

**MINISTER FOR SUPERANNUATION AND CORPORATE
LAW – SENATOR HON. NICK SHERRY**

***POLICY RESPONSES TO TIGHTER CREDIT CONDITIONS
AND HOUSEHOLD INDEBTEDNESS***

**KEYNOTE ADDRESS TO
FINSIA CONSUMER FINANCE, INVESTMENT AND
REGULATORY ISSUES SYMPOSIUM**

MELBOURNE

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Good morning.

Firstly, I would like to thank the Financial Services Institute of Australasia for hosting this symposium.

I'd also like to thank FINSIA for the excellent work it does in promoting high professional standards within the financial services industry and for the invaluable contributions it has made to the Government's consultative processes. Input from professional bodies such as FINSIA are an important part of developing an effective policy framework.

I note that today you've gathered here to discuss some of the challenges with consumer finance. Tighter credit conditions and household debt are issues that affect the financial services industry and policymakers alike.

Overview of level of debt in Australia

In March this year, the level of household debt in Australia was about \$1.1 trillion.

Or, to put it another way, household debt was about 160 per cent of annual household disposable income — up from about 80 per cent a decade ago. This increase is due in part to ongoing financial innovation and deregulation of our financial services and banking sectors, started primarily by Labor Governments in the 1980s and 1990s, which improved households' access to credit. This was a significant achievement which has allowed Australian households to build their asset base and increase their wealth.

The report, *Reconciling Wealth with Leverage — New Challenges in Consumer Finance*, released by FINSIA last week, highlights what it

sees as emerging trends associated with household debt in Australia today.

According to the research, which was commissioned by FINSIA and conducted by Roy Morgan, there has been a significant shift in both income earning and wealth accumulation from younger to older Australians in the last ten years. The research also shows an increase in the debt burden incurred by young home loan borrowers in the period.

I note FINSIA's CEO, Dr Martin Fahy's comment that Australians are "more exposed and vulnerable than ever before".

This trend is a concern in the more difficult economic environment we now face.

While the share of households experiencing debt servicing difficulties has risen slightly in recent years, only a very small proportion of borrowers are in significant arrears on loan repayments. Of course, the effect of successive interest rate rises is very real and has a major impact in important parts of the country, such as western Sydney and the outer suburbs of Melbourne.

Government priorities to strengthen the economy

In these challenging times, a key priority for the Rudd Government is to combat inflation and relieve pressure on interest rates.

The Rudd Government is fighting and continues to fight the legacy of inflationary pressures. Through our first Budget, we delivered on our commitment to govern as economic conservatives. The Budget refocused spending on measures to increase the economy's supply capacity, in critical areas such as infrastructure, health and education, and skills.

We are also advancing our plan to bring Australia's financial services sector and credit regulation regime into the 21st century through single, national regulation.

Regulation of credit

On June 3 this year, I released a Green Paper setting out a range of major areas for reform in relation to consumer credit and financial services.

We felt very strongly on coming into Government, that for more than a decade these reforms had languished unnecessarily.

There have been many inquiries into aspects of state and Commonwealth regulation over the past 10 years but no action.

The system was duplicated, patchy, confusing and very difficult to change — and in some areas, even completely non-existent.

And the sector has reacted in exactly the spirit we'd hoped, with an impressive 156 separate submissions.

The proposals set out in the Green Paper represent the Rudd Government's plan for single, national regulation of mortgages, mortgage broking, margin lending and trustee companies.

And, after listening to industry and consumer stakeholders, we pushed for all credit, including payday lending, personal loans and credit cards, to move to the national level too, something we achieved with the landmark decisions made by COAG on July 3.

So, after many years, there is action to implement single, national, standard regulation of all financial services.

This move will also go a long way towards implementing COAG's vision of a seamless economy.

This initiative aims to provide better protection for consumers, but in alignment with a goal of cutting red tape for business. These are two goals that don't often run hand-in-hand, but I am convinced that we can achieve just that outcome.

In the near future, I will be announcing a detailed road map for national regulation of the areas covered in the Green Paper and agreed by COAG.

I understand that there is a workshop directly after my address that will examine some of the issues contained in the Green Paper. While formal submissions on the Green Paper are now closed, I would still be very interested in hearing a report on the discussion that takes place today.

Financial Services Working Group

The Government is determined to help Australians better understand financial issues, and better manage their money.

We are committed to removing barriers that can make it difficult for even the most knowledgeable consumers to chart a sensible path.

A good example is our work on providing simplified product disclosure documents for financial products. I freely admit that this is something of a crusade for me!

Let's face it — we can't expect everyday Australians to read, let alone understand, 50 to 100 pages of fine print which may as well have been written in Latin.

You may have heard me say this before, but it bears repeating — most Australians would need a finance degree to understand most product disclosure documents, yet they are critical to consumer protection in our system.

And I am aware that the unreadability of disclosure documents has been a factor in the losses of some investors.

To remedy this situation, back in February, together with Lindsay Tanner, the Minister for Finance and Deregulation, I announced the formation of the Financial Services Working Group.

The Working Group has been charged with developing financial services disclosure documents which are brief, simple and allow consumers to easily compare products.

I'm very proud of the progress the Financial Services Working Group has made in developing a concise four-page Product Disclosure Statement for the Government's new First Home Saver Accounts.

The First Home Saver Account Product Disclosure Statements were designed by a consultancy and consumer-tested in consultation with the Financial Services Working Group Advisory Panel, which consists of industry and consumer representatives.

The documents are refreshingly short, clear and to the point. They will make it much easier for people who are interested in using First Home Saver Accounts to understand and compare the products on offer. Key product information is provided over the equivalent of four A4 pages in concise, plain English and can be read and understood in just a few minutes.

This is clear proof that product disclosure documents need not be long, complex or unreadable.

The successful model of the First Home Saver Accounts will also be applied to managed investment and superannuation products.

As the Minister for Superannuation, I am particularly concerned that all Australians have access to clear information and cost effective advice about their superannuation.

Clearly, while there is a lot of work to be done, our experience demonstrates that shorter and clearer product disclosure documents are possible. The Government is committed to making significant improvements in this area.

Financial literacy programs provided by ASIC

One of the ways we are improving the capability of consumers to use product disclosure documents more effectively is by expanding the role of ASIC.

You may be aware that on the 1 July, the functions of the Financial Literacy Foundation were transferred to ASIC, making it Australia's peak financial literacy body.

I'd like to provide a bit of background to the Government's decision to consolidate our financial literacy response under ASIC.

In terms of policy settings, successive governments have focused mainly on supply-side initiatives that have delivered greater market efficiency through enhanced competition and consumer choice.

These initiatives have been complemented by efforts to promote market integrity, stability and transparency. At the same time, the regulatory focus has shifted towards the conduct of market participants and the disclosure of information.

Historically, less attention has been paid to the demand-side of markets — in other words, the ability of consumers to engage effectively with markets.

But we now have a keener appreciation of the fact that supply-side initiatives can only be fully successful when consumers are empowered with the skills, the knowledge and the motivation to engage effectively with markets and make informed choices.

By transferring the functions of the Financial Literacy Foundation to ASIC, we are — so to speak — bringing the supply-side and the demand-side of the equation together.

As the industry regulator, ASIC promotes informed participation in the financial system. So it is ideally positioned to take the lead in advancing financial literacy in Australia.

In its new role ASIC will develop and promote a range of projects tailored for different segments of the population.

While they are designed for different groups, these projects have one common goal.

That goal is to sustain long-term generational improvements in financial literacy by creating opportunities for Australians of all ages to learn more about money — at school, through vocational and higher education, in the workplace and in the community.

And this work will be complemented by a range of Government programs designed to improve financial capability, particularly for those who are most vulnerable to the consequences of poor financial decisions.

At ASIC, the Financial Literacy Foundation will evolve into a national focal point for financial literacy initiatives, assisting in leveraging Government contributions with those from the private and not-for-profit sectors.

Financial counselling

The Government recognises the importance and effectiveness of financial counselling.

That's why, in this year's Budget, we increased funding for financial counselling services by \$20 million over four years. Specifically, we increased funding for the Commonwealth Financial Counselling program by \$10 million, effectively doubling the size of the program.

As well, we will provide funding of \$10 million over four years to develop and distribute easy-to-understand material to help Australians to manage their money better.

This material will cover mortgages, credit cards, hire purchase and similar financial products. It will be distributed through Centrelink's Financial Information Service and other agencies which provide financial information and counselling.

Conclusion

Ladies and gentlemen, shifting credit conditions and the growth and role of household debt are complex issues. But they are issues we — as the Government, as the community as a whole — are actively addressing on several fronts.

Once again, I would like to thank FINSIA for inviting me to talk to you this morning.