

Draft National Strategy for Financial Literacy Response from the Institute of Financial Advisers

Firstly and most importantly, the Institute of Financial Advisers (IFA) is in agreement with the proposal and strongly supports the strategy's aim to co-ordinate efforts to increase the financial literacy levels of New Zealanders to ensure that these are greater than the sum of their parts.

The strategy is in accordance with the IFA's goals of providing New Zealand consumers with a trusted financial sector and raising the financial literacy levels of all New Zealanders. We therefore offer whatever help we can provide towards helping to embed the strategy and to maintain momentum going forward.

We believe that the most important focus of a national strategy for financial literacy is to encourage New Zealanders to understand their holistic financial needs – so that, for example, they are not just saving for their retirement but also have a plan in place to cover their risk protection needs. We also want to provide them with sufficient understanding to allow them to set realistic and attainable financial goals.

We want to see people seeking advice at an earlier age – preferably at the start of their working lives – not leaving it until they are close to retirement.

We would anticipate that the co-ordinators of the strategy would be expected to work with Approved Professional Bodies (APB's) for financial advisers (once established) and also for the strategy to include reaching out to people via their workplaces, community and education facilities.

Specific comment regarding the draft strategy includes:

Page 12 – We see KiwiSaver as being an important tool in raising understanding of how to identify and achieve financial goals for the New Zealand consumer. Uptake levels (400,000 as reported in The Dominion Post 8/2/08) are such that the scheme can already be labelled a success. We do think, however, that after it has been operating 12 months, it will be important to review the scheme and the current process for consumers to access it. There is a feeling amongst advisers that potential consumers are still finding the scheme confusing and the 40-odd different providers with around 180 funds does little to alleviate this.

Page 19 – Recommendation 5. IFA is working with other associations to form an APB but are ourselves ready to become an APB, if required. As an APB, IFA would welcome partnerships to help improve standards of financial literacy in New Zealand. We are concerned, however, that any certificate, diploma or degree courses implemented to upskill, improve and test the competency of financial advisers should be monitored to ensure effectiveness and standardisation of material. It is also imperative that these remain impartial and therefore should either not be provided by product providers or other such interested parties or they should be monitored to ensure impartiality of material.

IFA are already very involved in the efforts to establish appropriate APB's for financial advisers in New Zealand and, as such, would welcome partnerships to help improve standards of financial literacy in New Zealand.

Pages 20-21 – Recommendation 6. We support inclusion of financial literacy training in the national curriculum but first we need to “train the trainers”. Teachers are not necessarily all at the same level of financial literacy themselves and it is important that they receive the necessary upskilling before facing the classroom. To date the Ministry of Education has not been involved in this arena and may benefit from establishing advisory panels on curriculum development. As an example, the mention on page 19 of the Early Childhood Educators' registration programme including an appropriate diploma or degree course should include modules designed to raise the financial literacy levels of the Early Childhood Educators. It should also be considered that these trainers are likely to be the creators of future generations' monetary beliefs and values systems and, as such, it is vital that community and cultural input is sought to ensure consistency of message.

Pages 23 – Recommendation 9 – Given that the draft strategy seeks to co-ordinate and leverage off initiatives already in place to increase financial literacy in New Zealand to maximise the effectiveness of these programmes and encourage more such programmes to be developed, it is essential that a robust monitoring process is put in place to ensure quality control is maintained. Whilst large product providers such as banks are already involved in providing financial literacy programmes, we believe that the Retirement Commission needs to act in a supervisory capacity to ensure targeted education outcomes it would expect such programmes to achieve and provide quality control to ensure consistency of message via a National Moderation Board to maintain standards amongst the various providers. This Board would ensure impartiality of programmes and that they are judgement-free and empowering in accordance with Recommendation 9. The IFA would be willing to be involved as a member of this Board.

Page 24 – Financial Knowledge Groups and the topics for educators to address – We believe that part of Retirement Planning is to help people to understand how much income they will need in retirement and what they need to achieve this – although all topics are inter-related so can't be taught in isolation. We do also think that Budgeting and Debt Management should be given highest priority. We could also recommend that a lot of these topics could be more specific in terms of what they cover but we feel that the basics are covered and we could provide more in-depth comment as to what each broad topic should include as programmes are developed.

Page 25 – Medium Financial Knowledge – We believe the questions to ask a financial adviser need to be broader than just around how they are being paid and could be based on what the scope of engagement is for the financial adviser. We have additional material on this if this would be useful to you.

Also on page 25 – we believe that under “Financial Competence” for each knowledge group, the subject of “Budgeting” should be brought to the top together with skills for managing money.

Page 27 – Recommendation 11 – We support the concept of “parents as first teachers” so we believe that workplace programmes should be tailored to not only provide tools for parents to manage their own money more effectively but should also include information on how to pass these concepts on to their children if they have any. We agree with footnote 46 on page 27 which talks about knowledge levels and ability to manage money not necessarily being a product of socio-economic situation but rather that it is a skill that is inherited. These programmes could also access parents through Plunket – which already runs education

programmes to new parents – Parents Centres, Barnardos, Day Care Centres, religious organisations, whanau groups, etc.

Page 28 – Recommendations 12 and 13 – We support the attempts to provide diverse programmes taking into consideration such things as differing cultural attitudes to money and savings and how such different cultures manage areas like looking after their elderly in retirement. However, we believe this should have a wider focus than Pacific and Maori communities. We believe that other groups, such as people with disabilities, need to have programmes tailored to meet their needs. An example of the need for this would be in the Deaf community where many of the terms used in financial areas have are not able to be translated into a suitable sign language sign that enables this group to easily achieve the same levels of financial literacy as the hearing community. Leaders in this community would need to be involved in any programmes set up for their members so that the message can be put across to them effectively.

Page 29 – Monitoring and Reporting – We are very keen to ensure that the advisory group providing governance etc in the interim is sufficiently robust to drive both quality and quantity of programmes. We would be very keen to see IFA involved in this to ensure quality of financial advice. We believe that the Ministry of Education has neglected this vital piece of a person's education in the past so would be reluctant for the monitoring function to be left solely to them. We would recommend that the proposed monitoring advisory group (as stated on page 10) should include representation from the Retirement Commission, the Ministry of Education, the IFA, ISI and NZX and potentially a representative from the debt industry (for example NZ Bankers Association).

Page 30 – Recommendation 14 – We believe that a four-yearly monitoring cycle to survey growth in financial literacy levels is too long a timeframe to ensure effectiveness of programmes. We acknowledge that these things take time but would suggest that, initially at least, a two-yearly survey would be more appropriate to provide a means to monitor progress – 4 years could be a long time to be getting it wrong. We also believe the monitoring advisory board should meet at least 6 monthly to receive information on programmes and success stories and their findings should be available to providers of programmes directly and through the Retirement Commission's website so best practice initiatives can be shared and so that some understanding of penetration and activity can be gathered.

Page 32 – Supporters of the National Strategy for Financial Literacy – We would definitely see Institute of Financial Advisers as having a place as a supporter of this strategy and would therefore like to ensure our inclusion in this list.

Background information on the Institute of Financial Advisers

The Institute of Financial Advisers (IFA) is the professional body for some 1,400 members, representing financial advisers in New Zealand. All members are individual members, not corporate members. We estimate that our members provide advice to over 200,000 New Zealanders each year, many of whom would be couples rather than individuals, with an overall client base of around 600,000.

Our members provide advice to their clients in the areas of insurance, investments, financial planning, work-based savings and insurance, retirement planning, estate planning and financial services generally. Their professional practices reflect the broad spectrum of New Zealand businesses – they operate as local SME's, are part of large regional or national dealer groups, are associated with strong financial organisations, services companies in banking, funds management, or insurance, work in employee benefits organisations, or sometimes practice as lawyers, accountants and other professional advisers.

The Institute reinforces compliance with a code of ethics and practice standards, runs Dispute Resolution and Disciplinary Committees that are independently chaired, offers education pathways that can lead to tertiary qualifications and the attainment of internationally recognised adviser marks, maintains and ensures compliance with a continuing professional development programme, and provides networking, education, development, and business practice forums at a national and regional level for members.