



## **SUBMISSION TO FINANCIAL SYSTEM INQUIRY**

**Prepared by  
National Policy Office**

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## COTA Australia

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## INTRODUCTION

COTA Australia is the national policy vehicle of the eight State and Territory Councils on the Ageing (COTA) in NSW, Queensland, Tasmania, South Australia, Victoria, Western Australia, ACT and the Northern Territory.

COTA Australia has a focus on national policy issues from the perspective of older people as citizens and consumers and it seeks to promote, improve and protect the circumstances and wellbeing of older people in Australia. Our submissions always incorporate the views of our members developed through various consultation mechanisms.

COTA has had a long history of active interest in the financial system to ensure it meets the needs of older people. We are a long term member of the Australian Securities and Investment Commission's Consumer Advisory Panel and have contributed to some of that Panel's joint submissions, most recently on the future of financial advice reforms. Older people bring a range of concerns to us including fees and charges for financial services, access to independent advice, complexity of products, access to a dispute resolution process and the impact of technological change on their confidence that they can manage their own financial affairs.

We welcome the Inquiry and are pleased that the terms of reference are broad and explicitly include the impact on consumers of developments in the financial system. We have not attempted to address all the terms of reference but have focused our attention on five areas which we think reflect our constituency's main concerns;

- financial literacy
- independent financial advice
- microfinance
- technological innovation, and
- dispute resolution.

We believe that action on these five is important to ensure we have a strong sustainable financial system that consumers trust and are confident in using.

COTA accepts that there may be scope to reduce the amount of regulation in the financial system but firmly believes that all deregulation proposals need to be carefully reviewed for consumer detriment, with consumers involved in that review.

COTA believes that ASIC is successfully balancing the needs of the service providers with those of the consumers in undertaking its regulatory role. Consumers support a strong, robust and proactive ASIC and believe it should be better resourced to perform its important role.

## THE ISSUES

### Financial Literacy

Financial literacy is about understanding money and finances and being able to confidently apply that knowledge to make effective decisions.<sup>1</sup> Improving people's financial literacy skills is an important way to ensure people are well placed to take advantage of opportunities, to protect against excessive risk, and to optimally take care of their own financial well being.

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<sup>1</sup> [www.financialliteracy.gov.au](http://www.financialliteracy.gov.au) National Financial Literacy Strategy viewed 4 April 2014.

The Australian Securities and Investment Commission has statutory responsibility for financial literacy. In 2011 ASIC published the National Financial Literacy Strategy (the Strategy) and has just completed a review of the Strategy.

The Strategy identifies the following four factors which are contributing to the increasing need for people to be financially literate:

- The increasing number and complexity of financial products available
- The increased interaction young people have with financial issues
- Changes in demography
- Consumers having greater responsibility for their own financial decisions in a number of areas including superannuation and retirement incomes.<sup>2</sup>

Clearly older people need to deal with a rapidly changing set of products and ways of interacting with the financial service industry. Many are also being asked to make critical financial decisions around superannuation and retirement incomes which will have a long term impact on their standard of living. The Strategy correctly identifies the point of retirement as a key area where people are asked to make complex decisions.

COTA would add to the ASIC list the increasingly 'user pays' environment of the retirement period, combined with increased longevity. Health care, appropriate later life housing, and aged care all now involve greater proportions of self provision than in the past, while we live longer and longer. Managing superannuation, investments and utilizing the asset in which people live are all major challenges for people who have never had a significant involvement in financial services.

The ASIC Strategy discusses the levels of financial literacy in the community and claims that one in two Australians do not have the necessary level of skills or knowledge to make well informed financial decisions. It appears that many people over 70 and particularly women over 70 have some of the lowest levels of financial literacy. This is supported by feedback COTA receives from members and the broader older population about how they do not feel they always have the necessary skills or knowledge to make those decisions.

COTA believes the best consumer protection is to empower consumers through giving them higher levels of financial literacy. The current National Financial Literacy Strategy places a heavy emphasis on improving financial literacy of children and young people through the school curriculum. Whilst COTA supports this it believes it should not be at the expense of providing skills to older people. This would require a different approach and would need to involve a range of different communications and training platforms to ensure the broadest possible coverage.

ASIC's Moneywatch website is a useful tool but is limited to people who have access to the internet and the confidence to use web based tools. Many older people and many people on low incomes do not have the access or the skills and so are disadvantaged. In addition the financial literacy survey showed that many people didn't know what they didn't know: in other

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<sup>2</sup> [www.financialliteracy.gov.au/national-financial-literacy-strategy](http://www.financialliteracy.gov.au/national-financial-literacy-strategy)

words they had a false sense of their own financial literacy. This means they are less likely to actively seek information and advice and it therefore needs to be channeled in their direction and brought to their attention.

To run a targeted campaign that works across the lifespan and takes the message out to people would require significantly more resources than are currently available for financial literacy. COTA believes the Inquiry should recommend increased funding for financial literacy so the strategy can cover all population groups.

### **Independent Financial Advice**

Lower levels of financial literacy can make people reliant on getting financial advice from professionals or relying on family and friends. Reliance on family and friends has two pitfalls. The first is that family and friends may not have good financial literacy themselves and so may make well meaning suggestions which are not in the person's interests.

The second and more worrying for COTA is that it makes older people more vulnerable to financial abuse; including where family members provide advice in their own interest rather than the person's. There is agreement across organisations working in this space that financial abuse is on the increase and the more complex the range of financial products and services become the more chance there is that it will increase further.

Clearly a robust independent financial advice industry would be in consumers interests. COTA has long argued that such an industry, working in the interests of its clients, needs to be actively developed and supported. . For this reason we were strong proponents of the Future of Financial Advice (FoFA) reforms introduced by the previous Government and we are on the public record as believing that the current government's proposed changes to the FoFA legislation would result in considerable consumer detriment.

Many COTA members have raised with us their lack of confidence in the current financial services industry. Their main concern is that financial services are acting in their own interests rather than in the consumers' interest. Often this discussion centres on the major incidents such as the Storm collapse but COTA's experience is also that everyday advice frequently does not maximise the outcome for the consumer but does for the advisor. This is just as important an area as the big collapses and affects many more people. The main area of concern is that of conflicted remuneration, where the financial service employee has financial incentives through commissions and other payments to push certain products to their customers. Often customers have no idea that the person giving them this advice is getting such commissions. The FoFA reforms addressed this issue by prohibiting commissions.

COTA is deeply concerned that the proposed amendments to FoFA will again allow commissions when the financial advice is general rather than personalised or specific. This would provide an incentive for banks in particular to encourage their customer service staff to promote financial products that may not be in the client's best interest. The distinction between general and specific advice is not always clear to the consumer, particularly when the general advice is coming from a familiar financial service provider. As discussed above improved financial literacy would assist in that regard but that would take some time to make an impact, particularly among the current aged cohort.

At a financial system level COTA believes that allowing commissions as a sales incentive in the general advice arena creates a system bias in favour of general advice, and a disincentive for fully independent, fees based professional financial advisors; when the policy settings need to be the other way in order to build an industry that can optimise people's financial positions, improve financial literacy, and indeed reduce public expenditures.

### **Microfinance**

One area that needs some attention is the capacity of people to borrow relatively small amounts of money, All people on lower incomes report to COTA that they have difficulty in borrowing small amounts to purchase larger consumer goods. Often the traditional lenders, such as banks are not really interested in providing small loans, charge high interest rates and fees for them and put in place quite onerous processes and repayment schedules.

The No Interest Loans Scheme (NILS) provides interest free loans to people on low incomes to help buy essential household items, help them make their homes more energy efficient and purchase needed equipment and services for their health and wellbeing. It started in Victoria and has now grown to providing loans through 200 providers in 400 locations across Australia, making loans estimated at \$18 million last year. NILS is making an important contribution to helping people improve their standard of living in a responsible way. NILS is financed by the National Australia Bank (NAB) and delivered in partnership with a broad network of community and charitable organisations through trained staff and volunteers.

People who are not eligible for NILS, or like most people don't know about it, or for whatever reason do not access it, often turn to "payday lenders" to help meet the shortfalls in their budgets. That sector has grown enormously in recent years and notwithstanding recent regulation is still in effect an industry set up to benefit from people on low incomes.

COTA joins with many other consumer and welfare organisations in calling for greater scrutiny of payday lenders and measures put in place to provide greater transparency of their interest rates and general terms and conditions. This is clearly an area where improved financial literacy would assist as people would get a better understanding of the true cost of the loans and might seek out alternative sources.

Payday lenders are filling a gap in the market and will continue to do so until the other financial service providers are prepared to fill that gap, either through participating in programs like NILS or themselves offering smaller reasonably priced loans. The Inquiry needs to look at ways to provide sustainable funding for such schemes.

### **Technological innovation**

There have been significant changes in the way financial services are delivered over the last two decades. There has been a move away from face to face provision of services towards online or mobile phone banking and other services. Banks have moved away from passbook accounts to those accessed using cards, through ATMs or over the counter transactions. The most recent development is the move by both Mastercard and Visa to eliminate the use of signatures completely and requiring all accounts to be accessed using Personal Identification Numbers (PINs)

Many people report finding some of the changes confusing and the range of products adds to that confusion. It appears that the driver for the changes has been cost cutting and operational efficiency and convenience and the needs of the consumers have been ignored. The move to online and mobile apps disenfranchises those in the community who do not have access to the internet or smart phones and could possibly lead to more financial exclusion. As already mentioned older people have lower internet usage than some younger groups and so cannot access as wide a range of services and products

The system needs to work for all people and so consideration needs to be given to how to ensure everyone has access to a full range of services and products. Consideration needs to be given to the potential for some consumers to be disadvantaged and possible mitigation strategies put in place. COTA is concerned that whilst the introduction of the new technologies has reduced operational costs it has increased transaction costs for some consumers. An example of this is the move from passbook to card accessed accounts which has meant that many people do not have an easily accessible record of their finances. Customers can access the information online but if they don't have internet access then they may have to pay for extra statements

COTA is also concerned that regulation has not always kept up with new ways of doing business. The safeguards around transactions and the capacity to get transactions reversed need to be strengthened and made easier for the consumer.

### External Dispute Resolution

Access to effective dispute resolution underpins confidence in the system, and COTA believes there needs to be both robust internal dispute processes and access to an independent external dispute resolution process. People want to know that if they have complaints or think their financial service provider is doing the wrong thing they can get it resolved.

All financial service providers who are part of the Financial Services Ombudsman scheme are required to have internal dispute resolution processes that meet certain clearly set out minimum standards. Others who are covered by the various voluntary industry codes of conduct also have them. COTA believes all financial service providers should be required to have internal dispute resolution processes; and they should have to promote them to try to give customers timely resolution of their problems. Feedback to COTA from our members suggest that overall people feel satisfied with the internal dispute resolution open to them and the majority of complaints are resolved at that level.

However some complaints are not resolvable at the provider level and so there needs to be an independent external complaints process. The Financial Ombudsman Service (FOS) plays a critical role in helping resolve disputes between consumers and the financial service providers. It covers the whole range of providers including banks, general insurance, life insurance and financial planning. The strength of the FOS are first that the services are free to consumers which means it is accessible to everyone and secondly that it can impose a binding decision on the provider which gives the consumer confidence that the complaint will be resolved. Its existence also encourages providers to have good internal resolution processes.

As well as offering dispute resolution FOS also has an education role, providing information on

a number of products and helping people find the appropriate place to send a complaint or query. This is an important function but not as well known or promoted as it could be.

Feedback COTA has received on FOS suggest that people on the whole are satisfied with the outcomes but are frustrated with the time it sometimes takes to get a complaint resolved. Some of that frustration is probably a lack of understanding of the timeframes involved, as dispute resolution can be a many staged process. Some however believe that FOS is under resourced and consequently complaints are taking longer to get dealt with.

COTA believes that having a robust independent external resolution process is imperative if we are to have consumer confidence in the financial system and in financial service providers.

### **RECOMMENDATIONS**

The financial system needs to work for all members of the community. It needs to be sustainable and people need to have confidence in its integrity and how to access the services they need.

To address the four areas that older people consistently raise with us COTA is making the following recommendations:

- The Financial Literacy Strategy should be enhanced and should target older age groups to help give them the skills to manage their finances in retirement. ASIC should work with consumer organisations to identify areas of financial skill deficit and look to put in place ongoing programs to address those areas.
- The Future of Financial Advice reforms should be implemented fully and conflicted remuneration should be completely abolished.
- The No Interest Loans Scheme and other microfinance options need to be expanded.
- Technological innovations in financial services need to be accompanied by full consumer protections.
- The external dispute resolution scheme needs to be maintained with increased funding to meet demand.

We look forward to further input to and comment upon the work of the Inquiry as it progresses, and to further discussions with the Inquiry as part of the small group of consumer organisation members of ASIC's Consumer Advisory Panel who met with you on 24 February.