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Financial System Inquiry  
GPO Box 89  
Sydney NSW 2001

28 March 2014

Dear Sir / Madam

The Australian Government Financial Literacy Board welcomes the opportunity to contribute to the Financial System Inquiry.

### **Role of the Australian Government Financial Literacy Board**

The Australian Government Financial Literacy Board (the Board) provides independent expertise and strategic guidance to the Australian Government and the Australian Securities and Investments Commission (ASIC) on financial literacy issues.

ASIC is the lead Australian Government agency with responsibility for financial literacy. This arose from initiatives commenced under the Howard Government in 2005. It is also consistent with ASIC's statutory objective to promote the confident and informed participation of consumers and investors in the financial system.

Members of the Board are leaders in their respective fields and are strongly committed to advancing Australians' financial literacy. They are appointed as individuals, not as representatives of any organisation and provide their services in a pro bono capacity. A list of the current members of the Board is attached.

In addition to providing advice, the Board plays a key leadership role in overseeing the implementation of Australia's National Financial Literacy Strategy and in promoting financial literacy to relevant stakeholders.

### **What is 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.'*<sup>1</sup>

Financial literacy is not just a 'nice to have' skill in today's world – it affects quality of life, the opportunities people can pursue, their sense of security and the overall economic health of society.<sup>2</sup>

### **The growing importance of financial literacy**

Over the last several years, and especially in the aftermath of the global financial crisis, financial literacy has come to be regarded by policy-makers around the world as a critical life skill for participating in today's world and an important complement to regulation, consumer protection, financial inclusion and regulatory policies.<sup>3</sup> A more financially literate community can improve competition by helping to drive better demand-side participation in financial markets.

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<sup>1</sup> National Financial Literacy Strategy 2014-17 (forthcoming). See attached.

<sup>2</sup> National Financial Literacy Strategy 2011, ASIC: <http://www.financialliteracy.gov.au/media/218312/national-financial-literacy-strategy.pdf>

<sup>3</sup> OECD High level principles on national strategies for financial education, OECD, 2012. These principles were endorsed by G20 Leaders at the Los Cabos Summit (2012) and APEC ministers at their August 2012 meeting.

There has also been a dramatic increase in the choices available to consumers and investors who buy financial products and services, and rapid advances in technology are shifting delivery these products and services to online and mobile platforms. For example, most Australians now bank online with 1 in 5 smartphone users in Australia now using their phone to conduct banking transactions.<sup>4</sup>

Financially literate consumers and investors are a key part of a healthy functioning modern economy. They are more likely to make informed financial decisions and less likely to choose unsuitable products, thus potentially reducing the degree of regulatory intervention required. Conversely, poor financial habits and decisions can have significant long-term impact on individuals, their families and society at large.

Financial literacy is therefore recognised as an integral part of economic and social policy in many countries. Around 50 countries (including Australia and the majority of G20 economies) have developed or are developing national strategies for financial education to provide a coordinated approach to building the financial literacy of their populations.

### **Australia's National Financial Literacy Strategy**

Improving the financial literacy of Australians is a multi-dimensional and long-term undertaking. Bringing about a significant change in Australians' financial literacy levels is a long-term journey – one that will take at least a generation.

In 2011, ASIC published a National Financial Literacy Strategy (national strategy) to promote a nationally collaborative approach to building Australians' financial literacy and committed to review this work in 2 years.

In 2013, ASIC undertook an extensive public consultation process in order to review the national strategy. As a result, ASIC has developed an updated national strategy for 2014-17, which is in final draft form and will be released later this year.

The Board has played an integral role in the development of both national strategies and is strongly supportive of the aims, objectives and actions to be carried out by ASIC and other stakeholders set out therein.

The national strategy for 2014-17 has been developed around five strategic priorities. These priorities have been informed by international good practice, latest research in the field and feedback from stakeholders. The first three strategic priorities focus on building the capacity of individuals, families and communities. The other two provide direction to organisations involved in financial literacy research, policy development and program delivery:

*Enable individuals, families and communities to build financial wellbeing by:*

1. Educating the next generation, particularly through the formal education system
2. Increasing the use of free, impartial information, tools and resources
3. Providing quality targeted guidance and support

*Foster effective policy and program development by:*

4. Strengthening co-ordination and effective partnerships
5. Improving research, measurement and evaluation.

I attach for your information the final draft of the National Financial Literacy Strategy 2014-17.

### **The Financial Literacy of Australians**

The latest *ANZ Survey of Adult Financial Literacy in Australia 2011* (2011 ANZ Survey)<sup>5</sup> tells us that Australians have varying levels of financial knowledge and proficiency; that is, they may perform well on some aspects of financial literacy but poorly on others; and differences in financial literacy levels correlate

<sup>4</sup> Roy Morgan Consumer Single Source Survey, October 2013: [www.roymorgan.com/findings/5203-internet-banking-on-rise-201309200624](http://www.roymorgan.com/findings/5203-internet-banking-on-rise-201309200624)

<sup>5</sup> *ANZ Survey of Adult Financial Literacy in Australia*, ANZ Banking Group, 2003, 2005, 2008, 2011: [www.anz.com/about-us/corporate-responsibility/cr-library/](http://www.anz.com/about-us/corporate-responsibility/cr-library/)

to factors such as age, financial knowledge and numeracy, financial attitudes, household income, education and occupation. Section 2 of the national strategy provides a good overview of the results of the 2011 ANZ Survey and the implications going forward.

I would like to take this opportunity to highlight some of the findings relating specifically to young people. While low financial literacy can occur in any demographic group, young people aged 18-24 are consistently among the groups that the ANZ research has identified as more likely to have low financial literacy.

According to the 2011 ANZ Survey, young people were more likely to have:

- the lowest scores on financial knowledge and numeracy
- below average scores on all behavioural indicators of financial literacy – that is: keeping track of finances, planning ahead, choosing financial products, staying informed and financial control – with especially low scores on planning ahead
- lower understanding of key responsibilities relating to debt products, and
- least likely to have consulted sources of information and advice other than friends or family members.<sup>6</sup>

2012 Roy Morgan data also shows that, within the 16-24 age group, one in ten carried more than \$2,000 forward in credit card debt each month, suggesting difficulties in managing money.<sup>7</sup>

### **Educating the next generation, particularly through the formal education system**

The Board strongly believes that teaching young people foundational knowledge and skills and good money habits at school is the cornerstone to bringing about long-term generational change.

Young Australians today are interacting with money and making consumer choices from an earlier age than ever before. They are growing up in society where money is increasingly 'invisible', and online and digital environments for shopping and making financial transactions are the norm.

Education through formal education pathways is one of the most an effective way of reaching a large number of young people from all socio-demographic backgrounds. This approach reflects international good practice, with policy guidance documents developed by the OECD stressing the importance of:

- starting financial education as early as possible, 'ideally from the beginning of formal schooling and carry on until the end of the students' time at school'
- ensuring financial education in schools is part of a co-ordinated national strategy
- integrating financial education into the core school curriculum
- adequately training and resourcing teachers
- developing easily accessible, objective, high quality and effective learning tools and pedagogical resources for teachers and schools to use, and
- securing sustainable funding for the above.<sup>8</sup>

Accordingly, the Board has worked closely with ASIC to advocate for integration of financial literacy into relevant parts of the Australian Curriculum so that all Australian students have the opportunity to develop enterprising behaviours, acquire and develop the knowledge, skills, capabilities and attitudes they need to take charge of their lives and build a financially secure future for themselves and their families in the future.

Steady progress has been made by the Board and ASIC and financial literacy is now integrated into the current Australian Curriculum learning areas of mathematics, English, science and geography.

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<sup>6</sup> ANZ, 2011.

<sup>7</sup> Roy Morgan, 2012.

<sup>8</sup> *Financial Education in Schools: challenges, case studies and policy guidance*, OECD, 2012.

In order to support the curriculum links and with funding from the Australian Government, ASIC has partnered with state and territory education authorities under the MoneySmart Teaching National Partnership to develop teacher professional learning materials and a range of classroom resources.<sup>9</sup> The feedback and uptake of professional learning materials and resources have been very positive to date.

### **Recommendations**

Australia is regarded as a leader in its approach to developing, delivering and understanding financial literacy, including educating young people about money management and we strongly wish to maintain and build on this momentum.

Improving the financial literacy of Australians requires sustained commitment over the long term, to effect generational change. Educating our young people in financial literacy, including through the Australian Curriculum, is critical to making progress in this area.

In this context, the Board encourages the Inquiry panel to consider the following recommendations:

1. That financial literacy be a compulsory part of the education of all Australian children.
2. That ASIC continues to be adequately resourced to build on the valuable work undertaken to date.

I trust the above comments are helpful. I would be very happy to discuss any aspect of this submission in more detail with the panel if required.

Yours sincerely

A handwritten signature in black ink that reads "Paul Clitheroe". The signature is written in a cursive style with a long horizontal flourish at the end.

Paul Clitheroe AM  
Chair, Australian Government Financial Literacy Board

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<sup>9</sup> See <http://teaching.moneysmart.gov.au/> to access the MoneySmart Teaching professional learning materials and teaching resources.

## **Attachment 1**

### **Members of the Australian Government Financial Literacy Board**

- Chairman - Mr Paul Clitheroe AM, Executive Director, ipac securities
- Air Commodore Robert Brown AM, Chairman, Australian Defence Force Financial Services Consumer Council
- Mr Hamish Douglass, Chief Executive Officer, Magellan Financial Group Limited
- Mr Craig Dunn, Company Director
- Ms Linda Elkins, Executive General Manager, Colonial First State
- Ms Fiona Guthrie, Executive Director, Financial Counselling Australia
- Ms Elaine Henry OAM, Company Director
- Mr Peter Kell, Deputy Chair, Australian Securities and Investments Commission
- Mr Anthony Mackay, Executive Director, Centre for Strategic Education, Australia
- Mr Greg Medcraft, Chairman, Australian Securities and Investments Commission
- Mr Ian Silk, Chief Executive Officer, Australian Super
- Mr Michael Smith OBE, Chief Executive Officer, ANZ
- Mr Robert Thomas, Director, Bank of China, Australia