



Australian Government

# Australian Consumers and Money



A Discussion Paper by  
The Consumer and Financial  
Literacy Taskforce



# Introduction

By Senator the Hon Helen Coonan



Improved consumer and financial literacy has the potential to save Australia and Australians millions of dollars each year. Put simply, better use and management of money is a vital skill for all Australians.

To have the greatest chance of success we must start the process of consumer and financial education with the very young - in schools and in homes. We must carry it through to Australians at every stage of their life, from school students to retirees regardless of gender, cultural background or language.

In February, I announced the formation of a high-level Consumer and Financial Literacy Taskforce to develop the first-ever national strategy for consumer and financial literacy, targeting Australians of all ages and all persuasions.

This discussion paper provides an excellent frame of reference for the upcoming consultations with the public and stakeholders about how to tackle the burgeoning issue of financial illiteracy.

Already a range of good and useful material exists and the Taskforce is by no means attempting to reinvent the wheel or circumvent the work that is already being done. Rather, the Taskforce has been charged with developing a collaborative approach to redefine and enhance the financial skills of ordinary Australians.

I urge all those with an interest in consumer and financial literacy to make a submission in response to the Discussion Paper or to attend the discussion forums which will be held around Australia.

I would like to thank the members of the Taskforce, and especially the Chairman, Mr Paul Clitheroe, for their outstanding contribution to this issue of great importance.

Improved financial literacy has the capacity to improve the lives and circumstances of all Australians. It is worthy of your keen interest.

Regards,

Senator the Hon Helen Coonan  
Minister for Revenue and the Assistant Treasurer

# Preface

By Paul Clitheroe



The benefits of being financially literate, or to put it simply, being good with your money, are high.

An understanding of how money works can allow us to save, to make good spending choices and sound investment decisions. In many cases it may improve our chances of gaining employment, to earn a higher income, or to give us the key skills to start our own business. In turn, this may give us the opportunity to own a home or invest in property or shares, as well as giving us choices about schooling for the kids, holidays or our health. Being good with money is not just a nice thought. It can improve our own lives and the lives of those we love.

But if we agree that financial literacy is important to individuals, families and the broader economy, what do we do to improve it and how do we go about it?

In a perfect world two very simple things would happen to help consumers with money issues.

Firstly, the consumer would have a positive attitude to money management and be armed with the right knowledge. This would come from the home, school, workplace and community, combining to 'raise the bar' of financial literacy.

Secondly, government and financial institutions would make a determined effort to 'lower the bar' in terms of the complexity of products, access to information and multiple regulations that make it difficult for even the most knowledgeable consumer to chart a sensible course.

However, it is not a perfect world, nor will it be. But any step to improve consumer and financial literacy will be a step towards helping Australians realise the lifestyle they each desire.

Paul Clitheroe  
Chairman  
Consumer and Financial Literacy Taskforce

# Where Do We Start?



We know that Australians spend over \$450 billion on goods and services every year with \$29 billion being spent on financial and insurance services alone. At the same time, we know that Australians have lost significant amounts of money to investment scams in the last three years.

The losses suffered from bad decision-making are significant. But what do we really know about how consumers come to reach decisions? Is it an issue of knowledge? Is it attitude? Is it due to the complexity of products?

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“The Taskforce believes that consumer and financial literacy needs to be embedded in the Australian culture in the same way that Australians know how to ‘Slip, Slop, Slap’ when going in the sun or wear a seatbelt while driving.”

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In looking at these issues, the Taskforce has sought to delve beneath the surface of bad decision-making and look at why some people make good decisions about their money choices while others make disastrous choices.

The Taskforce has developed a Consumer Behaviour Model for better understanding the elements that lead to consumer decision-making problems, so that governments, businesses and community organisations can develop better solutions.

Rather than go into the detail of this model (which is available in the full version of this discussion paper - see back page for details) it can be best seen in action in the diagram over the page.



## A Consumer's View



Stan Young

Consumer  
Victoria

“I have had a long interest in learning about money, but like many people have not been very successful with it. In October 1987, I made my first investment in the stock market. It was one week before the crash of '87 and I had to watch my life savings halve over the course of one night. I was devastated at the time and like many other investors went out and sold what stocks I had left after the crash. Lack of knowledge caused this reaction and if I had held onto these shares they would have recovered in value in a very short time.

I think that personal finances should be taught at school. As a child growing up, there was next to nothing taught in our schools about how to manage your finances. I came from a modest background. My father was a motor mechanic who could just about turn his hand to any type of mechanical problem, but he had very little knowledge about managing his finances.

Looking back, I remember that finances were always tight, but there was always food on the table. I think the environment that you are raised in as a child has a significant influence into your adult life. Parents should be taught how to teach their kids about money. I have a 12, 13 and 14 year old and, like most teenagers these days, they are image conscious and tend to want to spend every cent they get. Unfortunately, they have modelled this behaviour from their parents, who both live from pay to pay and have used credit cards to live beyond their means.

Two of the kids have had part time jobs and I have insisted that 50% of their earnings are not to be touched and are to go into a high interest bearing account. Both kids look at me as if I have two heads - they don't seem to understand the benefits in saving. I have three small share accounts that I have established for each of them, but have been unable to generate interest amongst the kids.

Financial stress has also been a contributing factor in the breakdown of my marriage and family unit. Couples should be educated to understand the level of income required to fund their desired lifestyle prior to getting trapped in the credit cycle. Now I am at a stage in my life that I am worried that I have very little money to fund my retirement, which is not that far away - about 20 years. I am in the process of going through a painful separation that will push me further behind the financial eightball.

I mention these experiences not in a negative sense, but just to relay the impact that finances have had on my personal life. I would like the Taskforce to consider how we target education for the following groups: young kids at primary school, kids at secondary level and uni; couples, families and retirees. I guess that just about covers everyone, but it is important at all ages.”



# The Consumer Behaviour Model In Action: The Story Of George



## The External Environment

This life event occurs in Australia in 2004, just prior to the end of the financial year. There has been a spate of end of the financial year car advertising campaigns, targeting young people.

## George's Background and Socio-economic Status



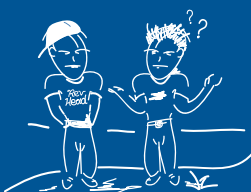
George is a 19 year old Generation Xer. He and his family arrived in Australia from Greece when George was eight years old.

George quickly adopted English and did well at school. He is now a first year university student. He earns \$100 per week from his part-time job and has \$5,000 savings in his bank account. George lives rent free with his parents, both factory workers, in western Sydney. His parents have a strong work ethic and hope that George and his sister will do well in Australia.



## The Things That Are Unique to George

George has a 'live today' attitude. He rejects his parent's 'save first' philosophy. He identifies with his peers who have bought their first cars and the social opportunities this opens up to them. George is mad keen to get a car and dreams of the independence this will give him. George has excellent negotiating skills, something he learnt from his parents. He is also a pretty confident type of person, well able to stand up for himself.



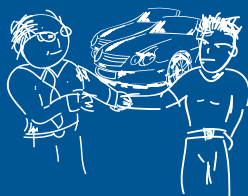
## The Things George Knows and How George Gets Information

George doesn't know much about cars so he talks to a mate who has owned several cars, likes tinkering with vehicles and regularly reads motoring magazines. His friend advises on the best type of car in George's price range and what is a 'good' price for this particular make. He also recommends a local car dealership to George.



George doesn't know a lot about finance. However, he is aware that credit card finance is expensive and that a personal loan is a lower cost option. He is also aware that both banks and vehicle retailers provide personal loans. However, he assumes that all loans are probably pretty much the same in terms of price and conditions. George is confident that he'll be able to afford to buy and run a car as his friends on similar income levels all seem to manage to do this.

## George's Transaction



George follows his mate's recommendation and visits the 'good' car dealer. There he finds the perfect car, which is in his price range. The dealer assures George that finance would be available and tells him what the monthly repayments would be. George negotiates hard and succeeds in knocking \$500 off the purchase price and then signs the contract for the finance.



Two years down the track, George decides to sell the car to fund a trip overseas. He gets a nasty surprise when he realises that after paying out the finance and selling the car, he won't have anywhere near enough for the trip. And, when he works out how much he has paid off his loan over the two years and adds on the final balloon payment, he sees that the purchase was actually very expensive and not a good deal at all.

This example of George illustrates a common problem experienced by young people when buying their first car and shows how financial decisions can be reached in complicated ways.

In George's case, he was a good negotiator and did well negotiating on the purchase price of the car. However, he failed to understand that he was making two purchases, the vehicle plus the finance. Traditionally, this sort of problem has been tackled

by government and industry through a brochure or a Website on, for example, 'Buying a Car'.

However, as we can see, George did not know that he had a need for advice and so he did not go looking for information. So, no matter how good the available information was, it would not have reached George.

This is where the Consumer Behaviour Model is useful in showing the sort of strategies that would help the Georges of this world. In this example, it shows that many people rely on friends and work mates to guide them in making decisions. These friends and work mates are considered experts as they have an interest in the topic and like to keep abreast of issues.

In George's case, it may have been better to target George's mate instead of George. If George's mate had read articles on car finance issues in the motoring press, he may have been able to give better advice to George. Similarly, car dealers could have been targeted to improve the information they give to young consumers and first time buyers.



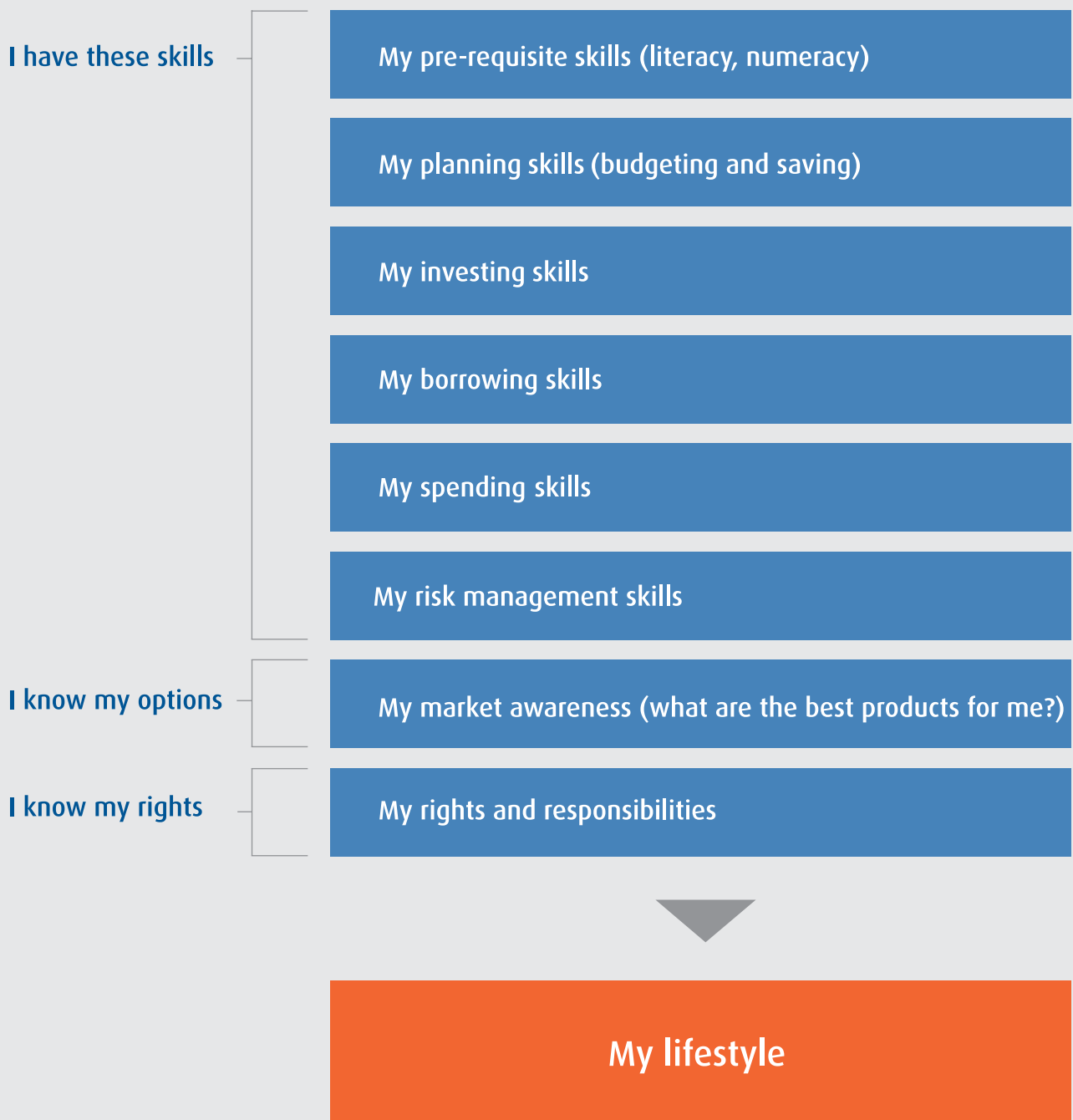
As we have seen, these are the sources of information in George's world.

George would have also benefited from learning some key consumer and financial skills. The diagram below shows the skills that the Taskforce would like to see all Australians possess. These are discussed

in more detail in the full version of this discussion paper.

The Taskforce believes that consumers rarely come to decisions in a simple way and that we, as a society, need to better understand the many factors that influence what we do with our money. ←

# Consumer And Financial Skills





# Tell Us What You Think







# Five Minute Questionnaire



Please return this form:  
by fax on **02 6263 2830**

or by post to:

CFL Taskforce, SCGSD  
Department of the Treasury  
Langton Crescent  
PARKES ACT 2600

This form can also be filled in and submitted online at [www.cfltaskforce.treasury.gov.au](http://www.cfltaskforce.treasury.gov.au)  
(found under Discussion Paper)

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## Confidentiality

**Please Note:** It will be assumed that responses to this questionnaire are not confidential and may be made publicly available on the Taskforce's website. However, only the respondent's name will be made publicly available with the response. No other private contact details will be made publicly available.

If you want your response, or any part of it, to be treated as 'confidential', please indicate this clearly. A request made under the Freedom of Information Act 1982 (Cth) for a response marked 'confidential' to be made available will be determined in accordance with the Act.



“Being good with money is not just a nice thought. It can improve our own lives and the lives of those we love.”

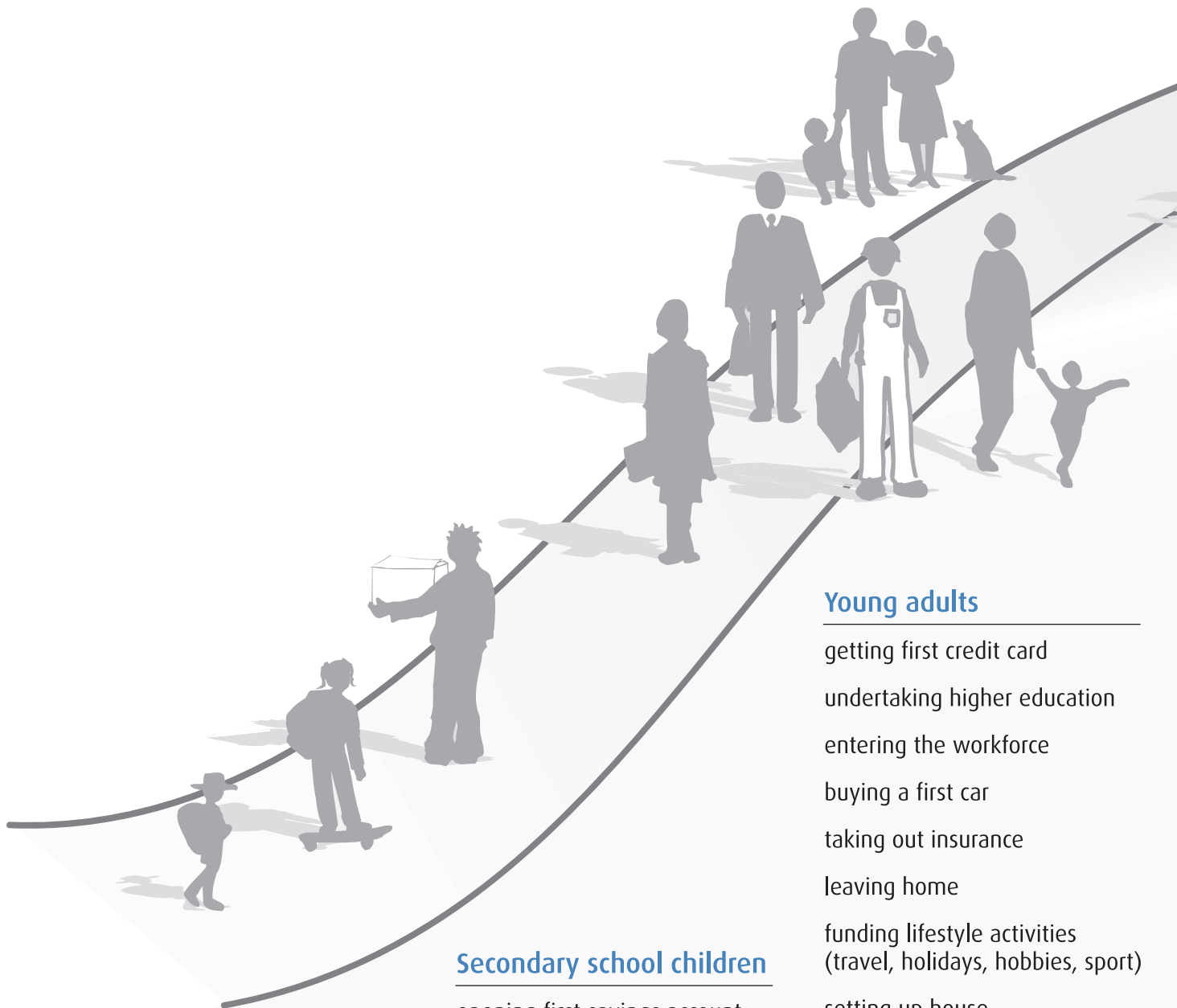
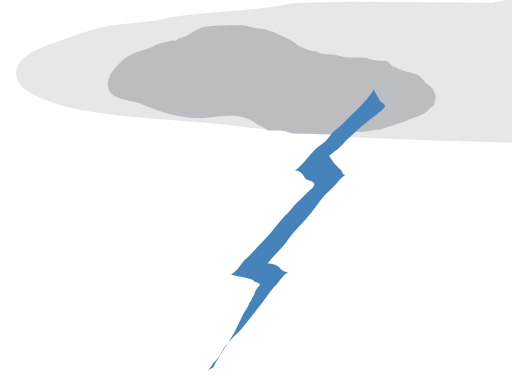
Paul Clitheroe



# Consumer Life Events

As consumers, we all experience certain events in life which impact on our finances. This is where good consumer and financial literacy skills are important.

Some of these events are related to life stage (for example, young children opening their first savings account) while other events can happen at any point in life (for example, illness).



## Primary school children

opening first savings account

## Secondary school children

opening first savings account  
getting a part-time job  
getting first mobile phone

## Young adults

getting first credit card  
undertaking higher education  
entering the workforce  
buying a first car  
taking out insurance  
leaving home  
funding lifestyle activities  
(travel, holidays, hobbies, sport)  
setting up house  
(furniture, stereo, etc)

## The unexpected

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Health problems (illness, injury, accident)

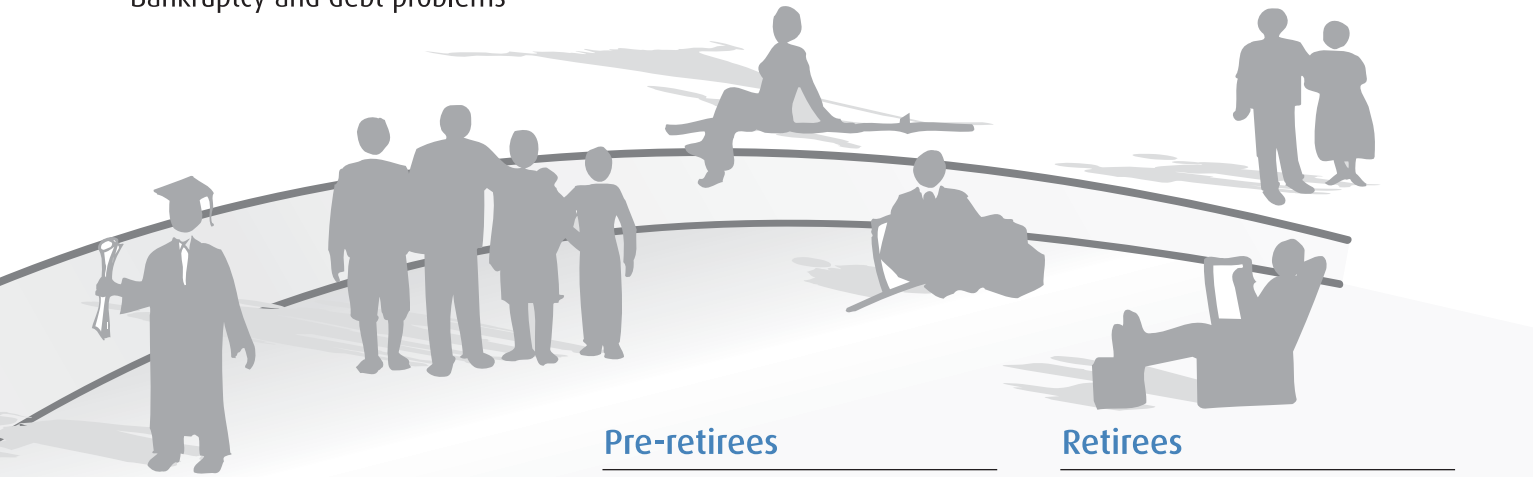
Disasters (fire, flood)

Relationship problems (divorcing, relationship debt)

Being or becoming unemployed (unemployment)

Inheriting money/windfall

Bankruptcy and debt problems



## Adults families, couples, singles

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buying a house

taking out insurance

marrying

having a family/having a second family

paying off a mortgage

investing (property, shares)

paying for own/children's education

saving for retirement

funding lifestyle activities (travel, holidays, hobbies, sport)

changing jobs/careers

taking a break from the workforce

## Pre-retirees

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paying off a mortgage

educating children

planning for retirement

funding lifestyle activities (travel, holidays, hobbies, sport)

## Retirees

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paying off a mortgage

retirement

# How Do We Pull All Of This Together?



With the Consumer Behaviour Model as a basis for better understanding the problems that exist for consumers, we now need to move to a better system for educating and informing the Australian public.

In reviewing consumer information provision in Australia, the Taskforce found over 700 consumer and financial education initiatives being developed by over 100 different organisations.

There is clearly no shortage of good consumer information available to assist Australians. However, a good deal of it is not known, not properly targeted or not used by Australian consumers.

There are also no significant networks for communication amongst information providers and thus no significant national information strategies on key consumer issues. While most organisations are well-intentioned in their work, they also tend to



plan in the short term and, in some cases, are ignorant of similar initiatives by other organisations.

This has led to much overlap and duplication. It has also led to a lack of corporate knowledge over time where failures can be repeated and best practice is often not followed.

Finally, there is no ongoing research on consumer decision-making nor ongoing evaluation of the effectiveness of the various information programs and regulatory initiatives.

In looking at solutions to these problems, the Taskforce has drawn heavily on international research and expertise to determine what has worked best in other countries. Many countries have come a long way in developing solutions to these problems and the Taskforce was fortunate to be able to draw on this work.

With the Consumer Behaviour Model as a first step, the Taskforce proposes that a second sensible step should be the establishment of a new coordinating body that would better connect information providers with consumers and which would be able to take a more strategic view of consumer information issues.

This body would conduct ongoing research to determine the top consumer problems as well as what factors have led to those problems. It would also assess how effective governments, businesses and community groups have been in addressing these issues.

Such a body would be a home for providing advice on what works best and would get organisations to work together on issues in ways consumers want.

### What would a coordinating body do?

It would provide a Web site which would house all consumer information material in Australia and would be a powerful resource for both consumers and those who assist consumers.

It would work with schools to facilitate greater take-up of consumer and financial literacy in the school curriculum. It would do this through improved teacher development and by ensuring school resources developed by other organisations are able to meet proper educational standards.

It would work with public, private and community sector organisations to help consumers with the information they need at key points in their lives. It would reinforce how we can all be smarter with

## An Education Perspective



David Rodger

Principal  
Shalvey Primary School

“Some children at our school come from families who have low incomes and have difficulty saving. They sometimes spend their money almost as soon as it arrives. This behaviour can sometimes follow through to the tuck shop where children often spend money and don't think twice about their purchase.

I believe that some children also have a poor understanding of the cost of things. They see their parents put a card in a machine to obtain money or pay for goods and do not realise that purchasing decisions are made within a budget.

We need to educate our children about basic financial concepts and this needs to be done with family involvement.

We are currently piloting a financial education program\* for children and their parents. We are already seeing positive results.

Now we hear from the tuck shop that students are thinking more carefully about their purchases and saving money. The children are very excited that their parents are interested enough to come to finance lessons. Parents report that the children come home and share discussion about what they have learnt. This has opened real dialogue within the family where talking about money is often considered taboo.

I find it fascinating that through their children, parents can often open up and share concerns about their own financial situation. Also, the teachers are delighted that they can teach curriculum that relates to the students' everyday lives.

This experience has reinforced my belief that financial education is of great importance in the community and the sooner we begin to get programs like this in place on a wider scale (across the country), the better it will be for our children's future. ”

\*Finance First is a financial literacy education project developed by YWCA NSW and Citigroup in conjunction with NSW Department of Education and Training.

money and make better consumer choices.

The establishment of a coordinating body would elevate the importance of consumer and financial literacy for the future well-being of all Australians. It would allow an expertise to develop which has been sorely lacking. It would be a facility for organisations to work together and minimise the wastage and confusion they are causing consumers who are already overloaded with different messages and advertising 'clutter'.

The Taskforce believes that consumer and financial literacy needs to be embedded in the Australian culture in the same way that Australians know how to 'Slip, Slop, Slap' when going in the sun or wear a seatbelt while driving.

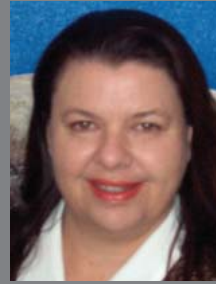
But success will only come with a concerted long-term push. This involves consumers, business people, community workers, financial advisers, government officials, lawyers, journalists, and friends who offer advice. Everyone has a role to play in improving the current situation.

To reduce bad decisions which lead to consumer hardship, we as Australians have to look within ourselves to find ways to change our attitudes and to increase our capacity to make smarter decisions.

I hope you can help us with your feedback and support.



## A Consumer Advocate's Perspective



### Narelle Brown

Consumer Advocate and Vice President (past President) of the Financial Counsellors' Association of NSW Inc.

“ I have spent 19 years working in financial counselling and strongly believe that financial education, for all ages and all levels of the community, is crucial.

I see many retired people still living at their pre-retirement lifestyle and spending on a reduced income with the help of a credit card. Sustaining this for a lengthy time causes over-commitment and the need for the family home to be sold to clear the growing credit card debt.

I also see many young women drawn into loans as co-borrowers (or guarantors) on the pretence that this is the only way their partner/boyfriend will obtain a loan to purchase a car. One young woman was facing losing her home for this very reason and with the assistance of a financial counsellor was able to negotiate and rearrange her finances to cope with the debt, whilst her former partner left town with the car.

Financial problems are also the second highest reason for suicide in Australia. Clients often comment of their hopelessness in regard to their finances. These people are looking for face-to-face interaction regarding their financial problems so that a financial strategy can be developed with their specific circumstances in mind.

We also find that understanding a few basic concepts can go a long way. For example, many people are surprised to learn that having \$3,000 on a credit card at 19% per annum will take almost 17 years to repay at the minimum repayment of 3% of the balance outstanding. Financial counsellors for a very long time have stressed the difficulty of the use and abuse of credit cards across all age groups. Very few people understand the fees charged on their credit card or how the interest is calculated. Only a minority understand the minimum repayment calculations and just how long it will take to clear a credit card if only ever making the minimum repayments.

Of course it is not all doom and gloom. Financial counsellors witness on a daily basis the changes that knowledge and learning and advocacy have on people. Clients that initially feel that there is nothing they can do are quickly empowered once they realise the avenues available to them. A key part of consumer and financial literacy must be about giving people hope for the future.”



For a copy of the full version of this discussion paper please go to [www.cfltaskforce.treasury.gov.au](http://www.cfltaskforce.treasury.gov.au) or ring **1300 305 866**

### Consumer and Financial Literacy Taskforce Members

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**Paul Clitheroe**, Chair, Executive (founding) Director, ipac securities Limited

**Berna Collier**, Commissioner, Australian Securities and Investments Commission (ASIC)

**David Deans**, Chief Executive, COTA National Seniors Partnership

**Craig Dunn**, Managing Director, AMP Australian Financial Services

**Michael Hawker**, CEO and Managing Director, Insurance Australia Group Limited (formerly NRMA Insurance Group Limited)

**Elaine Henry**, Chief Executive Officer, The Smith Family

**Rosanne Hunt**, Coordinator, Finance First, YWCA of Sydney

**Peter Kell**, Chief Executive Officer, Australian Consumers' Association

**Kerrie Kelly**, Chief Executive Officer, Financial Planning Association of Australia Limited

**John Keniry**, Chairman, Ridley Corporation

**Andre Lewis**, Director, Industry Support, Australian National Training Authority (ANTA)

**John McFarlane**, Chairman Australian Bankers' Association since 1999; Chief Executive Officer, Australia and New Zealand Banking Group Limited, since 1997

**Norman Owens**, Chairman and founder, Australian Business Week

**Christine Ross**, Coordinator, National Indigenous Consumer Strategy

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ISBN 0 642 74253 7

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