

28 January 2013

Submissions
Investor Education Framework and Action Plan
Commission for Financial Literacy and Retirement Income
WELLINGTON

By email: tom.hartmann@cflri.org.nz

SUBMISSION on Investor Education Framework and Action Plan

1. Introduction

1.1 Thank you for the opportunity to comment on the consultation paper. This submission is from Consumer NZ, New Zealand's leading consumer organisation. It has an acknowledged and respected reputation for independence, and fairness as a provider of impartial and comprehensive consumer information, and advice.

Contact: Sue Chetwin
Consumer NZ
Private Bag 6996
Wellington 6141
Phone: 04 801 0417
Email: amanda@consumer.org.nz

On the Investing Principles - Questions 1 to 4.

The principles outlined in the document cover most of the essential information investors need to consider succinctly and clearly.

However, we recommend some additions:

Principle 2 (Understand risk and return) should also make it clear higher returns generally mean more risk. This is a central and essential facet of investment which is often not well understood by investors, and often to their detriment.

Principle 3 (concerning diversification) needs to make it clear true diversification is only possible when an investor has a significant amount of capital to invest. Many investors starting out will not be able to achieve this.

Principle 5 (Research, compare and review various choices) discusses referring to "someone qualified". But it can be difficult for investors to find independent advice, especially inexperienced

investors who are most in need of it. This may need to be expanded to explain what kinds of professionals are able to offer this advice and how investors may be able to find them.

While it is true past returns are not necessarily indicative of future returns, investors when doing research will have little if any other information to rely on. This point may need further clarification to be helpful.

We also suggest adding two further principles.

1. A principle outlining **the transparency of the investment** would be helpful. This would ask the investor to consider what kind of disclosure is being offered about the investment and how much information they are being given. It should also be explained what **investment statements and prospectuses** are. This could be expressed in the question "Do you understand how this investment works and its good and bad points?"
2. A principle outlining that once you have decided to commit to an investment, you should make sure you keep an eye on it and keep checking in. Don't rely solely on an advisor to do so for you, or "set and forget". You need to stay active in your investments.

General points: The language used can tend towards jargon at some points, for example: "Volatility", "investment profile", "asset classes". The intended audience is most likely unfamiliar with these terms and they may need definitions in brackets as explanation.

On having decided to invest, what questions should you consider?

We consider these questions to be useful, and outline the issues clearly. However, we have several suggestions for additional material.

4. "What are my options for getting advice?"

It would be helpful to include some warning about the history of financial advice and emphasise care needs to be taken when choosing a professional in this field. Some further direction about where to go to find independent advice would also be helpful.

We also think there should be further information about the distinctions between AFAs, RFAs and QFEs as these have important implications in terms of how much advice they are legally able to offer and for what products. Anyone interested in investing needs to be aware of these differences and understand them.

6. "What are the risks I am taking with this investment?"

There should be a warning about familiarising yourself with the jargon. For example, investments can sound like they are guaranteed when they're not, such as bank deposits. It should be emphasised investors should ask questions and not take anything for granted (don't assume, find out).

It would also be useful to make a distinction between particular investments vs. investments as a class – for example, though shares in general may tend to give a higher return, *particular* shares can

become worthless. Fixed term investments can also vary significantly in risk. Reiterating a need to be wary about investments that offer particularly high returns, especially for their class, would be worthwhile.

On Priority Audiences - Questions 5-6

The audiences identified represent a wide range of potential financial understanding and as such a "one size fits all" approach will not be appropriate. Materials will have to be tailored for each audience.

The secondary school audience and earlier is an important one. The results of the Commission for Financial Literacy and Retirement Income's (CFLRI) survey on financial literacy make it clear that it can't be assumed students are learning these skills at home. Beginning financial education in these formative years will help to de-mystify it and make it an ordinary part of life. It is much more difficult to intervene when people are older and their financial habits are set.

On the proposed actions - Questions 7-9

Investor education needs to take place at secondary school level and earlier. To this end, a partnership with the Ministry of Education as well as Te Puni Kokiri and the Ministry of Pacific Island Affairs would be a key activity.

We note the proposal to monitor and report on financial literacy levels to key stakeholders; this would be useful information and crucial to determining the efficacy of financial literacy strategies.

As for Money Week, it is a good opportunity to raise awareness about financial issues but it's difficult to measure its effectiveness. The offer of free services from financial advisers in 2012 was only taken up by 30 people nationwide, which suggests public interest is low. This is a challenging topic in which to garner interest. As well, CLFRI's sorted website does a good job of providing general financial information to the public and it also has good visibility. Our own site, consumer.org.nz, also has a number of useful financial articles that attract interest from both members and non-members. We would be willing to contribute to work on Money Week, provided we had funding to do so. Sites that already contain relevant information and have visibility in the general population seem like useful places to continue focusing financial education efforts.

Thank you for the opportunity to make a submission on this discussion document. If you require any further information, please do not hesitate to contact me.

Yours sincerely,

Sue Chetwin
CEO Consumer New Zealand