

CFA SOCIETIES AUSTRALIA

CFA response to ASIC on National Financial Literacy Strategy Consultation

Need to improve financial literacy of community is undisputed; but CFA questions the extent to which the onus of financial literacy should fall to the community

Sydney 23 November 2017: In its submission to the Australian Securities Investment Commission (ASIC), CFA Societies Australia (CFA) noted that while the influence of financial education on the productivity and stability of the economic system was becoming increasingly self-evident, particularly in the context of Australia's mandated superannuation regime, industry's fiduciary role as stewards of other people's money carried considerable responsibility and accountability that cannot be passed on to beneficiaries of the system.

CFA noted researchers had identified five criteria that made a person 'financially capable' including an individual's ability to:

- Control or record daily spending
- Budget or live within ones means
- Plan or prepare and save for future knowns and unknowns
- Choose or select between alternative financial products
- Get help or know where to go for help

CFA's submission stated that "if we accept these behaviours make an individual 'financially capable', we must acknowledge there are also limits to what can be achieved in terms of creating a financially literate community that is appropriately knowledgeable to manage all and any variation of the above criteria.

"Our community is made up of individuals. Therefore, we must also concede that any endeavours to improve the financial literacy of the broader community will be inconsistent at best."

CFA acknowledged the economic advantages of the industry's fiduciary role have created in financial services a vital and very wealthy industry that has benefitted and continued to benefit enormously from the weight of money flowing through the system.

"Despite the benefits to industry, financial consumers are increasingly expected to understand complex financial products and processes, an expectation industry must realise is not realistic or achievable with all members of the community for whom the products and processes are designed. Industry has participated in wasting too much money to this effect."

CFA noted investment products and processes must be designed and adapted to meet an acceptable level of financial literacy in the community, not the level of literacy expected of the community by industry. To do this, the industry must be smarter and, most importantly, more professional, meaning the level of financial literacy expected of beneficiaries was minimalised and realistic.

"This concept is commonly-practiced in the health industry. The community must be able to trust financial services professionals with their financial well-being in the same way patients entrust their doctors with their physical well-being."

To fulfil and deliver on its mission of stewardship, CFA advocated for the financial services industry to adopt a principles-based approach to professionalism.

“Professionalism must be cross-functional and multi-disciplinary in nature, build frameworks that are genuinely embedded in day-to-day operations of an organisation and has as its foundation three fundamental ingredients of competency, compliance (codes and standards) and ethics.”

CFA’s submission concluded that professionalism was fundamental to the long-term sustainability of the financial services industry and the basis of the necessary and crucial relationship between the industry and the beneficiaries of the community it serves.

“Building an industry based in the highest standards of professionalism and integrity is key to resolving the issue of financial literacy.”

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About CFA Societies Australia

The CFA Societies of Sydney, Melbourne and Perth are not-for-profit associations of approximately 2,500 investment professionals; together representing the three Australian chapters of CFA Institute. Our members are engaged in a wide variety of roles across investment management and advice. Most of our members are holders of the Chartered Financial Analyst (CFA) designation. For more information, please visit <http://www.cfa-australia.com.au/>

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