Enhancing Financial Literacy for Better Decision Making

Reading time:
Jayson Nagpiing
Last Modified on 08/05/2024 6:26 pm AEST

The Royal Commission into Misconduct in Banking, Superannuation and Financial Services recently heard that a substantial number of financial advisers have not been providing advice in the best interests of their clients.

At the Royal Commission's second round of hearings in April 2018, senior counsel assisting Rowena Orr raised a troubling amount of misconduct examples over recent years such as financial advisers miss-selling financial products, falsifying documents and charging fees for services that never occurred.

Then in late June 2018, ASIC released Report 575 SMSFs: Improving the quality of advice and member experiences and Report 576 Member experiences with self-managed superannuation funds, both of which found that found financial advisers often did not comply with the 'best interests' duty as outlined in the Corporations Act 2001(Corporations Act).

MIPS is concerned that even healthcare practitioners with high financial literacy may have fallen victim to the misconduct of financial institutions. It is a good time to reassess investments and the quality of financial advice received. MIPS has several online financial literacy units available for members to complete for CPD.

Section 961B of the Corporations Act states a "provider must act in the best interests of the client in relation to advice".

ASIC reviewed 250 randomly selected client files with an SMSF from ATO data and found advisers did not comply with their best interest duty and obligations under the Corporations Act in an overwhelming 91% of the files.

The report found that the advisers failed to uphold the law in areas such as record-keeping and processes with 10% of clients reported to end up "significantly worse off in retirement due to the advice". In 19% of the cases, the clients were at an "increased level of financial detriment due to a lack of diversification" (ASIC 2018).

Another ASIC review, Report 562 Financial advice: Vertically integrated institutions and conflicts of interest examined potential conflicts of interest in providing personal advice and financial products (ASIC 2018a).

It found that advisers from five institutions only demonstrated compliance with the best interest duty through 'safe harbour' steps in 25% of customer files.

To arrive at the results, ASIC collected data from the two largest advice licensees owned or controlled by each of the five largest banking and financial institutions between July 2014 and February 2015 and January to March 2017.

In 10% of the customer files reviewed, it also found that customers were likely to be much worse off as a result of following so-called 'advice'.

Numerous studies show that not every Australian has a sufficient level of financial literacy to adequately assess the quality of the advice they are paying for. Healthcare practitioners may be at particularly high risk as they earn above average salaries and are likelier to contract financial advice services. Test your financial literacy using the global financial literacy test in our article 'Financial literacy for healthcare professionals'.

According to ASIC and EY Sweeney's March 2017 Australian Financial Attitudes and Behaviour Tracker report (ASIC & EY Sweeney 2017), about four out of 10 Australians do not feel confident about managing their money.

Thirty-six percent of respondents said that dealing with money is stressful and overwhelming, an increase from the survey a year earlier where only 30% of respondents agreed this to be the case, and 15% said they have difficulties understanding financial matters.

The report also noted that Australians have a low understanding of key investment concepts, with less than one third saying they understood the risk-return trade-off concept.

A 2018 ANZ study, Financial wellbeing: a survey of adults in Australia, April 2018, showed that financial knowledge and experience is important, contributing to 9% of someone's financial wellbeing, however, behaviour is most influential at 45%, with activities such as active saving and not borrowing for everyday expenses reported as helpful behaviours.

The study found that other aspects that were seen to contribute to financial wellbeing were:

- economic factors at 14% (household incomes varying incomes, and falling incomes)
- psychological factors at 16% (e.g. confidence in money management skills and locus of control)
- social factors also at 16% (e.g. whether government was the main source of income or whether people owned their home, mortgage free).

Conclusion

While Australia's financial literacy rate is higher than the average rate of OECD countries, there is still a substantial amount of people who are not confident in managing their money.

As the Financial Services Royal Commission continues to reveal how the sector has taken advantage of Australians, financial services experts are imploring companies, schools, and households to help Australians improve their financial literacy. These includes tips about how to understand basic products for those who may struggle to understand finance. Ultimately, the more financially literate a person is, the better they are placed to use financial advice to their benefit.

Related articles

CAREER LEADERSHIP PROGRAM >