundrum the example presents. The fact that the otherwise financially secure and independent people described in the scenario, behaving in a relatively responsible and conservative fashion have become candidates for financial counselling is troubling. There is in my view no single bigger challenge facing the Financial Literacy Foundation as it prepares to launch a major national advertising campaign encouraging consumers to get more interested in their finances.

Thankfully examples such as that just described are still relatively uncommon at crisis services. Another key entry point for consumer information and support confirms however that the incidence of exposure to unacceptable risk or poor market conduct is not only very common, some of the individual examples of failure appear to confirm widepread unconscionable conduct. The National Information Centre for Retirement Investments (NICRI) based in Canberra is the key (even only) community based entry point for consumers seeking specialist information about retirement investments. Of the roughly 600 telephone enquiries the service fields per month, NICRI's information staff estimate between 150 and 170 of those enquiries (25% to 28%) are connected to incomplete, poor or just plain wrong financial information and advice.

In many cases the NICRI experiences point to a financial planning industry that is still overwhelmed by self-interest and conflict. Take the following, rather extreme recent example:

> *An 87 year old hospitalised female received a visit from her financial planner. The planner signed the consumer up for a Term Annuity for $280,000. The consumer's life expectancy at 87 is clearly limited. For the product to work in the manner it was sold the consumer would have to live another 7 years. The usual entry fee for annuities is 3.5% (or $9,800 in this instance). The return on the annuity would be approximately 3.5% to 4%. Although there might be an increase in pension entitlements due to the 50% asset test, it looks like the only winner in the scenario is the planner! The consumer could potentially earn higher interest through a simple bank deposit account, with the investment not tied up for 7 years. If the consumer dies within the term, there may be some claw-back of extra and foregone profit by the life company. From whatever perspective one views the investment it is expensive, with limited value for this consumer having regard to all of her circumstances.*

Problems with the financial planning industry are not new. The current Deputy Chair of the ACCC, Louise Sylvan once famously observed the industry to be "structurally corrupt"[7]. It does not seem that much has changed in the intervening years. There remains no effective distinction between genuinely advising and just selling. Why are these examples relevant to the development of financial literacy discourse? If we are

[7] The comments were made in early 2003, to coincide with a joint ACA and ASIC shadow shopping report. An article by Louise Sylan entitled *The financial planning industry, 2002-2003* can be sourced through the ACA web-site www.choice.com.au.

encouraging people who can to become more involved in thinking about their finances and to build skills, an acceptably safe landscape in which they would exercise those skills is critical.

**Conclusion:**
Financial counsellors probably first became aware of the interest in financial literacy in Australia in around mid 2000, when ASIC released the Discussion Paper *Educating Financial Services Consumers*[8]. A great deal has occurred since then and in a comparatively short period of time. Personally, the comfortable linking of the concept of inclusion with financial literacy is the most significant development in that journey. I hope that this meeting today provides further impetus for investigating and responding to disadvantage and exclusion.

In the title of this presentation I chose to use (more than a little clumsily) a well known line from a Neil Young song, *Hey,Hey - My My* that is a bit of a personal favourite. Neil appealed to the angst ridden adolescent audience, seeing doom and gloom in everything. It has been suggested to me on some occasions that consumer groups are attracted to doom and gloom as well. As already indicated, there is however considerable scope for optimism – and it does not seem that financial literacy has to burn out or fade away.

Are there any other lessons that Mr Young might be able to provide? Oddly enough *Hey, Hey – My, My* appears on the album *Rust Never Sleeps*; a title that provides a useful parting reminder of the need for ongoing attention and maintenance. If financial literacy and inclusion efforts are going to continue to be of benefit to our whole community, they must remain accessible to a broad range of experiences, needs and capacities and respond by offering opportunity and encouragement.

On behalf of the all of the members of the Australian Financial Counselling and Credit Reform Association, I hope the proceedings today are useful to all of you. My thanks also to our range of excellent speakers and our partners in hosting this event:

- the Commonwealth Financial Literacy Foundation and
- the Australian Bankers' Association.

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[8] Australian Securities and Investments Commission, *Education Financial Services Consumers – Discussion Paper,* Sydney, July 2000.