FINANCIAL SERVICES FEDERATION

National Strategy for Financial Literacy 2014

By way of background, the Financial Services Federation ("FSF") is the industry body for the responsible and ethical finance and leasing providers of New Zealand. We have forty two members and associates providing financing, investment, banking and insurance services to over 1 million New Zealanders. Our eight affiliate members include internationally recognised legal and consulting partners. A list of our members is attached as Appendix A.

We are pleased to have the opportunity to provide feedback on the National Strategy for Financial Literacy for 2014 and thank the Commission for Financial Literacy and Retirement Income ("CFLRI") for this and for the great work they are doing to improve financial literacy standards in New Zealand.

We will address the questions raised on page 2 of the discussion document and then provide any comment or feedback we may have to each of the work streams as they are presented in the document.

Questions:

1. The FSF would fully support the Vision for the National Strategy for Financial Literacy. "Personal financial wellbeing for New Zealanders" has benefits for every New Zealander and for New Zealand business.
2. The activity stream that resonates the most for FSF members would be that of "Debt-smart" given that our members are chiefly in the business of providing finance to New Zealand individuals and businesses. Having said that however we do have comment to make about some of the other activity streams as follows in this submission.
3. FSF members are already involved to a greater or lesser degree in helping New Zealanders to get ahead financially. Our members are committed to responsible lending principles and behaviour and are interacting with their customers on a daily basis to help them gain a better understanding of their financial position including doing the following:
    a. Explaining why a lending proposal is being declined and discussing potential alternatives that might be available to them;
    b. Proactively communicating with customers when they first display signs of financial hardship or stress to encourage dialogue to develop a mutually beneficial solution before the loan gets so out of order that legal action or action that might damage the customer's credit rating needs to be taken;
    c. Actively working with customers with poor credit history to get on top of their situation and rehabilitate their credit rating.
4. Any such suggestions are dealt with further in the body of this submission.
5. There are suggestions throughout the body of this submission as to what to happen next. I am happy to discuss these or any other suggestions.

Activity Streams:

Talk:

The FSF would fully support the Outcomes being sought under this activity stream. Too often FSF members find that people are not willing to talk about financial issues so when a problem arises they are too embarrassed to talk about it and tend to hope that by ignoring it, the issue will go away.

FSF members' experience is such that keeping the communication lines open between customers and their finance providers is the best way to ensure that the customer receives:

- the best solution to meet their needs;
- the risk inherent in the lending proposal is priced appropriately;

- any hardship or financially stressful situations are dealt with quickly before they escalate;
- appropriate solutions can be explored in such situations to avoid the possibility of default with the resultant potential legal action repossession or damage to the customer's credit rating that this may cause.

Much of the reluctance to talk about money and finance stems from embarrassment particularly when the situation involves some sort of financial trouble. Encouraging people to talk openly about money – not just when they have money to invest but when they are borrowing money or needing to borrow money and when they have financial problems – is something the FSF would fully support.

The FSF therefore believes that a further Challenge that could be added to the list under this particular activity stream would be:

"Money problems or issues are seen to be embarrassing and could be perceived to be a failure to manage financially."

The FSF does not believe that campaigns such as that of the "Dumb Debt" campaign encourages open discussion about financial matters. Anything that compounds or encourages the embarrassment people feel when talking about money matters should in our opinion be avoided at all costs.

With regard to the Actions proposed under this activity stream to encourage people to talk more openly about their finances, FSF members could potentially have a role to play in equipping people to navigate their way through a point-of-sale conversation with a financial services provider (as in fact they are having such conversations with their customers on a daily basis).

Beyond that we would question who would be capable of teaching people such skills and where and how that teaching would be conducted.

Teach:
The FSF supports the desired Outcome under this activity stream of all learners achieving financial literacy outcomes as part of their educational pathway but would question how levels of financial literacy would be increased for those who have completed their educational journey.

Whilst the FSF fully supports the action of promoting and evaluating teacher professional learning and development in financial education, we would question who would provide both the evaluation and the professional learning for teachers that would be required to equip them to deliver this learning.

An additional consideration is the fact that things change rapidly in the financial services world just as they do elsewhere. New products and channels come to market rapidly and the FSF believes it is also important to ensure that teacher professional learning and development in this area is kept up-to-date and is not seen as having been achieved once a teacher has gained a qualification in this area with no further need to address it.

One suggestion the FSF would make in terms of who might be able to provide appropriate financial education is that rather than expect teachers to be "all things to all people" the Ministry of Education could consider paying financial advisers or other similar professionals to deliver this piece of the curriculum.

Plan:
The FSF does not have any members involved in the provision of financial planning to New Zealanders. On this basis it is not intended that FSF will make any submission on the proposals in the discussion document on this activity stream.

Having said that, prior to taking up this role with FSF I have personally been involved for many years in the provision of financial planning advice to New Zealanders. During that period I was also a Director of the Institute of Financial Advisers and its President from 2008-2010. The following comments and suggestions therefore come more from my own personal experience as a financial planner than from my role as Executive Director of FSF.

When taking about all New Zealanders needing to have a financial plan I believe it's important to start by considering what constitutes a financial plan. There are many definitions of financial plan/financial planning but the way I describe it is that a comprehensive financial plan should consist of the following elements:

- Cash Management – where consideration and advice is given as to where a person's income comes from, where it goes to (income and outgoings), how money is accessed (for example using credit cards, revolving credit facilities, on-line banking, EFTPOS etc.);
- Debt Management – where consideration and advice is given as to how much a person owes, what the debt is for, the term of the loan, the interest rate being charged and how the debt is being managed in terms of ensuring it is being repaid in the most appropriate time frame for the person concerned;
- Risk Management – where consideration and advice is given as to how a person might mitigate all their personal and business risks including but not limited to asset protection (fire and general – house, contents, motor vehicle etc), personal protection (term life, health and disability), business protection (key person, shareholders agreements etc), how much insurance is required, what risk the person is prepared to accept themselves, what products are most suitable etc.
- Investment Planning – where consideration and advice is given as to how a person might achieve their short, medium and long term investing goals with reference to their appropriate risk profile, appropriate diversification strategies to reduce risk, what products are most suitable etc.
- Retirement Planning – where consideration and advice is given as to how a person might achieve their retirement goals including consideration of their time horizons, level of income required in retirement, how long they might be in retirement, what products are most suitable etc.
- Estate and Tax Planning – where consideration and advice is given as to how a person might ensure their assets are appropriately protected for the next generation, how their Wills should be constructed to ensure this and that they have appropriate Enduring Powers of Attorney in place should they become incapacitated. Also that any tax issues they may have as a result of their investment strategy or asset ownership are addressed and mitigated.

I strongly believe every adult New Zealander (18 years and over) should have a current financial plan. As is evident when the elements that make up a financial plan are considered, everyone has needs in one, many or all of these elements that would benefit from being addressed in such a plan.

One of the actions recommended under this activity stream is that of agreeing the elements of, and making freely available, a standard financial plan template. Given the elements outlined above and the fact that most people will have needs to be addressed in almost all of these elements requiring comprehensive financial planning in terms of the way in which the elements fit together, what goals are essential to achieve and which can wait, what products are most suitable for the individual needs etc, I fear that a template is not going to achieve these outcomes for most people.

In my experience most clients I have worked with struggle to articulate the financial goals – even the financially comfortably off clients. A financial planner or adviser helps people to formulate their goals – making sure they are specific rather than something like "I want to be comfortable in retirement". Much of a planner's time is taken up with:

- helping clients to quantify their goals;
- to break them down into short, medium and long term (concepts which many clients do not understand);
- to put timeframes around achieving their goals; and
- to help them to understand how realistic their goals are and what might have to be sacrificed to achieve them.

Most clients do not understand their attitude to risk without being helped to understand this through a professional advice process. In the case of many couples, one partner has a different attitude to risk than the other and an adviser will help them to come to an agreement that both are happy with. Many clients have had bad experiences in the past with a particular asset class such as shares and for that reason need to be helped to understand why they might want to include such an asset in their investment portfolio.

The problem is that comprehensive advice is expensive. By its nature it's extremely complex and time-consuming and therefore professional advisers have an expectation that they will be paid appropriately for their services. This does not make it accessible to everyone sadly. The profession is also aging and shrinking, so access to advice is not just unaffordable it's actually unavailable to most people.

A potential solution to the problem of access to advice I believe is that we have to start considering that financial planners or advisers do not just provide investment advice. Whilst most financial planners do in fact have a relationship with their clients which started with the clients' need for investment advice, I don't believe that's the only way to approach a financial planning relationship and for this to be mutually beneficial to both the client and the adviser.

I believe it's feasible for lending advisers to provide comprehensive financial planning advice to their clients – in fact I believe they should be doing so. Clearly the element of debt management is captured in the client lending engagement but I believe it is irresponsible to lend to a client without also considering their risk management position (if a client is taking on extra debt they are taking on extra risk and their insurance position should be considered as part of the lending conversation).

Similarly cash management issues come into the lending equation to determine where income comes from, where it goes to, how a client transacts using credit cards and revolving credit facilities etc. Consideration should be given by a lending adviser to a client's investment portfolio if they are borrowing to invest and to how diversified their investment portfolio is as a result. Retirement planning comes into the lending conversation particularly with regard to strategies required to retire debt before retirement occurs and estate and tax planning issues also arise with regard to appropriate structures for asset ownership.

Meeting the challenge articulated in this activity stream of consumer trust in financial advisers needing to improve is key to achieving these outcomes. All financial advisers need to start considering their professionalism and how they improve this in the eyes of the public – so perhaps trying to do more than just meet minimum regulatory standards as an adviser could be one way to achieve this. Professional bodies such as the IFA and the PAA have a role to play in promoting the value of their members to the public and they need to make membership accessible to a wider range of advisers – particularly those providing lending advice.
Finally with regard to this activity stream, the desired outcome of all households having access to three months' emergency funds to reduce crisis borrowing is also laudable but you would have to question how achievable it is when so many households are struggling to meet day-to-day living costs and are having day-to-day emergencies just managing normal daily expenditure without anything out of the ordinary occurring. Cultural issues need also to be considered as some groups are under enormous pressure to provide for gatherings such as weddings and funerals and do not have the funds to do so unless they borrow. It's not necessarily for us to tell them that this is not appropriate.

Debt-Smart:
Clearly the FSF has some points to make on this activity stream given that all our members are involved in the provision of finance in some form to New Zealanders. The FSF believes that there are two myths about lending that are perpetuated amongst regulators and other policy-makers. These are:

- That finance providers lend money to people who can't afford to repay it. Responsible lenders absolutely do not do this. Their businesses depend on borrowers repaying their loans as per the contract terms so that they can then on-lend these funds to the next borrower. Only those irresponsible and unethical lenders who are charging exorbitant rates of interests to their customers eventually come to a point where they can afford to write off the original debt because they have received so much in interest payments that they can on-lend that to the next poor victim.

- That repossession is a way for lenders to make money. Again for responsible lenders this is absolutely not the case. In fact the complete opposite is true. Repossessing an asset from a customer is the absolute last resort for any but the most unethical lenders. Many, many conversations and interactions with clients will have been undertaken before getting to this point – many of which involve rearrangements to terms, facilities and interest rates from that of the original contract to try to help the customer to get back on track. Even when the repossession agent makes the visit to collect the asset they will look at ways in which the customer might get the debt back into order and finally repaid before taking the asset. No lender wants a warehouse full of second-hand goods that they then have to on-sell to recover part of their losses. Always they will end up with money owing in repossession situations which they have to write off and which cannot then be on-lent to other potential borrowers. Only those lenders whose behaviour is so unethical that they take more assets than the debt was worth make any money out of repossession.

Having debunked those myths, the FSF would fully support the proposed two outcomes under this activity stream.

With regard to the challenges identified under this activity stream, the FSF would completely agree with the fact that access to credit is too easy from some lenders. We have recently brought to the attention of the Commerce Commission advertisements from lenders who are not members of FSF saying that no credit checks will be carried out before lending is approved. This is not responsible lending. It means that those lenders who do carry out due diligence on a customer and who might make the fully informed decision to lend to someone whose credit history is impaired with a view to helping them to rehabilitate their credit rating, is competitively disadvantaged by lenders who do not take the same care and trouble and who are ultimately possibly not so concerned about having their debt repaid.

The FSF believes that enforcement of responsible lending principles is key to ensuring that the vulnerable are not being preyed on by unscrupulous and egregious lending practices. As a result the FSF is fully supportive of the proposed introduction of such principles including a Code of Responsible Lending Practice as promulgated in the Credit Contracts and Financial Services Law Reform Bill currently before Parliament. We have in fact submitted that the Code should be developed sooner rather than later to make clear to all lenders what is and is not ethical lending practice and so that those who do not adhere to such standards can be put out of business or made to comply.

It should be remembered however that not all dodgy lending practices are confined to the dodgy "loan shark" sector of the industry. In the view of the FSF it is not ethical behaviour when for example a lender promotes borrowing for short term assets such as the purchase of a motor vehicle by increasing a client's home loan. Paying off a motor vehicle which might be held for 3-5 years using a 20 or 25 year home loan is not in our view ethical behaviour. Customers need to be educated to the understanding that a 3 or 5 year motor vehicle loan even at 10-13% per annum interest will cost them less in interest in the long run than the same loan over a 20 – 25 year period at 6% interest.

For this reason and because the FSF does not believe people should be made to feel "dumb" when they have need to borrow and no other alternative way to fund purchases such as that of a motor vehicle to take them to work and to allow them to transport their children, the FSF believes that the CFLRI's "Dumb Debt" promotion is counter-productive to getting people to talk more about money.

With regard to the actions proposed under this activity stream, the FSF supports the idea that the impact of long-term borrowing on an individual's future should be promoted but would also say that this should go further to promote the concept of long-term borrowing being appropriate for long-term assets such as purchasing a house but that individuals should also understand the concept of borrowing in the short-term for short-term assets such as a motor vehicle or home appliance.

The FSF has some difficulty with the concept of price comparison websites. Comparing apples with apples is one thing but there are many varieties of "apple" in the credit provision world. Each company offers a variety of products with a range of interest rates applicable according to the risk inherent in the lending proposal. Consideration is given to aspects such as income, employment history, stability of residence, term of the loan, purpose of the loan, credit history (both positive and negative) and many other factors before a rate is set (if the lender is responsible and doesn't use a "one size fits all" approach). The interest rate is set to reflect the inherent risk in the proposal.

It is therefore also important for the public to understand and manage their credit rating and for awareness to be built of the damage a negative credit rating can have on people's potential to borrow but also for the public to understand the value of having a positive credit rating and how that puts them in a powerful position when negotiating with potential lenders.

Publishing the range of rates applicable for every conceivable lending product can become confusing for potential borrowers rather than providing clarity. What is important in our opinion is that borrowers know before they sign any contracts that if they are borrowing to purchase a motor vehicle for example what fees and charges and interest rates company A is offering as compared to company B.

The FSF believes that we have a definite role to play in educating people to borrow only what they need and in explaining the consequences of over-borrowing. In fact our members are engaged in this every day in conversations with existing and potential borrowers. Unfortunately it is a sad fact that, when our members decline a loan or offer a lower alternative due to a borrower's inability to service the debt requested, the customer can and will go and borrow the funds elsewhere and unscrupulous lenders will lend it to them. This is where enforcement of responsible lending principles needs to be stronger and more effective than it is currently.

Save/Invest:
With regard to this activity stream, I refer back to comments made under the Plan activity stream relating to the accessibility of advice to people who are building their wealth rather than those who have already amassed a lump sum of money. It is about people having access to affordable and appropriate advice and having sufficient surplus to be able to save and invest.

I believe that the public need to better understand their KiwiSaver product and provider and to have access to limited advice to ensure that what they have is the most appropriate product for them – particularly as this is for many people the only savings or investment product they will ever have.

It is also important for people to be having better conversations with investment property funders around diversification of portfolios. In most cases in my experience lenders look only at whether the lending proposal fits criteria not how it might affect the borrower's investment risk profile if it proceeds.

Conclusion:
I hope the above is helpful. Thank you again for the opportunity to comment on the draft strategy and for the work you are doing to improve standards of financial education for all New Zealanders.

Please do not hesitate to contact me if there is anything you wish to discuss.

Lyn McMorran
EXECUTIVE DIRECTOR
FINANCIAL SERVICES FEDERATION

Membership List as at 14 February 2014

Debenture Issuers – (NBDT)Non-Bank Deposit Takers	Vehicle Lenders	Finance Company Diversified Lenders	Credit Reporting	Insurance	Affiliate Members
Rated • Asset Finance (B) • Avanti Finance (BB) • Fisher & Paykel Finance (BB+) • Medical Securities (A-) **Non-Rated** • Mutual Credit Finance • Prometheus Finance	• BMW Financial Services • Branded Financial Services • Community Financial Services Limited • European Financial Services • FleetPartners NZ Ltd • Mercedes-Benz Financial Services • Motor Trade Finances • Nissan Financial Services NZ Pty Ltd • ORIX NZ • SG Fleet • Toyota Finance NZ • Yamaha Motor Finance	• Centracorp Finance 2000 • Dorchester Finance • Equico Limited • Finance Now • Future Finance • GE Capital • Instant Finance • John Deere Financial • Oxford Finance Ltd • Rent Plus • DTR Thorn Rentals	• VEDA Advantage **Debt Collection Agency** • Baycorp (NZ)	• Protecta Insurance • Provident Insurance Corporation Ltd **Associate Members** • Southsure Assurance	• American Express International (NZ) Ltd • Buddle Findlay • Chapman Tripp • Deloitte • Ernst & Young • PriceWaterhouseCoopers • Russell McVeagh • SimpsonWestern • Visa Worldwide(NZ) Ltd