



**ABA's Financial Literacy Summit  
Broadening Financial Understanding  
Wednesday 2 July 2008**



AUSTRALIAN BANKERS' ASSOCIATION INC.

**Michael Ullmer  
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***“Bridging the Gap –  
Improving levels of financial literacy and  
dealing with financial exclusion”***

**Introduction**

Thank you David. Good morning everyone.

I'm really pleased to be opening the Australian Bankers' Association's Financial Literacy Summit 2008 – *Broadening Financial Understanding*.

John Stewart, the ABA Chairman, sends his apologies for being unable to make it today, but his loss is my gain.

Just over two years ago, the ABA hosted its second financial literacy event. At that event, the ABA made a commitment to host another event to track our progress with broadening financial understanding and improving levels of financial literacy for all Australians.

Two years on, there are a number of things we can be proud of achieving ... there are also a number of things that we need to continue to work on.

When John became Chairman of the ABA in June last year, one of the first meetings he attended on behalf of the ABA was its Community and Consumer Consultative Forum.

It's good to see many members of the Forum are here today!

The Forum is a good example of the banking and community sectors working in a constructive and positive way to achieve better results.

I'm told the Forum meetings are characterised by a positive and lively discussion between the banking and community sectors on important issues, such as financial literacy. John said he was impressed by the candid exchange of views and ideas. And so my message to give you from John, is that he is hoping that this same openness will be present in our dialogue here today.

The only way we will be able to continue to promote the agenda of broadening financial understanding is to be honest with each other; accept responsibility for what we can do, and should do; and believe that we can generate cultural change.

### **Banking perspective**

Australia has a strong banking sector and this is good for consumers. Over the last decade, banking has been made more convenient for our customers. Competition has driven down the average interest rate spread earned by banks. Technology has enabled greater access to banking services. Millions of Australians use banks as their main financial institution.

It's not just banking that has changed. Financial markets have opened up, with greater participation by retail consumers and investors. With the expansion in financial services, consumers are now faced with greater choice – there's a wide variety of credit, saving, investment and superannuation products offered by a range of providers.

But choice brings its challenges. In essence, the greater the choice we have, the more we need the information and understanding to make the right decision.

Let me give you an analogy. When you walk down the aisle of a supermarket and you're looking for some cheese, there is a lot of choice. The supermarket may have blocks, slices, cheddar, Swiss, brie, blue, low fat, high fat, with fruit, without dairy, spreadable – the product choice is enormous.

Not to mention the brands – no-names, major brands, specialised brands – again, the choice is enormous. And it doesn't stop there – I might find cheese at the deli counter or in the refrigerator next to the milk. I might even find cheese on the supermarket shelf. Even in a tube.

The type of cheese I want to buy will depend on why I need it? Do I want a sandwich or to grate it over pasta or to have with crackers.

As consumers, we are surrounded by financial product and service choices. And which choice is best for me will depend strongly on my individual circumstances and needs.

Choice is good, but the flipside of choice is that we now face many more decisions in our lives. Choosing the wrong cheese may not matter much, but choosing the wrong financial product can have serious consequences.

Consumers need to be active in making decisions. Consumers also need the skills and information to be active – to make informed decisions – decisions that mean that the product they purchase, or the service they use, is reasonable and meets their needs.

Consumer and financial literacy is therefore a vital life skill!

Australians must have the knowledge and skills to understand how to behave with their finances, how to manage their money, how to increase their savings, how to make good choices, and how to manage their debt.

Australians must have the capability and capacity to understand how to behave with their spending and how to avoid making bad consumer and financial decisions.

An informed and educated consumer is more likely to make better choices about financial products and money management.

An informed and educated consumer can participate in the banking and finance sector, and participate with more confidence.

An informed and educated consumer can keep their distance from unscrupulous sellers and payday lenders seeking to exploit them.

Yet while money management skills are a vital life skill, and people generally want to make the most of their financial resources, financial literacy has not gripped the public's imagination.

And financial literacy is no good if you can't access financial resources, services and products.

Imagine a society without bank accounts, credit cards or 24-hour ATMs around the world. It's possible to function without them, but not as conveniently, as safely or confidently.

Without access to mainstream banking and finance, it's difficult to achieve our life and financial goals. For some people, it's difficult to get ahead.

When people are squeezed and can't access mainstream sources of credit through banks and credit unions, their lifestyle, their wellbeing, can often be severely hampered.

In 2006, NAB made a three year, \$30 million commitment to provide safe, affordable small loans to Australians who have the aspiration to get ahead, but for one reason or another are financial marginalised.

People who are financially disadvantaged have few options when seeking small personal loans from banks when they don't have a credit history.

NAB's Step UP Loans were originally launched in 2004. These loans are unsecured, not-for-profit loans of up to \$3,000.

Step UP Loans provide an opportunity for people who would otherwise be unable to access affordable, safe, mainstream credit.

Step UP Loans also provide an opportunity to work with customers to build their financial capability, such as budgeting and savings skills, and to develop a credit history.

Step UP Loans has been developed with the Good Shepherd Youth and Family Service. Some very dedicated people have made this program a success – Michelle Sainsbery, from the Good Shepherd, and Corinne Proske, from NAB, are here with us today.

Since launching Step UP Loans we have learned a lot. Tim O’Leary, from NAB, will speak more about our recently published report *A Step in the Right Direction?* as part of the bankers’ panel.

However, I would like to mention one thing – Step UP Loan recipients have told us that not only was Step Up their first banking experience, but it was their first ever formal financial appointment. These same people said they would not have felt comfortable approaching a bank.

We are proud that we now have over 800 loans and \$2 million in outstandings and Step UP has been recognised by winning Money magazine's "Best of the Best" awards for most socially responsible product for the last two years.

And we recognise our responsibilities lie beyond those who feel comfortable walking into a branch. But we are also conscious that it is a fine line between providing credit and over-committing recipients.

Our experience with Step UP Loans has led us to launch Step UP Insurance.

Step UP Insurance provides low income consumers with access to affordable insurance. Step UP Insurance is a not-for-profit product developed in partnership with Allianz and in response to community need.

And more recently, NAB launched a pilot with fringe lender, Mobile Finance, who will offer small personal loans of between \$1,000 and \$5,000 for a term of 12 months, on a break even basis.

The NAB Small Loans Pilot is not a commercial venture for NAB, but an extension of our micro-finance programs and NAB’s commitment to helping Australians access fair and affordable banking services.

NAB's aim is to better understand the costs of offering credit in the so-called fringe market, which is criticised for exploiting borrowers.

NAB's aim is to also demonstrate the costs of short-term, small loans in the fringe lending market and to draw attention to the high interest rates and charges prevalent in this market.

Many of these fringe lenders – and while some might be fringe, they certainly aren't small – claim to have low interest rates and affordable repayments, but in reality this is not the case. But if this is your only experience, why would you think differently. If this is your only option, why would you act differently.

There needs to be greater debate about the cost of providing small loans to people that can't access affordable credit from mainstream financial institutions, like banks.

NAB is committed to this pilot, which has been welcomed by Consumer Affairs Victoria.

I'd like to think that the pilot will place pressure on other fringe lenders to offer loans that more realistically reflect the cost of providing these small loans.

Of course, NAB is not the only bank that is making efforts to bridge the gap and work with governments and communities and work with Australians that are financially marginalised.

Westpac continues to work with Indigenous Australians in Cape York as part of its Family Income Management and Business Hubs initiatives. These programs are designed to build financial independence for Indigenous Australians.

ANZ's Saver Plus, a matched savings program, is designed to assist people on low incomes establish long term savings habits. And ANZ's ground-breaking research into financial literacy and inclusion has formed the basis for continued assessment of financial literacy and a better understanding of financial disadvantage in Australia, which is critical to measuring our progress in broadening financial understanding.

Commonwealth Bank's student banking program and the Commonwealth Bank Foundation's Financial Literacy Curriculum Resource is designed to assist young Australians, and their teachers, understand everyday finance concepts and the principles of banking and sound money management.

Citi's Finance First partnership and Making Cents program is making a difference in the lives of many young Australians and their families.

Bank of Queensland sponsors the Financial Basic Foundation's 'Operation Financial Literacy', a program which combines classroom, community, web and research-based activities.

HSBC is working in partnership with 'Students In Free Enterprise' on a number of community outreach and educational projects, including financial literacy. One project is a computer and financial literacy-based course designed to help financially disadvantaged young mothers.

And this is not all the financial literacy activities involving banks in Australia. And indeed it is not just the banking sector that is working to raise awareness of financial literacy and build financial capability – these are the goals of the Government's Financial Literacy Foundation Advisory Board, ASIC, and many, many community groups.

However, with all these good efforts, it is personally disappointing when I hear that many people in Australia are "functionally illiterate".

Many of the financial literacy and inclusion programs I have mentioned have been going for some time. Yet a recent study by the Organisation for Economic Cooperation and Development (OECD), and published by the Australian Bureau of Statistics (ABS), found that many Australians have low levels of literacy and numeracy.

Approximately 8 million Australians or 53% of the adult population have been assessed as having low levels of "knowledge and skills required to effectively manage and respond to the mathematical demands of diverse situations".

But this should not thwart us in our efforts! It should make us more defiant.

So today I call upon us all to ask questions, listen to each other's views, learn from best practices – from here and around the world – and develop an improved agenda, an agenda that will take us forward together to make a difference.

The banking sector can't do it alone. Nor can the government or the community sectors. That's why it is important for us to work in partnership to raise awareness of the importance of financial literacy in terms of national and personal savings, retirement incomes policy and our ageing population.

We need to turn policy into practice!

Improving financial literacy means raising awareness of the importance of money management as well as building capacity for people to understand the implications of their consumer and financial decisions.

Building financial wellbeing means promoting accessibility to banking services and socially responsible products as well as increasing levels of financial literacy across the community.

Bridging the gap means committing to long term, sustainable efforts which recognise what we have achieved, and identify what we still need to do.

We all have a role to play!

We are all part of the agenda to shift behaviours and generate cultural change across the community in terms of providing people with the financial skills, knowledge and understanding to build financial competence, responsibility and wellbeing.

## **Release of new ABA booklets – Planning for Home ownership and Planning for Retirement**

Before I finish, I would like to launch two new resources which are part of the ABA's financial literacy program:

- Planning for Home ownership; and
- Planning for Retirement

These two new booklets provide information about how to go about managing the financial and emotional decisions surrounding these significant life events.

These booklets are timely as the challenges of housing affordability and Australia's ageing population test 'the lucky country'. There are copies of these booklets available today, or you can access them online in the ABA's Financial Literacy Info Centre, part of the ABA's website.

The ABA is also about to review two of its existing booklets on banking and credit. To make sure that the information needs of consumers are reflected in the revised versions, the ABA will be consulting with the Community and Consumer Consultative Forum as part of the review.

Finally, the ABA is not only reviewing some of its financial literacy materials, but also its entire financial literacy program. The ABA Council, which comprises 11 CEOs of Australia's largest banks and which is chaired by John Stewart, is committed to the ABA's financial literacy program. But like all good bankers, we are committed to an ever-improving program.

At the next ABA Council meeting, the Council is due to discuss the forward program. So in the interests of helping David Bell and the ABA work smarter, and reach more people with the right information at the right time, I again reiterate John's message, and invite you to have a candid exchange of views and ideas today.

## **Conclusion**

The importance of financial literacy has increased along with developments in the banking and finance sectors and changes in demographic, economic and public policy.

Financial literacy is an essential part of maintaining Australia's economic prosperity and Australians' individual wellbeing.

Financial literacy is about enabling Australians to take control of their finances now and prepare for their lives into the years ahead.

It is about consumers having their cheese sandwich ... and eating it too.

I've canvassed some of the issues that John and I see as important for today's discussion. We look forward to hearing how the banking, government and community sectors can work together to broaden the financial understanding of all Australians.