

# National Strategy for Financial Literacy

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# Foreword

The development of a national strategy to lift New Zealanders' financial literacy was announced at the Inaugural Financial Literacy Symposium in Wellington on 1 December 2006.

Within eighteen months a draft National Strategy has been developed, a consultation process undertaken, and New Zealand's first National Strategy for Financial Literacy launched. This rapid development shows the significance that the Retirement Commission and the public, private and voluntary sectors have placed on the importance of financial literacy.

Awareness of the need to improve financial literacy is gaining momentum internationally. And there are many factors that mean a high level of financial literacy is more essential than before - the proliferation and increasing complexity of financial products, rising consumer debt and an ageing population are just some of these.

While not out of step with other comparable countries in the OECD, the 2006 ANZ-Retirement Commission Financial Knowledge Survey found that many New Zealanders have low financial knowledge.

In addition, the recent introduction of KiwiSaver has brought the issue to the fore. To make an informed decision about whether or not to join KiwiSaver, and what type of investment fund to choose, a considerable amount of financial knowledge is required.

The Strategy, led by the Commission with the involvement of many stakeholders, sets a direction for improving financial literacy in New Zealand. It indicates a range of tactics will be needed to lift the nation's financial literacy, including incorporating financial education into the school curriculum, getting rid of financial jargon, and continuing to provide information and tools to help people make informed decisions about their money.

Many organisations across the private, not-for-profit and public sectors have also been working to lift the nation's financial literacy. These organisations, and others with an interest in the issue, have contributed to the Strategy. We look forward to continuing to work with them to achieve our shared vision – personal financial wellbeing for New Zealanders.



**Diana Crossan**  
Retirement Commissioner

# Executive Summary

In recent years there has been a proliferation of interest in financial literacy, both in New Zealand and overseas. The OECD has established a Financial Education Project to describe, analyse and assess the effectiveness of programmes to improve financial literacy. In addition, many countries have started to develop national strategies to improve the financial literacy levels of their citizens, and Russia made financial literacy a theme of its presidency of the G8 in 2006. The Retirement Commission defines financial literacy as the ability to make informed judgements and take effective decisions regarding the use and management of money throughout the life course<sup>1</sup>. Factors which have contributed to the worldwide high interest level in this include:

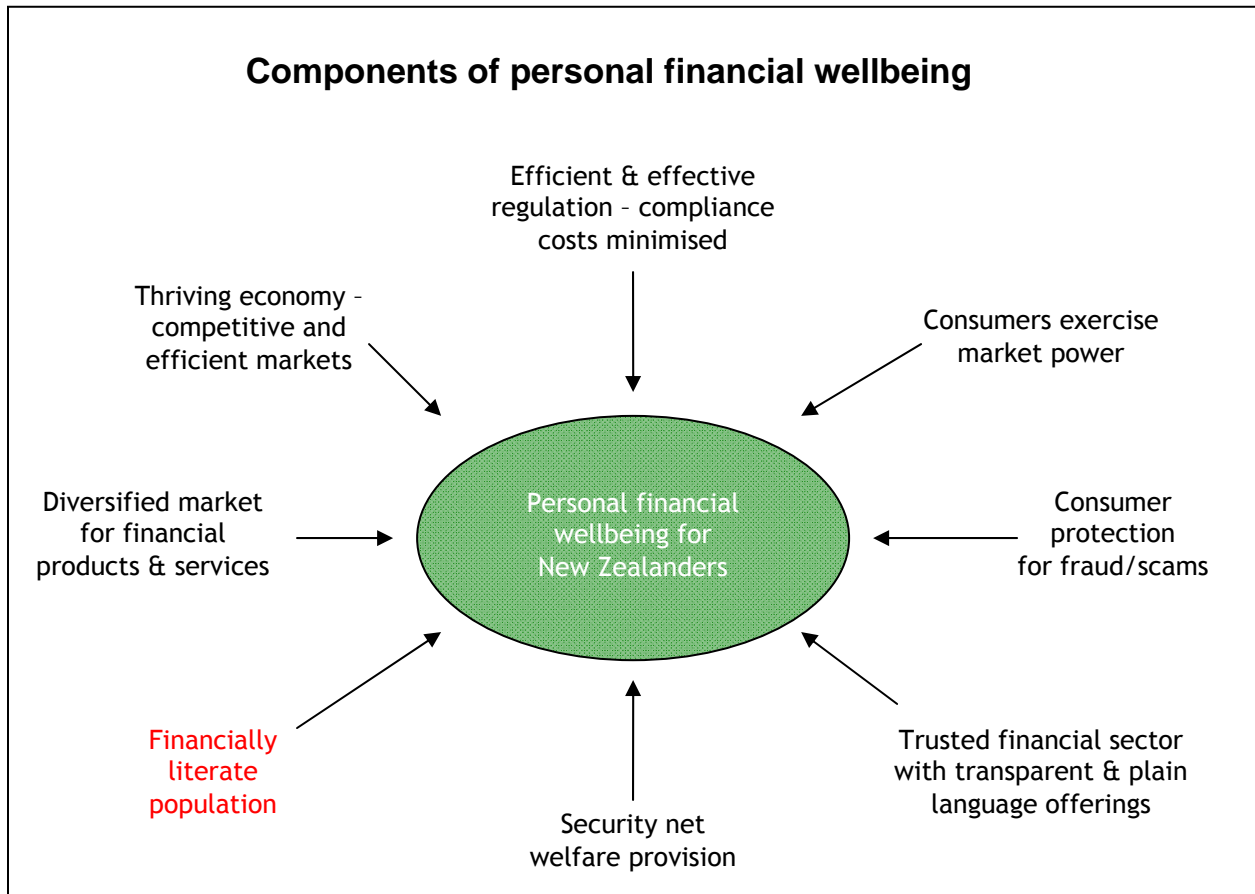
- Ageing populations, which threaten the viability of public pay-as-you-go pensions
- Increases in life expectancy, with people's savings having to support them for longer than ever before
- The complexity of financial products
- A proliferation in the number of financial products
- Better educated consumers - who want to know more
- Changes in pension arrangements, with a shifting of risk from governments to individuals, from defined benefit to defined contribution schemes, in some countries
- Low levels of financial literacy for many citizens
- The erosion of trust in the financial services industry with such issues as the collapse of finance companies (NZ), mortgage foreclosures (USA) and lending crisis (UK)
- Increasing consumer debt and bankruptcies
- The ease and availability of credit products to an increasing proportion of the population
- The KiwiSaver scheme in New Zealand, which has exposed many people to choices around investing and saving for the first time.

Financial literacy is important in enabling people to navigate this environment and achieve personal financial wellbeing, the vision of this Strategy. Personal financial wellbeing is facilitated by a variety of interdependent factors, which in their combined effect have the potential to maximise the prosperity of individuals, families and societies. These are summarised overleaf.

The National Strategy governance structure will comprise an advisory committee that will report annually to Parliament via the Retirement Commission. The inaugural advisory committee members are Alan Bollard (Governor, Reserve Bank), Sean Carroll (Chair, Investment, Savings and Insurance Association), Diana Crossan (Retirement Commissioner), Jane Diplock (Chair, Securities Commission) and Karen Sewell (Secretary for Education).

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<sup>1</sup> Schagen, S. (1997).



This National Strategy seeks to focus effort upon the goal of achieving a financially literate population. It is financial literacy that really *empowers* people to make smart decisions about their money that fit the circumstances of their own lives. While targeting financial literacy, the Strategy seeks to simultaneously draw together a wide-ranging group of stakeholders in the interests of concurrently addressing other elements which can help to achieve the goal of personal financial wellbeing.

New Zealand has been a world leader in financial literacy in many ways: on the financial information front the *Sorted* website is a template that other countries are following. In addition, New Zealand is one of very few countries to carry out a national survey on levels of financial knowledge amongst the adult population. Nonetheless, much work remains to be done. The survey has highlighted gaps in knowledge and areas for improvement, with low income or less education not necessarily being predictors of low financial literacy levels. Take-up of financial education is patchy, particularly at school level, and evaluation of what works best in terms of delivery is still in its infancy.

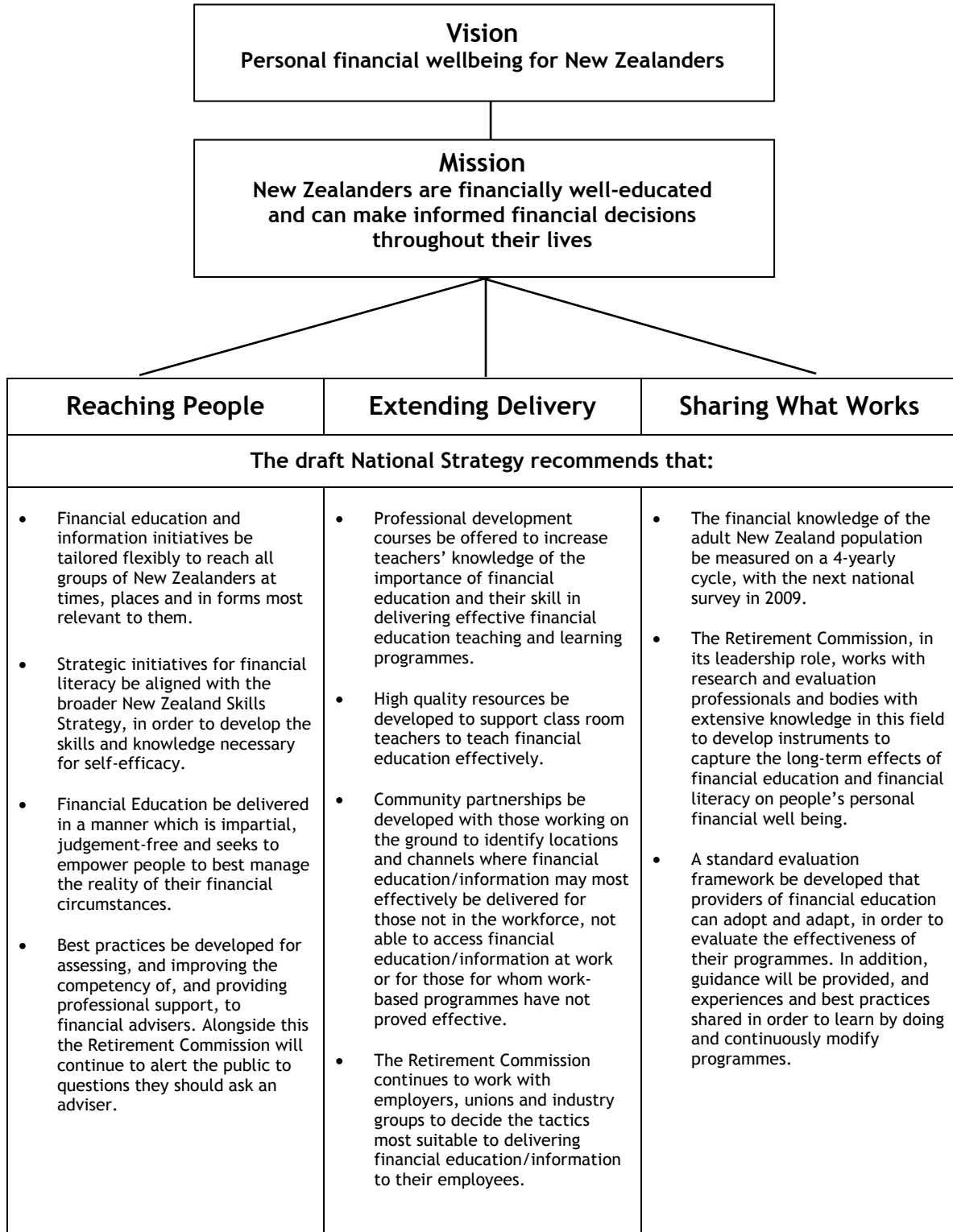
The National Strategy for Financial Literacy is not a prescriptive approach. Rather, it seeks to create consensus about the direction in which we should be heading in New Zealand, to establish a high-level umbrella framework under which initiatives in this area can be co-ordinated, and to identify any gaps in coverage. In this way we can ensure that we gain maximum value from the work we are all doing, build synergies and avoid duplication of effort. The detailed development of objectives and actions to meet these objectives rests with the various stakeholders contributing to this Strategy.

All parties can work together to develop shared understandings and language around the work being done and we can make sure that all New Zealanders have the opportunity to benefit from financial education and information.

The National Strategy will focus on reaching people, through extending the delivery of financial education, and sharing what works in order to achieve the outcome of a financially literate population. These three areas where the Strategy can add value are reflected in the grouping of recommendations in the Strategy Map overleaf.

1. **Reaching People** - If financial education/information is to be effective it has to be timely, relevant, presented in accessible formats and impartial. The National Strategy will seek to promote flexibility, multiplicity of channels and cultural fit, in order to reach those who need financial education.
2. **Extending Delivery** - Where gaps in provision are identified the Retirement Commission will liaise with and co-ordinate those stakeholders best placed to fill them, so that the benefits of financial education/information are extended to as many New Zealanders as possible.
3. **Sharing What Works** - There is scope to improve the evaluation of the effectiveness of financial education. New Zealand could take a world lead in understanding how financial education works best. The Retirement Commission will take the lead in bringing together interested parties to develop an evidence base. The sharing of best practice and experiences through which others may learn will be initiated. Furthermore, a database of providers of financial education/information will be launched, with the scope to identify those programmes which result in high quality outcomes, once quality control indicators are established.

# Strategy Map



Reaching People	Extending Delivery	Sharing What Works
<b>The draft National Strategy recommends that:</b>		
<p><i>In addition:</i></p> <ul style="list-style-type: none"> <li>○ The National Strategy endorses the development of new standards for transparent, plain language and user friendly forms of financial disclosure and description of products and services, in order to enhance consumer understanding.</li> </ul>	<ul style="list-style-type: none"> <li>• The Retirement Commission works with Pacific communities, the Ministry of Pacific Island Affairs and relevant stakeholders to facilitate financial education programmes tailored to Pacific peoples to provide the information and skills necessary to become well informed and knowledgeable consumers of financial products and services, to manage money effectively on a daily basis, and to plan for the future.</li> <li>• Partnerships be established with Te Puni Kōkiri, Ngāi Tahu and other iwi to extend the delivery of successful school financial education programmes to the Māori community. Collaboration will aim to identify channels through which financial education can be tailored effectively for delivery to Māori whānau.</li> </ul> <p><i>In addition:</i></p> <ul style="list-style-type: none"> <li>• The National Strategy for Financial Literacy supports the inclusion of a financial education teaching and learning programme, as part of the New Zealand Curriculum, launched in 2007. The Retirement Commission will work with the Ministry of Education, and other interested parties to ensure that as many students as possible benefit from this programme.</li> </ul>	<ul style="list-style-type: none"> <li>• The Retirement Commission hosts the National Strategy for Financial Literacy on its website and takes responsibility for linking people and resources cross-agency. In its co-ordinating role, the Retirement Commission will develop and maintain a database of providers of financial education and information in New Zealand.</li> </ul>

# Vision

The vision guiding the National Strategy for Financial Literacy is the achievement of:

## *Personal financial wellbeing for New Zealanders*

Personal financial wellbeing arises as people make informed financial decisions that fit the circumstances of their own lives. Financial literacy contributes to this vision as it gives people choices, helps to protect them from unexpected events, fraud and scams and enables them to have a voice as consumers and citizens.<sup>2</sup> Beyond this, at an aggregate level, personal financial wellbeing contributes to the efficiency and prosperity of the national economy.

Personal financial wellbeing is facilitated by a variety of interdependent factors, which in their combined effect have the potential to maximise the prosperity of individuals, families and societies. These factors may be viewed as instruments, or levers, through which to influence the economic wellbeing of the populace. Financial literacy is central to this vision, and a key element of other factors which may impact upon it, as listed below:

- Financially literate population - may challenge market providers to develop products and services fit for their needs and are able to make informed decisions about finances throughout their lives
- Trusted financial services sector - educated and knowledgeable advisers and salespeople who accurately describe and explain their products and services, risk and return
- Competitive and efficient market for financial products and services with diverse offerings to suit different needs
- Thriving economy with transparency of product features and fees and increased understanding reducing the level of compliance costs
- Efficient and effective regulation with reduced compliance costs. Financially literate consumers exercise market power by withdrawing funds from those who do not comply with principles-based industry leadership
- Basic level of consumer protection legislation maintained to protect those who meet with unscrupulous operators, are not interested in financial matters or who cannot attain even a basic level of financial literacy
- Security net of welfare provision for those for whom income is simply insufficient to meet basic needs, or for whom attainment of financial literacy is not a realistic goal.

While it is indeed possible to pull many such levers in the quest for personal financial wellbeing this National Strategy seeks to focus effort upon the goal of achieving a financially literate population. However, simultaneously the Strategy seeks to draw together a wide-ranging group of stakeholders in the interests of concurrently addressing other elements which can help to achieve the overarching vision.

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<sup>2</sup> Lister (2004) argues for the conceptualisation of poverty, the reverse of personal financial wellbeing, as not only being based upon a lack of resources but also typified by the experience of social stigmatisation, powerlessness, lack of voice, and full citizenship rights.

## Mission

The mission of the National Strategy for Financial Literacy is that:

*New Zealanders are financially well-educated and can make informed financial decisions throughout their lives.*

This mission supports the overall vision of achieving personal financial wellbeing most closely in that, in today's environment, it is often the consumer who is the weak link in the chain to achieving prosperity. This is to say that although legislation mandates the disclosure of certain information about financial products, frequently the consumer does not have sufficient understanding or inclination to assess the disclosed information. Similarly, many consumers lack the skills to shop around for best value financial products, thus failing to perform their role in enhancing market efficiency, which can flow through to benefit all consumers.

As noted above, the factors which affect personal financial wellbeing are mutually interdependent. By focusing on the literacy of the consumer, we envisage not only benefits to individuals and families, but to the broader factors which influence the macroeconomy and which may help to establish a more prosperous environment for all New Zealanders over time.

## Definitions

In this strategy document, financial **education** is treated as a process which leads to **financial literacy**. Our definition of financial education is that of the OECD:

*Financial education is the process by which financial consumers/investors improve their understanding of financial products and concepts and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being.<sup>3</sup>*

Education (or instruction), information and advice are sometimes used interchangeably, but the distinctions between them are important. Within our national context, 'education' or 'instruction' is the teaching and learning that provides New Zealanders with the ability to interpret information and assess advice. 'Information' is a fact or series of facts that require interpretation and assessment. 'Advice' involves the provision of guidance or recommendations on financial direction.<sup>4</sup> This excludes "advice" given by commercial providers for commercial purposes.<sup>5</sup>

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<sup>3</sup> OECD. (2005). *Improving Financial Literacy: Analysis of Issues and Policies*. P.26

<sup>4</sup> Feslier, D. (2006). *Financial Education and Financial Literacy in New Zealand*.

<sup>5</sup> This is one of the principles included in the OECD's *Principles and Good Practices for Financial Education and Awareness*, included as Appendix 1 (OECD, 2005).

Financial literacy is defined as the ability to make informed judgements and make effective decisions regarding the use and management of money.<sup>6</sup> Most other countries developing work in this area use the term ‘financial literacy’ though some, including the U.K., use the term ‘financial capability’, to try to denote a more behavioural and action oriented approach. This strategy treats these two terms as interchangeable as, in practice, both encompass knowledge, attitudes and ultimately action.<sup>7</sup> The implications of using such a definition in terms of measurement and assessment are discussed in a later section.

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<sup>6</sup> This definition was first articulated in Schagen, S. (1997). *The evaluation of Natwest Face 2 Face with Finance*. Slough, U.K.: National Foundation for Educational Research.

<sup>7</sup> ‘In practice, both cover decision-making, practical skills and behaviour as well as knowledge and understanding. Financial education aims at the same ultimate goal whether that is defined by improving financial literacy or capability.’ O’Connell, A. (2007, p.2.) *Measuring the effectiveness of financial education* (paper prepared for the Retirement Commission) Wellington: Retirement Commission.

## Introduction

The National Strategy for Financial Literacy is a Retirement Commission led nationwide initiative to address the need for New Zealanders to become more financially literate in their goal-setting and budgeting decisions and as consumers of financial products and services. The strategy spans the public, private and not-for-profit sectors.

The Retirement Commission is well-placed to provide this leadership role - financial education and literacy initiatives are core business with the operation of the independent Sorted website, and the Commission has a statutory role in ‘the promotion of education about retirement issues and the publication of information about those issues’<sup>8</sup>. In addition, the Commission has a series of cross-sector relationships with government agencies, the private and NGO sectors which enhance its ability to implement the strategy and monitor progress against its recommendations. However, while taking responsibility for leading, co-ordinating and reporting on the strategy, the Commission cannot reach the goal of achieving a financially literate population on its own. To this end, the Commission will seek to engage stakeholders cross-sector to act in partnership to implement financial literacy initiatives in areas where they are best placed to do so.

The National Strategy for Financial Literacy is not a prescriptive approach. Rather, it seeks to create consensus about the direction in which New Zealand should be heading, to establish a high-level umbrella framework under which initiatives in this area can be co-ordinated, and to identify any gaps in coverage. In this way we can ensure that we are gaining maximum value from the work we are all doing, building synergies and avoiding duplication of effort. All parties can work together to develop shared understandings and language around the work being done and make sure that all New Zealanders have the opportunity to benefit from financial education and information.

The Commission will report upon the National Strategy for Financial Literacy as part of its Annual Report. Between annual reports, it is proposed that an advisory group, composed of such key stakeholders as the Secretary of Education and the Chair of the Securities Commission<sup>9</sup>, meet on a six monthly basis and that the Government and other stakeholders are notified of any business arising. The purpose of the advisory group is to provide governance, review progress, to modify recommendations as required, to initiate new actions in response to environmental circumstances, and to ensure that partnership arrangements are proceeding as effectively as possible in order to achieve desired outcomes.

## Background

The need for financial literacy has never been greater. Since the new millennium began the OECD has established a Financial Education Project and many of its member nations have started to develop national strategies to improve the financial literacy levels of their citizens. Indeed, Russia made financial literacy a theme of its presidency of the G8 in 2006. So what has prompted the surge of interest in this area? Why is financial literacy so important today?

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<sup>8</sup> New Zealand Superannuation and Retirement Income Amendment Act 2005, Part 4, Section 83.

<sup>9</sup> Submissions to the Draft Strategy suggested a variety of possible people/organisations that should be represented on the Advisory Group. The Retirement Commission is considering these suggestions.

The answers to this question are to be found in a variety of environmental factors identified in the literature as emerging at this time. First, there has been a proliferation of financial products available to consumers, largely spawned by technological advances and deregulation of the market for financial products and services in many OECD nations. This has been accompanied by an increase in the level of complexity that consumers face in trying to comprehend the different choices available to them. As Iannicola of the U.S. Office for Financial Education notes, while this diversification of products has many benefits, 'our choices have outpaced our knowledge'.<sup>10</sup>

The second factor raising financial literacy to the fore is the ageing population, with the prospect in many countries of a much lower ratio of working age to retired citizens in the coming years, if people keep retiring at the same ages as now. It is notable that New Zealanders are already continuing to work at older ages. In many countries, however, these decreased ratios are set to threaten the viability of public pay-as-you-go pension schemes, with governments increasingly shifting the risk for pension provision to individuals. This issue is not so urgent in New Zealand as elsewhere, with NZ Superannuation continuing to offer a defined benefit scheme which provides most retirees with most of their income. Elsewhere, however, the new responsibility to save privately for retirement is being realised in an environment of reduced certainty, with the shift from defined benefit to defined contribution schemes. Furthermore, with increasing life expectancy, people's savings and pensions will have to provide support over a longer period than ever before.

Third, there is much concern worldwide at the levels of debt that households are shouldering and the rise in the numbers of bankruptcies and insolvencies. A 2004 New Zealand study showed that 30% of households spend more than they earn.<sup>11</sup> Meanwhile by December 2006 Reserve Bank Data recorded household debt at around 155% of household disposable income, with housing debt tripling and consumer debt doubling over the decade prior.<sup>12</sup> These trends mean that many households, while coping at present, are particularly vulnerable to any changes of circumstances or economic downturn. This vulnerability is mirrored in international data. In Singapore, for example, a survey found that many people had inadequate savings for emergencies, with just 32% of Singaporeans having the cash equivalent of three months income.<sup>13</sup>

A fourth factor which has highlighted the need for financial education in New Zealand has been the recent collapse of a series of finance companies. New requirements around such non-bank deposit takers are currently being introduced, with the Reserve Bank taking on new powers as the regulator and licensor of these companies. Such companies thereby become registered deposit takers (RDTs). Part of this new framework involves the requirement that RDTs with more than \$10 million of assets on their books have a credit rating from an approved agency. However, not only are more transparent forms of disclosure and rating necessary, but also an upskilling on the part of investors. The recent crisis showed that not only did many investors not understand

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<sup>10</sup> Iannicola, D. (2006). *Improving Financial Literacy*. Presentation to the G8 International Conference on Improving Financial Literacy, Moscow, 29-30 November 2006.

<sup>11</sup> Weir (2004), cited in OECD (2005).

<sup>12</sup> Widdowson, D., & Hailwood, K. (2007). Financial literacy and its role in promoting a sound financial system *Reserve Bank of New Zealand Bulletin*, Vol. 70, 2.

<sup>13</sup> Tan, C. (Monetary Authority of Singapore). *Evaluating Financial Education Programmes*. Presentation to the G8 International Conference on Improving Financial Literacy, Moscow, 29-30 November 2006.

credit ratings, but that some had not understood the basics of diversification and had lost all their savings by putting all their “eggs” in one “basket”.

Alongside these environmental factors, financial literacy surveys in a number of countries, including New Zealand, have revealed low levels of financial knowledge in many areas, and a lack of awareness about the need to upskill. In an Australian Survey<sup>14</sup>, for example, 67% of people interviewed stated that they understood compound interest, but when asked a question about this topic, only 28% answered correctly. Similar results have occurred in surveys in Japan, the U.S., the U.K. and Germany. In other surveys which focus on people’s attitudes to money and self-reported behaviour, results reveal that although many people are confident about their ability to budget and manage their money on a day to day basis, they are less confident about their ability to invest and plan their finances to ensure adequate provision for retirement.<sup>15</sup> In addition to this many studies have shown that people find financial information difficult to find and understand<sup>16</sup>, and that thinking about their long-term financial security can be ‘dispiriting or even distressing.’<sup>17</sup>

The final factor, which is acting as a catalyst in the escalation of financial literacy initiatives in New Zealand, has been the introduction of the KiwiSaver scheme, with its many additional features, following Budget 2007. The Retirement Commission is leading a campaign to encourage people to assess the merits of joining the scheme according to their personal financial situation. Independent information and calculators to assist people with this decision are available on the Sorted website ([www.sorted.org.nz](http://www.sorted.org.nz)). However, with approximately 40 different providers to choose from and around 180 different funds<sup>18</sup>, not only do people need education and sound independent advice, but the finance sector needs to provide user friendly information about funds and be more transparent about the fees involved.

## **The ANZ-Retirement Commission Financial Knowledge Survey<sup>19</sup>**

The ANZ-Retirement Commission Financial Knowledge Survey, carried out in 2005, forms the baseline and is the starting point for assessing adult financial literacy in New Zealand. This was a nationally representative survey, with face to face interviews of 856 adult New Zealanders. A Financial Knowledge Framework was developed for this survey, in order to describe and define the abilities, understanding and awareness that people would demonstrate at different levels of financial knowledge, from a basic to an advanced level.

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<sup>14</sup> Roy Morgan Research (2003). *ANZ Survey of Adult Financial Literacy in Australia*.

<sup>15</sup> In the recently released *Financial Literacy: Australians Understanding Money* report (2007) 90% of Australians said they had the ability to budget, but just 69% said they had the ability to invest and 63% said they could ensure they had enough money for retirement. Meanwhile the Japanese Consumer Survey on Finance found that 71% of adult respondents had no knowledge about investments in equities and bonds, and 59% had no knowledge of financial products in general. (OECD, 2005, p.43).

<sup>16</sup> Lusardi, A. (2006). *Evaluation of Financial Education Programmes*.

<sup>17</sup> FSA (2004) *Building financial capability in the U.K.*

<sup>18</sup> Numbers of funds and providers as of October 2007.

<sup>19</sup> Both the summary report and full research report for this work can be accessed at [www.retirement.org.nz](http://www.retirement.org.nz)

Questions centred upon five areas: mathematical and standard literacy, financial understanding, financial competence, financial planning and consumer rights. From these areas a scoring system was developed and people were classified as either having a low, medium or high level of financial knowledge. An additional series of advanced questions were asked of those who had money to invest. These questions were not used in the calculation of financial literacy scores, but were scored separately, as it was felt financial knowledge reflected each person's circumstances and experiences, and that people should not be disadvantaged by having to answer questions about products and services they might never use or need. The profiles of those falling into each category can be seen in the research report, and have since been used to tailor the Retirement Commission's public education programmes to cater better for the low knowledge group.

On the whole the results were reasonably positive: 83% of respondents said they felt confident about managing their financial affairs, 80% said they had financial goals and more than half saved regularly. However, there were specific areas of weakness, including mortgages, compound interest and investments:

- 25 percent of people with home loans did not know that increasing the frequency of repayments from monthly to fortnightly reduced the amount of interest they would pay over the life of the loan.
- Only 30 percent identified that a range of shares would make more money than fixed interest investments and savings accounts over 18 years.
- When tested on their understanding of compound interest, only 53 percent correctly identified that they would earn more interest on a one year term deposit when the interest was accrued quarterly into the term deposit, rather than accruing at the end of the term.
- 20 percent thought they could reduce risk by investing only in property.

Those with lower levels of personal financial knowledge were more likely to be young (18 to 24) or older (75+), people with lower levels of formal education, income and net wealth, and renters rather than homeowners. The survey also revealed some surprising conclusions, including that a small number of the highest earners have a low level of financial literacy:

- 15 percent of those with a net wealth of more than \$300,000 had a low level of personal financial knowledge.
- 18 percent of those with tertiary or post graduate education had a low level of personal financial knowledge.
- 46 percent of those with no formal qualifications had a good or high level of personal financial knowledge.
- 8 percent who earned less than \$20,000 were in the high knowledge group.

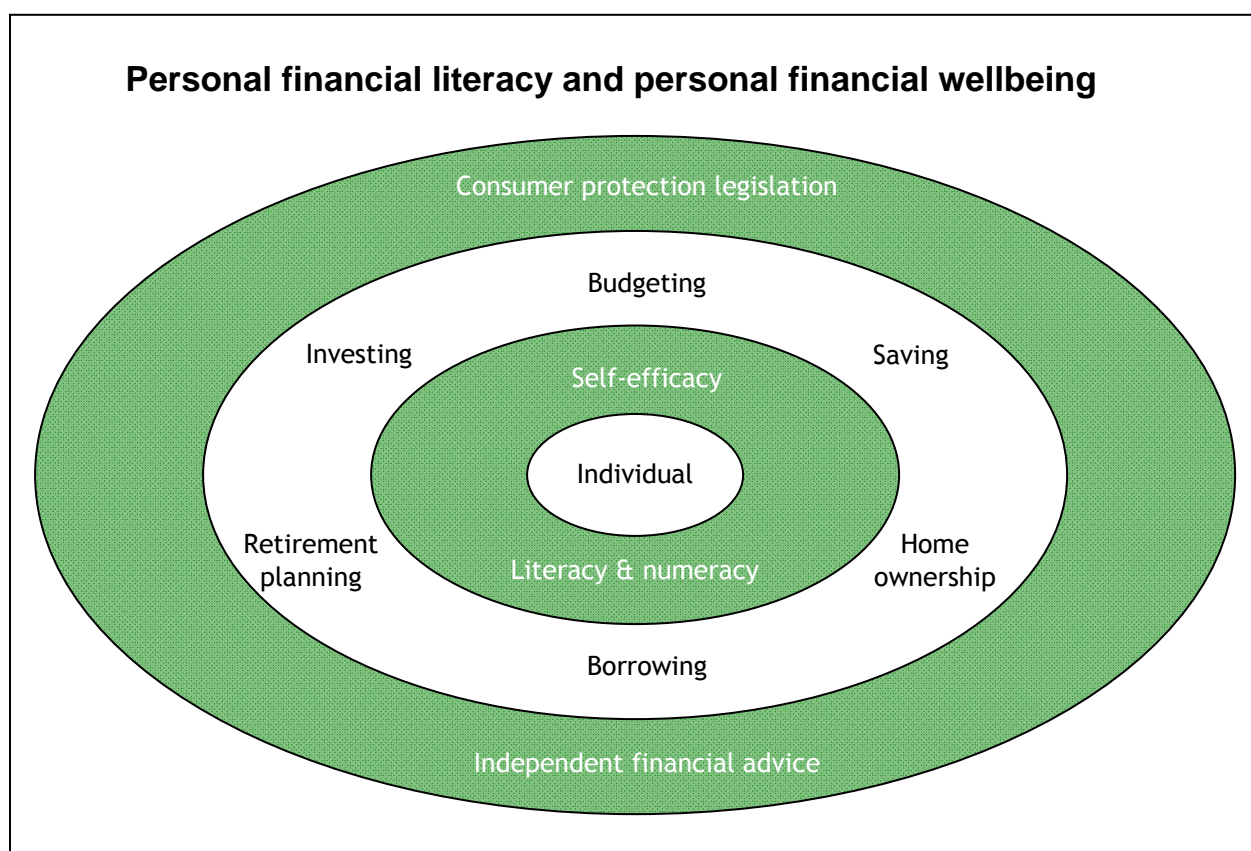
These results reveal the potential for improvement in personal financial knowledge across the population, notwithstanding the need to develop initiatives that will reach particular communities who are over-represented in the low knowledge group. Furthermore, these results reinforce the need for the scope of the National Strategy to extend to all groups of New Zealanders, regardless of their age, net worth or education.

## Priorities

The Financial Knowledge Framework developed for the 2005 ANZ-Retirement Commission Financial Knowledge Survey will be used as the basis for selecting priority areas for this National Strategy. This is felt to be the most relevant means of organising efforts at the present time for two reasons. First, a steering group of academic and financial experts developed the framework, drawing upon international best practice, to identify the key components of financial knowledge. Second, having carried out the survey, data relevant to the New Zealand population is available, against which needs can be assessed and priorities identified. This evidence-based approach will be combined with input from our stakeholder consultation process, to ensure that current issues which have arisen since the survey data collection are taken into account.

## Prerequisites

Before examining the topic areas which fall out of the survey results it is necessary to consider the conceptual model which forms the basis of this approach to improving the financial literacy of the nation. As shown in the diagram below the approach starts with the individual, whose personal financial well-being is addressed by this strategy. There are certain prerequisites, at the individual level, that we need to be aware of and seek to ensure the presence of, before moving on to considering the topic areas where the individual may need to develop knowledge.



## Individual Prerequisites

The first individual-level prerequisite is the individual's self-perceived need for information, their motivation to seek it and their level of self-efficacy in choosing to act upon it. Self-efficacy is defined as 'a person's beliefs about their own capability to achieve outcomes' and is a concept that is closely allied to confidence, with a focus upon translating belief into action and so learning by doing.<sup>20</sup> The challenge for policy-makers and those delivering programmes of financial education in this regard is to develop resources and campaigns that are relevant and timely to people, that reach them at 'teachable moments'<sup>21</sup>, that use formats with which they will engage, and through channels which are appropriate to their lives. This gives rise to our first recommendation.

### Recommendation 1

**That financial education and information initiatives be tailored flexibly to reach all groups of New Zealanders at times, places and in forms most relevant to them<sup>22</sup>.**

#### *Example*

*The Plunket Society, New Zealand's largest provider of services to support the health and development of children under the age of five, delivers a series of free parent education courses across the country. With the sponsorship of ANZ Bank, Plunket is now due to incorporate into their programme a non-branded two-hour money module which will cover basic financial skills and information, relevant to the issues that new parents typically face (such as moving onto one wage). This is an example of an initiative that aims to capitalise on a "teachable moment", when parents are receptive to such information and it is of immediate relevance.*

The second foundation-level prerequisite is that the individual grasp basic literacy and numeracy skills. 'Mathematical and standard literacy' form the basis of the Financial Knowledge Framework. These fundamental skills are a prerequisite to tackling the financial topics that adults may variously need to engage in, as represented in the third concentric ring in Figure 1 above. At the initial level, literacy and numeracy skills may be enhanced and learnt through teaching based upon financial topics. In this way, general literacy and numeracy may not strictly be termed 'prerequisites' but may be developed alongside and through financial content. However, in order to progress beyond a very rudimentary understanding, financial literacy needs to be built upon a solid foundation of general literacy and numeracy. This gives rise to our second recommendation.

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<sup>20</sup> *Financial Literacy: Australians Understanding Money* (2007), p.53

<sup>21</sup> Iannicola (2006)

<sup>22</sup> The Retirement Commission is aware that there are many groups and sub groups of New Zealanders whose particular characteristics need to be taken into account when targeting financial literacy. In addition to its own work with these groups, the Commission will support organisations who work with specific groups to prioritise financial literacy for these groups. Submissions to the Draft Strategy drew media attention as a target for development of sound financial literacy.

## Recommendation 2

That strategic initiatives for financial literacy be aligned with the broader New Zealand Skills Strategy<sup>23</sup>, in order to develop the skills and knowledge necessary for self-efficacy.

### *Example*

*In 2005, the Retirement Commission and Te Puni Kokiri supported Ngāi Tahu to roll out a pilot programme of financial education to five South Island schools, with a predominance of Māori students.<sup>24</sup> An independent evaluation of the programme found that the financial knowledge of students improved as a result of the programme, and knowledge gaps between European and Māori children were reduced. Furthermore, teachers reported flow-on benefits to other curriculum areas, with students being more engaged in their studies. This is an example of how effectively tailored teaching can contribute to confidence, self-efficacy, and create a virtuous circle of success and engagement, necessary to build the foundation skills of literacy and numeracy.*

## Environmental Prerequisites

Once the individual is ready and willing to engage in financial learning, to take decisions and map their own journey, the broader environment in which they are operating needs to be considered. This is somewhat akin to riding a bike. Some New Zealanders are proficient riders and need no more assistance than a little traffic control. However, others would barely consider looking at the bike, let alone getting on it. Collectively, on average, New Zealand is on the personal financial bike and riding, but it is a bit of a wobbly journey: occasionally there are swerves to stay on the bike and there is a lack of certainty about our ability to cope if a steep hill is encountered. With our current level of skill there is a need for stabilisers, or trainer wheels, to support us while we get up to speed.

On the one side we need the support of financial education, and on the other side we need a certain level of regulation and advice to protect and guide us as we make financial decisions. This section deals with the environmental prerequisites necessary to build a trusted financial sector on the regulatory side, and the broad policy framework in which this needs to sit if we are to see the drive to improve the financial literacy of individuals aggregate up to societal level benefits in a manner that is more than a sum-of-parts.

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<sup>23</sup> The purpose of the skills strategy is to “deliver a unified approach to ensure New Zealand individuals and organisations are able to develop and use the skills required in the workplaces of the future” Its goals are:

1. Effective utilisation and retention of skills to transform work and workplaces
2. Increase quality of demand for employers and workers
3. Influence the supply of skills and create a more responsive supply side
4. Unified approach to defining, valuing and measuring work skills.

One relevant work strand is: “increasing the literacy, numeracy and language skills of the workforce”

<sup>24</sup> He Oranga Pounamu/Te Runanga o Ngāi Tahu cited in Roorda (2007).

## *Consumer Protection*

Some providers of financial products and services in New Zealand role model good corporate citizenship: responsible lending criteria are applied, advice is tailored to the individual's situation and not on the need to meet sales targets, features of products are fully disclosed, staff are trained to be financially literate, and community literacy initiatives are supported and funded. Nonetheless, there are many providers who do not rate so highly in these aspects.

Cross-spectrum consultation has shown that a portion of New Zealand society does not understand business structures and their implications. At the 2006 National Financial Literacy Symposium, Reserve Bank Governor Alan Bollard noted that some consumers were 'naïve' in believing that mainstream financial institutions were acting in their best interests in offering them more debt.<sup>25</sup> Similarly, frontline Salvation Army staff note the problem of a "paternalistic attitude", with people believing that a banker, sales person or finance professional will not sell them a product if they cannot afford it.

In its worst manifestations this lack of knowledge, and in many cases funds, has resulted in situations where companies prey on gullible and vulnerable consumers. Fox and Dowding (2006)<sup>26</sup> raise this issue with regard to the growing debt industry around low socio-economic neighbourhoods. Meanwhile the Ministry of Consumer Affairs has released a report which highlights the problem of "loan sharks" in the New Zealand Pacific community.<sup>27</sup>

Consumer protection issues can arise at different levels. At the first level is the issue of fraud and scams, and contraventions of such legislation as the Credit Contracts and Finance Act, where illegal behaviour is involved. A number of agencies and organisations, including the Commerce Commission, Citizens Advice Bureaux, New Zealand Federation of Budget Services Securities Commission, Ministry of Consumer Affairs and Consumers Institute are currently working to alert the public to such instances, and avenues for redress when things go wrong (an area of competence identified in the Financial Knowledge Framework). In working together to better co-ordinate such initiatives and pool resources the Retirement Commission has established a third recommendation.

### **Recommendation 3**

**That the Retirement Commission hosts the National Strategy for Financial Literacy on its website and take responsibility for linking people and resources cross-agency. In its co-ordinating role, the Retirement Commission will develop and maintain a database of providers of financial education and information in New Zealand.**

The website will be one vehicle for co-ordinating and disseminating information. In the cases of fraud and scams, as with other aspects of financial education we will follow the principle established in Recommendation 1, and partner flexibly with whomever we need to effectively

<sup>25</sup> National Financial Literacy Symposium 2006, Wellington. [www.retirement.org.nz](http://www.retirement.org.nz)

<sup>26</sup> Fox, R. & Dowding J. *Financial Education in the Community*. National Financial Literacy Symposium 2006, Wellington. [www.retirement.org.nz](http://www.retirement.org.nz)

<sup>27</sup> Ministry of Consumer Affairs. (2007). *Pacific Consumers' Behaviour and Experience in Credit Markets, with Particular Reference to the "Fringe Lending" Market: Research Findings*.

get messages across, be it business and mainstream media, community organisations, the private sector or government agencies.

For the majority of providers who remain within the parameters of the law, the basic tool used to address the information gap between buyers and sellers of financial products and services is disclosure. The Securities Act thus mandates the disclosure of information in an investment statement, including the different types of risk a product presents, the potential return and charges and fees, to name just a few of the requirements. The intention was that the investment statement would be the generic, short-form document used to communicate the most important points about a product to potential investors. The prospectus would be the long-form disclosure document, and would cover off all the detailed legislative requirements.

In practice, what has actually happened is that investment statements are increasingly compliance-based, sometimes amounting to over 70 pages. The result is that the documents are not user-friendly and are rarely read, or they necessitate the purchase of professional advice from intermediaries. The problem with current disclosure arrangements is two-sided - there is a large asymmetry in consumers' ability to understand the information disclosed, and this situation is worsened by the complicated jargon often used for this purpose. This complaint is reflected elsewhere with 75% of consumers interviewed by the Irish Financial Services Regulatory Authority (IFSRA) stating that they find the written information on financial products too difficult to understand.<sup>28</sup> This gives rise to our fourth recommendation.

#### **Recommendation 4**

**The National Strategy endorses the development of new standards for transparent, plain language and user friendly forms of financial disclosure and description of products and services, in order to enhance consumer understanding subject to meeting regulatory objectives.**

#### *Example*

*Following the recent spate of finance company collapses, and concomitant increased awareness of and wish to understand credit ratings, Standard and Poors have developed a short form of their credit rating report. The full reports usually amount to approximately 8000 words and would typically be used by the wholesale, merchant bank sector. The new short reports, on the other hand, amount to just 800 words, and are designed to be accessible and useful to financial advisers and private investors wishing to understand the key points on which ratings are based.*

The Reviews of Financial Products and Providers (RFPP) and Financial Intermediaries, conducted by the Ministry of Economic Development, have already stimulated consideration of the need for new requirements in the area of disclosure. Current proposals include the provision of educational information with offer documents, removing some of the registered disclosure documents to the company's website, and a move to one document for disclosure with two sections. The aim of these proposals is to move towards more user-friendly forms of disclosure, taking into account 'the practical reality of what investors will read.'<sup>29</sup> The first section would

<sup>28</sup> Keena (2004), cited in *Improving Financial Literacy: Analysis of Issues and Policies* OECD (2005).

<sup>29</sup> The current proposals for disclosure documents, are taken from the Review of Financial Products and Providers (RFPP) available at [http://www.med.govt.nz/templates/MultipageDocumentTOC\\_22188.aspx](http://www.med.govt.nz/templates/MultipageDocumentTOC_22188.aspx)

be limited to five pages and would outline the key information that the general public would need to understand about a product. It will be vital to independently test the proposed texts with the end-users. The second section would include more detail and be aimed at professionals in the finance sector. This brings us to our second environmental prerequisite - the provision of good quality, independent financial advice.

### *Financial Advice*

The Review of Financial Products and Providers has resulted in the proposal of a new structure around the provision of financial advice to ensure monitoring, quality and protection for consumers. This structure seeks to clearly delineate and separate the roles of trustee, issuer and investor. This is an important part of the environment within which financial literacy initiatives operate in that one element of literacy is knowing when one is at the limit of one's knowledge and professional advice should be sought. Without the provision of quality service in this area, the function of financial literacy in contributing to financial well-being is stunted.

In the current legislative environment, the Securities Markets Act sets up specific disclosure requirements for investment advisers and investment brokers. Beyond this there is little monitoring about how such advisers operate.

The Financial Adviser Bill (currently before a Select Committee - May 2008) proposes a new regulatory regime is developed where the Securities Commission oversees the new regime and will be responsible for oversight, ongoing monitoring, discipline and enforced licensing, registration, education and acting as an interface between consumer and financial advisers.

The proposals would put financial advisers on a more professional footing, and contribute to the development of a trusted financial sector. As noted in the OECD's financial literacy publication (2005)<sup>30</sup>, 'many consumers accept without question what their financial adviser recommends.' While this point certainly highlights the need to educate consumers<sup>31</sup>, it is also a cause for concern when financial advisers are not currently required to obtain any qualifications.

#### **Recommendation 5**

**Best practices be developed for assessing and improving the competency of, and providing professional support to, financial advisers. Alongside this the Retirement Commission will continue to alert the public to questions they should ask an adviser.**

#### *Example*

*As part of the move to develop a more professional basis for Early Childhood Education, Centres are currently working towards a system of full registration of staff, by way of an approved diploma or degree course. This initiative has been phased in gradually to allow time for the appropriate professional development to occur. By December 2007 Centres are required to have 50% of their staff registered, with 100% compliance by 2012. We envisage a similar phased programme to upskill financial advisers and improve the quality of financial advice.*

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<sup>30</sup> OECD (2005, p.46).

<sup>31</sup> A list of questions to ask a financial adviser can be found on the Retirement Commission's independent financial website, [www.sorted.org.nz](http://www.sorted.org.nz).

Such “train the trainers” programmes are recommended in the OECD’s ‘Principles and Good Practices for Financial Education and Awareness’ (Appendix 1), and are already legislated for in countries such as the Netherlands, where the Financial Services Act provides rules on the professionalism and reliability of providers of financial products.<sup>32</sup>

## Financial Education

Financial education<sup>33</sup> is the means through which financial literacy and understanding may be improved. Education may be formal or informal, compulsory or voluntary, and the channels through which it is delivered may vary widely. Student surveys in both Korea (2003) and the U.S. (2000) have shown that by far the most common source of learning about money management was from family members (50% and 57% respectively). For Korean students the next most common channel was through magazines, books and TV (14%), whereas for the Americans it was through school (13%).<sup>34</sup> While the skills that people need to operate in the same national and commercial environment may thus be the same, this Strategy does not seek to prescribe the channels through which those skills are developed. A variety of channels will be needed to reach a variety of people.

This section will outline current financial education provision for children and adult New Zealanders, make recommendations to promote improvement and fill gaps, and seek to identify priority topics.

## Children

*Financial education should start at school. People should be educated about financial matters as early as possible in their lives.*<sup>35</sup>

The long-term goal of achieving a financially literate population has to start with the education of young New Zealanders. As stated earlier, the 18-24 age group had one of the lowest levels of financial literacy, as measured by the Financial Knowledge Survey 2005, and those of school age are likely to be even less knowledgeable due to their largely dependent status, and lack of exposure to many aspects of financial decision-making. Despite this, young people increasingly have to take decisions that involve finances earlier in life than previous generations had to - and at present most don’t have the opportunity to learn these skills at school.

A recent independent review of the effectiveness of financial education in schools found that not very much was actually taking place.<sup>36</sup> What was available, either came through the Retirement

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<sup>32</sup> Crum (2006). *Financial Education in the Netherlands*.

<sup>33</sup> As defined on p.7

<sup>34</sup> Sources: Korea - Response to OECD questionnaire on financial education, July 2003. United States - L. Mandell (2001), *Improving Financial Literacy: What Schools and Parents Can and Cannot Do*, The Jumpstart Coalition for Personal Financial Literacy, Washington D.C., cited in OECD (2005).

<sup>35</sup> See Appendix 1, paragraph 9, *OECD Principles and Good Practices for Financial Education and Awareness*.

<sup>36</sup> Roorda M. (2007), *Independent Assessment of the effectiveness of financial education available to and used by New Zealanders*. The largest school programme where uptake numbers are reported, the Enterprise New Zealand Trust’s Primary Enterprise Programme (PREP), reached 10,000 students each year.

Commission's web-based financial information programme, Sorted, or was offered by the Enterprise New Zealand Trust (ENZT).<sup>37</sup> The ENZT programmes promoted both enterprise education and financial education but, without a curriculum mandate, were dependent on the awareness and enthusiasm of individual teachers who incorporated them into their lesson planning. Thus the 'Pathways to Financial Literacy Programme', targeted at senior secondary schools students, was run by over 100 schools but only reached approximately 5,000 of 50,000 school leavers each year.<sup>38</sup>

The sporadic nature of current provision leaves many New Zealanders without the opportunity to develop financial skills. The sixth recommendation of the National Strategy for Financial Literacy therefore seeks to extend provision. Providing financial education from an early age should help people to go on to make well informed financial decisions throughout life. This is a preventative recommendation that aims to empower people and help them to avoid mistakes. The aim is to reduce the prevalence of poor financial management and the monetary and social costs that result there from.

The Retirement Commission set up a project in 2004 to drive financial education in the school curriculum. First, assessment on what was already happening in schools was undertaken, and then the gaps were identified. The next step was to develop a Personal Financial Management Curriculum with the Enterprise New Zealand Trust and a reference group of educational professionals, including school principals and teachers. Discussions are well under way with partners from the Ministry of Education to have this curriculum used as the basis of a teaching and learning programme within the recently released New Zealand Curriculum.

#### **Recommendation 6**

**The National Strategy for Financial Literacy supports the inclusion of a financial education teaching and learning programme, as part of the New Zealand Curriculum, launched in 2007. The Retirement Commission will work with the Ministry of Education, and other interested parties to ensure that as many students as possible benefit from this programme.**

Including personal financial education in the National Curriculum will give teachers permission to use lesson time to develop students' financial skills. Meanwhile embedding the teaching within already existing subject areas, such as maths and social sciences, will allow delivery to be variously content, context and process focused, while avoiding the need to introduce a new subject to an already crammed curriculum.

Other countries are already embracing the need for financial education in schools. In both Australia and the U.K., implementations of such curricula which include financial education are scheduled for 2008. Meanwhile, a phased implementation of the Czech National Financial Education Curriculum started this year, and is scheduled for completion by 2013.<sup>39</sup>

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<sup>37</sup> A database of all financial education currently available in New Zealand, both for school children and the adult population will be published on [www.retirement.org.nz](http://www.retirement.org.nz) by the end of 2007. Details of the programmes available through the ENZT and [www.sorted.org.nz](http://www.sorted.org.nz) will be listed here.

<sup>38</sup> The Retirement Commission (2006), *Personal Financial Education in Schools Project*.

<sup>39</sup> Husták, Z. (2006). *Financial Literacy as a Public Policy Issue in the Czech Republic*.

In order to implement such education effectively, appropriate supports must be put in place. The seventh recommendation of this National Strategy focuses upon the human capital development necessary for successful teaching. As for other groups of New Zealanders in the Financial Knowledge Survey, teachers are likely to vary in their financial literacy levels. While it might be expected that, with their education levels, teachers might generally have above average financial literacy, the survey results showed that such assumptions cannot be made. As with the fifth recommendation, concerning financial advisers, once more this recommendation is about ensuring quality education and advice by educating the educators.

**Recommendation 7**

**That professional development courses be offered to increase teachers' knowledge of the importance of financial education and their skill in delivering effective financial education teaching and learning programmes.**

The final recommendation in this area also concerns the supports that need to be put in place to enable effective teaching. High quality personal financial education resources are best developed jointly by teachers and finance experts. In this way, expertise is tapped but the potential to increase the workload burden of the class room teacher is avoided. If such materials are made readily available it is more likely that teachers will address this curriculum area, and that students will engage when material is attractive, relevant and interesting.

**Recommendation 8**

**That high quality resources be developed to support class room teachers to teach financial education effectively.**

It may take a generation for New Zealand to see all the rewards of instituting such a curricular approach. Indeed the U.K.'s National Strategy for Financial Capability<sup>40</sup> is built around a 10 to 20 year time frame, and some outcomes may take even longer to fully realise. However, where evaluation of curriculum mandates have occurred internationally they have been found to be effective.<sup>41</sup>

## **Adults**

There is the opportunity to access children effectively through the school system. It is, however, much more difficult to engage with adults on matters of financial literacy. While the workplace represents the most common location through which adults may be reached, not all people are in the labour force, and there are a variety of barriers, both attitudinal and behavioural that need to be traversed. Examples of such attitudinal barriers, captured in a recent Australian survey<sup>42</sup>, include the belief that dealing with money is boring (31% of adults), that thinking about their long term financial future makes people feel uncomfortable (40%), and that dealing with money is stressful and overwhelming (48%).

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<sup>40</sup> The Treasury, U.K. (2007). *Financial Capability: The Government's Long-term approach*.

<sup>41</sup> Bernheim et al (2001) *Education and Saving: The Long-term Effects of High School Financial Curriculum Mandates*.

<sup>42</sup> *Financial Literacy: Australians Understanding Money report* (2007), p.61.

These attitudes present a barrier to action and need to be taken into consideration in the design and delivery of any financial education initiative. A 2007 nationally representative U.S. survey of adults' self-reported levels of financial literacy found that less than 30% of U.S. adults viewed their personal financial knowledge as very good or better.<sup>43</sup> Eight in ten thought it important that financial literacy be taught and expressed a desire to enhance their own personal financial knowledge. When it came to behaviour, respondents were not actively seeking assistance with these life skills, however. Sixty-five percent of U.S. adults had not received any financial literacy instruction in the past 12 months.

Sometimes the barriers to seeking out information, assistance or advice are practical - in his opening address to the G8/OECD Moscow Financial Literacy Conference, Hecklinger, OECD Deputy Secretary-General, pointed out the need for initiatives to be designed to reach people 'busy with jobs and families.'<sup>44</sup> Yet often barriers are emotional or cultural, and deeply rooted in upbringing. An Australian Women's Financial Literacy Research Report (WIRE, 2007) highlighted the interweaving of 'emotion, money and family' for the women in that study.<sup>45</sup>

With so many differing values, mythologies, and emotions around the concept of money, it is important that financial information and education is presented in an impartial way. People variously ascribe notions of personal and community value and social success to being wealthy or demonstrating good financial management, and are embarrassed about lack of knowledge or "mistakes" that they have made with their finances. These feelings were noted to run 'across all socio-economic groups' in the WIRE study.<sup>46</sup> This gives rise to our ninth recommendation.

#### **Recommendation 9**

**That financial education be delivered in a manner which is impartial, judgement-free and seeks to empower people to best manage the reality of their financial circumstances.**

#### *Example*

*The professional training of budget advisers employed by the New Zealand Federation of Family Budgeting Services (NZFFBS) is firmly grounded in the philosophy of respect for persons. However dire the circumstances of the person seeking assistance, advisers are trained to withhold judgement and to work with each person from the starting point of their actual circumstances. In some cases this will involve acting on the client's behalf, for example phoning creditors to negotiate a strategy for dealing with debts, whereas in other cases it may simply involve listening to a person's financial plans and providing moral support.*

There are many ways in which the provision of financial education could be divided up, none of which are perfect. The key topics needed by different age groups could be identified, though this will depend on people's individual circumstances and their level of experience. Alternatively, the population could be divided up into demographic subgroups, such as Maori, Pacific, European,

<sup>43</sup> Networks Financial Institute at Indiana State University, <http://www.isunetworks.org>

<sup>44</sup> Opening remarks from G8/OECD Moscow Financial Literacy Conference, [www.oecd.org/nz](http://www.oecd.org/nz).

<sup>45</sup> Women's Information and Referral Exchange Inc (WIRE), (2007, p.5.). *Women's Financial Literacy Research Report*.

<sup>46</sup> *Ibid*, p.5.

women and men, but once again this would result in a one-size-fits-all classification within subgroups and not acknowledge differences in financial literacy. A list of topics that might be relevant to New Zealanders at some stage during their lives could simply be drawn up, but this “smorgasbord” approach gives little strategic direction as to where to focus efforts first and for whom.

The preferred approach, at the first tier, is to look at provision by level of financial literacy, making the starting point where people are actually at with their knowledge levels. This tier concerns the “what” question. With this approach topics are raised at one level, and may be revisited at a later stage as people’s needs change and ability grows. Our data for this classification falls out of the Financial Knowledge Survey. Second tier provision will then need to adapt the topic content identified for delivery into specific communities of interest, in line with the principle of flexibility established in Recommendation 1. This tier concerns the “who” question. By targeting first knowledge level, and then demographic group, it is envisaged that greater efficiencies of delivery and engagement will arise than with the “smorgasbord” or one-size-fits-all approaches.

### *Financial Knowledge Groups*

Financial Knowledge Scores derived from the Financial Knowledge Survey were used to divide the adult New Zealand population into three groups, described as demonstrating (relatively) low, medium or high financial knowledge. The score boundaries established in this exercise will be used as a benchmark against which to gauge any changes in financial knowledge at the next survey, scheduled for 2009. The topic areas where each group underperformed, relative to their performance in other areas of financial knowledge, are listed in Table 1 overleaf.

This classification immediately reveals common topic areas that New Zealanders find relatively more difficult across the scoring range. While the different groups may require different levels of information and assistance with these areas, they nonetheless establish a list of high priority topics for educators to address. These topics are:

- **Compound interest** - how it works and what it means for both saving and borrowing
- **Inflation** - what it means, where it needs to be taken into consideration (e.g. such concepts as the real rate of return)
- **NZ Super** - who gets it, how much it is worth, how it is not means-tested, whether people will need to make extra private provision for retirement
- **Internet banking** - financial advantages of this and of paying bills on time
- **Mortgages** - how they work, their features and potential options they provide
- **Budgeting** - planning and reasons for tracking
- **Debt management** - including strategies for paying off debt faster
- **Retirement Planning** - assessment of current situation and saving for retirement
- **Investing** - what to consider when looking at investment offers, especially risk and return
- **Scams** - how to recognise and avoid them

**Table 1: Priority Learning Areas<sup>47</sup> by Financial Knowledge Group**

<b>Knowledge Group</b>	<b>Mathematic &amp; Standard Literacy</b>	<b>Financial Understanding</b>	<b>Financial Competence</b>	<b>Financial Planning</b>	<b>Consumer Rights and Protection</b>
Low Financial Knowledge (and subgroup “lowest” financial knowledge <sup>48</sup> , where additional topics arise)	<ul style="list-style-type: none"> <li>• Basic maths &amp; English skills</li> <li>• Compound interest</li> <li>• Inflation (lowest knowledge group)</li> </ul>	<ul style="list-style-type: none"> <li>• Understanding financial terms &amp; concepts (especially a budget &amp; budgeting for lowest knowledge group)</li> <li>• NZ Super (lowest knowledge group)</li> </ul>	<ul style="list-style-type: none"> <li>• Payment methods particularly financial advantages of internet banking &amp; paying bills on time</li> <li>• Mortgages - minimising interest by more frequent payments, fixed interest rates, equity &amp; leveraging, penalties on home loans</li> <li>• Credit card repayment features (lowest knowledge group)</li> </ul>	<ul style="list-style-type: none"> <li>• Planning for the future - assessment of current situation and retirement income in relation to saving for retirement</li> <li>• Budgeting - importance of planning &amp; tracking reasons</li> <li>• Debt management - reducing debt first &amp; getting rid of debt faster</li> <li>• Investing - what to consider when looking at investment offers</li> </ul>	<ul style="list-style-type: none"> <li>• Not revealing Internet banking password (lowest knowledge group)</li> <li>• Recognising scams (lowest knowledge group)</li> </ul>
Medium Financial Knowledge	<ul style="list-style-type: none"> <li>• Compound interest</li> </ul>	<ul style="list-style-type: none"> <li>• Real rate of return</li> <li>• NZ Super</li> </ul>	<ul style="list-style-type: none"> <li>• Financial advantages of internet banking</li> <li>• Mortgages - minimising interest by more frequent payments, fixed interest rates, equity &amp; leveraging, penalties on home loans</li> </ul>	<ul style="list-style-type: none"> <li>• Debt reduction</li> <li>• Risk &amp; return on investments</li> <li>• Planning for the future - assessment of current situation and retirement income in relation to saving for retirement</li> <li>• Budgeting - planning &amp; tracking reasons</li> <li>• Investing - consideration of cost, liquidity or duration when looking at offers</li> <li>• Managing risk - estate planning</li> </ul>	<ul style="list-style-type: none"> <li>• Questions to ask a financial adviser - particularly to find out how they are being paid</li> </ul>
High Financial Knowledge	<ul style="list-style-type: none"> <li>• Compound interest</li> </ul>	<ul style="list-style-type: none"> <li>• NZ Super</li> </ul>	<ul style="list-style-type: none"> <li>• Money management - particularly internet banking &amp; paying bills on time</li> <li>• Mortgages - certain areas such as equity &amp; leveraging, penalties on home loans</li> </ul>	<ul style="list-style-type: none"> <li>• Debt reduction</li> <li>• Budgeting - planning &amp; tracking reasons</li> <li>• Investments - risk and return and consideration of cost, liquidity or duration</li> </ul>	<ul style="list-style-type: none"> <li>• Some aspects of scams</li> </ul>

<sup>47</sup> There may be additions to these knowledge areas over time and it is acknowledged that there will always be specialised areas that some people need to access professional advice about.

<sup>48</sup> The lowest financial knowledge group are a subset of the low knowledge group with the lowest scores. They comprise 9%, so roughly the bottom decile, of the score distribution.

Having established our list of priority topics, through literacy-based needs assessment, our next tier of questioning concerns who to target our delivery to. Demographic profiling of the three knowledge groups resulted in the following observations.

The low knowledge group are more likely to:

- be young
- be female
- be Maori and Pacific Island people
- be tenants
- have low ownership of financial products such as insurance
- have negative net wealth
- have low education - primary and basic secondary.

Furthermore, the research showed this group are more likely to be in semi-skilled occupations and have a significantly lower incidence of owning financial products compared to the Medium and High groups, with the exception of savings accounts, personal loans (higher compared to High group), government student loan, and lease, hire purchase agreement or other debt on household items. Half of the Lowest Knowledge group say they find it hard to make ends meet, four in ten spend all of their income as they get it and do not plan for their future, and a quarter feel out of control with their debt and borrowing.

Those in the medium knowledge group are more likely to:

- be aged 30-49
- have children
- be on average incomes
- have a mix of home ownership and renting
- have mixed educational level, but majority have no tertiary qualifications.

In addition, half of the Medium Knowledge group were regular savers, significantly higher than the Low Knowledge group and half kept a fairly close eye on their expenses without keeping written records. There was a wide spread of household income in this group.

Those in the high knowledge group are more likely to:

- be male
- be older (40 years plus)
- have children aged 5-15 years or an empty nest
- have a partner
- be on high personal incomes
- own their own homes.

Two thirds of the High Knowledge group are regular savers, and 82% keep a close or fairly close eye on their expenses. Three in ten, a similar proportion to the other groups, claim they have no difficulties managing their money, while a fifth, again a similar proportion to the other groups, said their greatest difficulty was impulse buying or an inability to control their own behaviour.

### *Implementation*

The first and second tier approaches outlined above have established the priority topics, by financial literacy level, and the demographic groups who we might expect to see in each knowledge group. The next question that arises is **how** and **where** we can actually reach people with educational initiatives.<sup>49</sup> This third tier comes down to a matter of tactics. The workplace is one potential location for delivery, but not all New Zealanders are at work, and New Zealand's large number of small and medium sized enterprises makes blanket delivery unsuitable and often not feasible during work hours. This gives rise to our tenth recommendation.

#### **Recommendation 10**

**That community partnerships be developed with those working on the ground to identify locations and channels where financial education/information may most effectively be delivered for those not in the workforce or not able to access financial education/information at work.**

For working New Zealanders, partnering with employers to develop and deliver education and resources through the workplace can be most effective when tactics are specifically developed to suit the employer's circumstances. Factors to take into consideration include the company's resources, the perceived importance of the financial topic in question, the company culture and the best channel for communicating with the particular employees in question, which may be guided by education level and other demographic considerations. Communication tactics may best be centred upon line manager briefings, payslip letters, posters in staffrooms, notices, company meetings, the intranet, email updates, personal letters, outside experts, road shows or newsletters. All these are matters for decision with an employer, as no two workplaces are alike. This gives rise to our eleventh recommendation:

#### **Recommendation 11**

**That the Retirement Commission continue to work with employers, unions and industry groups<sup>50</sup> to decide the tactics most suitable to delivering financial education/information to their employees.**

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<sup>49</sup> It is also important to remember that although the combination of knowledge level and demographics provides the broad parameters through which we might expect to connect with people in a manner relevant to their needs and understanding, assumptions cannot be made. For example, 16% of those with net wealth over \$300,000 are in the low knowledge group. Financial education programmes will therefore need to provide for multiple points of entry for people, wherever they sit on the knowledge spectrum.

<sup>50</sup> In their submission to the Draft Strategy, The NZ Council of Trade Unions suggested that financial literacy should be included in industry qualifications - an idea the Retirement Commission supports.

### *Example*

*Employer research conducted for the Retirement Commission revealed that employers were very keen to receive and disseminate information on Kiwisaver, within their workplaces, but did not want other financial topics to be addressed. A focused Kiwisaver campaign was therefore developed, with tailoring of delivery channels to suit individual workplaces. During June to September 2007, 122,71 Sorted Kiwisaver Decision Guides were distributed in English, Maori, Samoan, Tongan, Korean and Mandarin. In addition, 7300 Decision Guide posters were distributed in workplaces, with a further 1.8 million in the KiwiSaver employee information pack. Kiwisaver information was mailed to 20,000 employers and influencers and there were 13,000 visitors to the 'KiwiSaver for employers' section of the Sorted website to June 30<sup>th</sup> 2007, with a further 1,856 visitors in the September quarter.*

It is beyond the scope of this Strategy to drill down to the level of delivery content, but the principles of flexibility and impartiality established earlier, lay the foundation for better delivery to those over-represented in the low knowledge group, particularly Māori and Pacific people. This gives rise to our twelfth recommendation.

The Retirement Commission has already been actively working with Ngāi Tahu to establish effective programmes for Māori children, as noted earlier. The goal is now to extend this approach to other iwi who are interested in implementing it and to find ways of improving delivery to whānau and adults. This is expressed in recommendation 13.

#### **Recommendation 12**

**That partnerships be established with Te Puni Kōkiri, Ngāi Tahu and other iwi to extend the delivery of successful school financial education programmes to the Māori community. Collaboration will aim to identify channels through which financial education can be tailored effectively for delivery to Māori whānau.**

#### **Recommendation 13**

**That the Retirement Commission work with Pacific communities, the Ministry of Pacific Island Affairs and relevant stakeholders to facilitate financial education programmes tailored to Pacific peoples to provide the information and skills necessary to become well informed and knowledgeable consumers of financial products and services, to manage money effectively on a daily basis, and to plan for the future.**

Much work remains to be done to understand how best to reach adults, and research to identify the most effective pedagogical techniques would help here. In the meantime, approaches need to be pragmatic, and draw upon the knowledge of those who work most closely with potential target audiences. In this manner high level outcome goals, beneficial to all New Zealand citizens, can be made meaningful to those in particular communities.

## Monitoring and Reporting

The outcome goal that has been set for this National Strategy is reflected in the mission that:

*New Zealanders are financially well-educated and can make informed financial decisions throughout their lives.*

The recommendations identified throughout this strategy document are steps in the process to achieving this long-term goal. So how do we measure how we are tracking against our target? There are two levels at which this needs to occur.

The first level concerns reporting progress against recommendations. Actions, achievements, decisions, examples and timeframes need to be collated for each recommendation in order to report progress on an annual basis. At the same time the recommendations need to be reviewed in terms of their contribution to the overall outcome statement of achieving a financially literate population, and modified or updated where appropriate. It is proposed that the vehicle for this reporting be the Retirement Commission's Annual Report, whereby parliament and the New Zealand public may be made aware of progress. As mentioned earlier, an advisory group will provide governance in the interim, meeting six-monthly in order to monitor progress and modify recommendations and actions as appropriate.

The second and more challenging progress measurement that needs to occur concerns tracking against the outcome statement of achieving a financially literate population. This is partly a sum-of-parts measure of how the various recommendations established are working in cohort to achieve the outcome noted in our mission statement above, and partly a matter of how we assess the effectiveness of the financial education we are providing. These are questions of evaluation.

## Evaluation

It is notoriously difficult to measure the effectiveness of financial education programmes. A paper prepared by O'Connell for the Retirement Commission noted the issues and problems involved, and that where evaluation had taken place results were mixed and inconclusive.<sup>51</sup> Problems centre upon both what to measure and how to capture it. Thus weaknesses identified in some evaluations that had taken place included self-reported behaviour which was not checked, reporting literacy levels by means of self-reported confidence levels and, in the absence of better information, reporting the number of website hits, without knowing whether information had been read, understood and acted upon.

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<sup>51</sup> O'Connell, A. (2007), *Measuring the Effectiveness of Financial Education*. Available at <http://www.retirement.org.nz>.

This commentary assumes that the ultimate goal of financial education is behaviour change. However, it is not only difficult to measure behaviour change, but it is difficult to assign causality for the behaviours seen. Thus, someone may have participated in a programme of financial education, but isolating the effects of this programme from other factors at play in the person's financial decision-making, such as the effects of informal learning from family and friends, may not be possible. Elsewhere, the success of a programme may depend on the manner in which it is tailored to a particular audience, but this tailoring may mean that we cannot directly compare it to other programmes without comparing "apples" with "oranges." While we cannot incontrovertibly prove the benefits of financial education at this point, this is not a reason to stall progress on delivering good quality educational provision and concurrently working to improve the evaluative framework around this.

The approach adopted for this National Strategy will be threefold. In the short term we will aim to re-measure the financial knowledge of adult New Zealanders, using the 2005 Financial Knowledge Survey as the benchmark. ANZ Bank has committed the funding to repeat this survey. In the longer term we will seek to develop research instruments to capture behaviour change, as people move on with their lives and make financial decisions following educative programmes. Alongside these population-level measures we will seek to develop evaluation frameworks that providers of financial education can build into the development of their programmes in order to assess whether they are achieving the outcomes they seek from such education.

**Recommendation 14**

**That the financial knowledge of the adult New Zealand population be measured on a 4-yearly cycle, with the next national survey in 2009.**

There are a number of reasons why we are using this measure of knowledge as our main indicator of the overall success of the strategy at present. The first reason is because it is eminently practical: we have established the baseline and are in a position where we can re-measure knowledge using the same instrument. While the Financial Knowledge Survey gathers some data on attitudes, which can assist in the design and delivery of education, it also measures knowledge levels by presenting people with questions on topic areas, rather than simply asking them to self rate their ability.

Second, we envisage some problems with measuring the outcomes of behaviour change. Such an approach would leave us in the position of deciding which behaviour to label "good" and which "bad". Such labels could easily be overly simplistic and inappropriate to individuals' situations. For example, if we were to measure levels of savings, an individual's high levels of these may not represent an optimal personal financial decision if they were simultaneously servicing debt at a higher interest rate. Even a net worth calculation - while providing a snapshot - may not fully reflect long term financial well being and trade-offs made regarding debt and future financial position. For example, a person may be sacrificing current income and using savings to gain further education - this is likely to increase future income but gives a lower current net worth.

In order to better capture the long term effect and result of financial education and financial literacy on personal financial well being, research instruments which track people's knowledge and decision-making over longer time frames need to be developed. Such instruments could potentially involve assessment of past financial decisions, and examination of financial records, or could work forwards by examining a cohort and revisiting them periodically in a longitudinal study. The 2009 Survey, for example, could represent the first contact in a longitudinal approach. This gives rise to our fifteenth recommendation.

**Recommendation 15**

**That the Retirement Commission, in its leadership role, work with research and evaluation professionals to develop instruments to capture the long-term effects of financial education and financial literacy on peoples' personal financial well being.**

Finally, in order to promote and improve the evaluation of financial education programmes in New Zealand, we will develop a standard evaluation framework for providers to use and tailor on the National Strategy website. This will encourage the adoption of evaluation planning as part of programme development, and will provide for links to expert advice for providers through the National Strategy framework. O'Connell (2007, p.22) provides a five-tiered framework to such programme evaluation based on the work of Jacobs (1998) as presented in Fox et al (2005). It is envisaged that this framework would form the basis of the provision we make through recommendation 16.

**Recommendation 16**

**That a standard evaluation framework be developed that providers of financial education can adopt and adapt, in order to evaluate the effectiveness of their programmes. In addition, guidance be provided, and experiences and best practices shared in order to learn by doing and continuously modify programmes.**

# Supporters of the National Strategy for Financial Literacy

Aiming to build a financially literate population is a hugely ambitious goal. This outcome cannot be achieved by one organisation alone. The involvement of the public, private and voluntary sectors is necessary for implementation to be successful. The following organisations have endorsed the National Strategy for Financial Literacy, and support working together to achieve the strategy's mission statement that:

*New Zealanders are financially well-educated and can make informed financial decisions throughout their lives.*

Adviserlink Learning  
Age Concern New Zealand  
AMP Financial Services  
ASB  
BNZ  
John Benseman  
Canterbury Employers Chamber of Commerce  
Centre for Citizenship Education  
Families Commission  
Financial Services Authority, UK  
Gary Hawke  
Mary Holm  
HSBC  
Institute of Financial Advisers  
Insurance & Savings Ombudsman  
Investment Savings & Insurance Association  
Kiwibank  
College of Business, Massey University  
Melville Jessup Weaver  
Mercer  
Ministry of Education  
Ministry of Women's Affairs  
National Council of Women in New Zealand  
New Zealand Council of Trade Unions  
New Zealand Federation of Family Budgeting Services  
New Zealand Fire Service Superannuation Scheme  
New Zealand Shareholders Association  
Te Runanga o Ngāi Tahu  
NZ Assoc of Citizens Advice Bureau  
NZIER  
Office For Senior Citizens  
PSIS  
Reserve Bank of New Zealand

Retirement Policy and Research Centre, University of Auckland  
Russell Investment Group Ltd  
Saturn Portfolio Management Ltd  
Securities Industry Association  
Safe Home Equity Release Plans Association (SHERPA)  
Spicers Portfolio Management Ltd  
Standard & Poor's  
Financial Support & Advice, Student Services, Victoria University of Wellington  
Westpac New Zealand

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A handwritten signature in black ink, appearing to read 'Diana Crossan'. The signature is fluid and cursive, with a large initial 'D' and a long, sweeping tail.

**Diana Crossan**  
Retirement Commissioner

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# Appendix 1: OECD Principles and Good Practices

## For Financial Education and Awareness

### I. Principles

1. Financial education can be defined as “the process by which financial consumers/investors improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being”. Financial education thus goes beyond the provision of financial information and advice, which should be regulated, as is already often the case, in particular for the protection of financial clients (i.e. consumers in contractual relationships).
2. This financial capacity building, based on proper financial information and instruction, should be promoted. Financial education should be provided in a fair and unbiased manner. Programmes should be co-coordinated and developed with efficiency.
3. Financial education programmes should focus on high propriety issues, which, depending on national circumstances, may include important aspects of financial life planning such as basic savings, private debt management or insurance as well as pre-requisites for financial awareness such as elementary financial mathematics and economics. The awareness of future retirees about the need to assess the financial adequacy of their current public or private pensions schemes and to take appropriate action when needed should be encouraged.
4. Financial education should be taken into account in the regulatory and administrative framework and considered as a tool to promote economic growth, confidence and stability, together with regulation of financial institutions and consumer protection (including the regulation of financial information and advice). The promotion of financial education should not be substituted for financial regulation, which is essential to protect consumers (for instance against fraud) and which financial education is expected to complement.
5. Appropriate measures should be taken when financial capacity is essential but deficiencies are observed. Other policy tools to consider are consumer protection and financial institution regulation. Without limiting the freedom to contract, default mechanisms, which take into consideration inadequate financial education or passive/inert behaviour, should be considered.
6. The role of financial institutions in financial education should be promoted and become part of their good governance with respect to their financial clients. Financial institutions’

accountability and responsibility should be encouraged not only in providing information and advice on financial issues, but also in promoting financial awareness clients, especially for long-term commitments and commitments which represent a substantial proportion of current and future income.

7. Financial education programmes should be designed to meet the needs and financial literacy level of their target audience, as well as reflect how their target audience prefers to receive financial information. Financial education should be regarded as a life-time, on-going and continuous process, in particular in order to take account of the increased complexity of markets, varying needs at different life stages, and increasingly complex information.

## **II. Good Practices**

### **A. Public action for financial education**

8. National campaigns should be encouraged to raise awareness of the population about the need to improve their understanding of financial risks and ways to protect against financial risks through adequate savings, insurance and financial education.
9. Financial education should start at school. People should be educated about financial matters as early as possible in their lives.
10. Consideration should be given to making financial education a part of state welfare assistance programmes.
11. Appropriate specialised structures (possibly embedded within existing authorities) in charge of promoting and coordinating financial education should be encouraged at the national level and regional and local public and private initiatives as close to the population as possible should also be promoted.
12. Specific Web sites should be promoted to provide relevant, user-friendly financial information to the public. Free information services should be developed. Warning systems by consumer, professional or other organisation on high-risk issues that may be detrimental to the interests of the financial consumers (including cases of fraud) should be promoted.
13. International co-operation on financial education should be promoted, including the use of the OECD as an international forum to exchange information on recent national experiences in financial education.

## **B. Role of financial institutions in financial education**

14. Requirements to specify the types of information (including where to find information and the provision of general comparative and objective information on the risks and returns of different kinds of products) that financial institutions need to provide to clients in financial products and services, should be encouraged.
15. Financial institutions should be encouraged to clearly distinguish between financial education and financial information and “commercial” financial advice. Any financial advice for business purposes should be transparent and disclose clearly any commercial nature where it is also being promoted as a financial education initiative. For those financial services that entail long-term commitment or have potentially significant financial consequences, financial institutions should be encouraged to check that the information provided to their clients is read and understood.
16. Financial institutions should be encouraged to provide information at several different levels in order to best meet the needs of consumers. Small print, abstruse documentation should be discouraged.
17. Financial education provided by financial institutions should be regularly assessed to ensure it meets consumer needs. This may be achieved through partnerships with independent, not for profit financial advisory bodies that may have better connection with consumers, particularly those facing disadvantage in their participation in financial markets.
18. Financial institutions should be encouraged to train their staff on financial education and develop codes of conduct for the provision of general advice about investment and borrowing, not linked to the supply of a specific product.

## **C. Financial education for retirement savings**

19. For individuals in private personal pension plans, the provision by financial institutions of the appropriate financial information and education required for the management of their future retirement savings and income should be promoted.
20. Concerning occupational schemes, (for which the related information and education should be provided in a consistent way across the schemes) financial education and awareness of employees and related policy tools should be further promoted, both for defined contributions and defined benefits schemes.

#### **D. Financial education programmes**

21. Financial education programmes that help financial consumers find the facts and understand the pros and cons as well as the risks of different types of financial products and services should be promoted. Further research on behavioural economics should be promoted.
22. The development of methodologies to assess existing financial education programmes should be promoted. Official recognition of financial education programmes which fulfil relevant criteria should be considered.
23. Financial education programmes that develop guidelines on study content and accomplishment level for each financial education programme and for each population subgroup should be promoted.
24. In order to achieve a wider coverage and exposure, the use of all available media for the dissemination of education messages should be promoted.
25. In order to take into account the diverse backgrounds of investors/ consumers, financial education that creates different programmes for specific sub-groups of investors/consumers (i.e. young people, the less educated, disadvantaged groups) should be promoted. Financial education should be related to the individual circumstance, through financial education seminars and personalised financial counseling programmes.
26. For those programmes which favour use of classrooms, proper education and competence of the educators should be promoted. In this respect, the development of programmes to “train the trainers” and the provision of specific information material and tools for these trainers should be encouraged.

# Appendix 2: ANZ-Retirement Commission Survey 2005

## NZ Adult Financial Literacy Framework

Knowledge/Skill Area	Basic Understanding	Advanced Understanding
<p><b>Mathematical and Standard Literacy:</b></p> <p>Essential mathematical, reading and comprehension skills</p> <p>(numeracy)</p> <p>(understanding of terms)</p>	<ul style="list-style-type: none"> <li>• Ability to add, subtract, multiply and divide (with or without calculator)</li> <li>• Ability to understand and calculate percentages (with or without calculator)</li> <li>• Ability to read and comprehend basic English</li> <li>• Ability to read and comprehend basic charts or graphs</li> </ul>	<ul style="list-style-type: none"> <li>• Ability to understand principles of compound interest whether in a borrowing or savings capacity (most importantly the effect it has on making personal financial decisions - affect on repayments/total interest bill/time taken to repay).</li> <li>• Ability to understand averages</li> <li>• Understanding the time value of money.</li> </ul>
<p><b>Financial Understanding</b></p> <p>Income and Wealth</p> <p>Understanding of where money comes from and goes</p>	<ul style="list-style-type: none"> <li>• Understanding of income and wealth - income comes from work, employment and investment (active, passive and unearned income). Test whether people know the difference between capital and income ie return on time, return on capital.</li> <li>• Recognition of household expenses and regular financial commitments</li> <li>• Understanding of financial terms and concepts: <ul style="list-style-type: none"> <li>- Asset/liability</li> <li>- Capital</li> <li>- Capital gain/capital growth</li> <li>- Cash</li> <li>- Compound interest (as applies to debt &amp; savings)</li> <li>- Credit rating</li> <li>- Debt/borrowing</li> <li>- Debt servicing</li> <li>- Interest /fixed rate/floating rate</li> <li>- Equity in your home (related to mortgages)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Understanding of how companies and other organisations are financed, including shares.</li> <li>• Understanding of financial terms and concepts: <ul style="list-style-type: none"> <li>- Nominal return/Real rate of return</li> <li>- Secured loan/unsecured loan</li> <li>- Securities</li> <li>- Share market investments</li> <li>- Stocks</li> <li>- Annuity</li> <li>- Inflation adjusted</li> <li>- Investment - active &amp; passive, passive fund manager</li> <li>- Trustee company</li> </ul> </li> <li>• Unit Trust <ul style="list-style-type: none"> <li>- Vesting</li> </ul> </li> </ul>

Knowledge/Skill Area	Basic Understanding	Advanced Understanding
	<ul style="list-style-type: none"> <li>- Gross/net</li> <li>- Inflation</li> <li>- Today's dollars</li> <li>- Investment</li> <li>- Managed funds</li> <li>- Net worth</li> <li>- New Zealand Superannuation</li> <li>- Pension</li> <li>- Rate of return</li> <li>- Risk</li> <li>- Superannuation</li> <li>- Tax - income/GST</li> <li>- Term deposit</li> </ul>	
<p><b>Financial Competence</b></p> <p><b>Money management -</b></p> <p><b>Understanding of the main features of basic financial services</b></p> <p><b>Understanding of which type of payment is best to use and why.</b></p>	<ul style="list-style-type: none"> <li>• Understanding of the range of ways to pay for goods and services, including: <ul style="list-style-type: none"> <li>• Cash (no charge)</li> <li>• Cheques (fee per cheque)</li> <li>• Money orders (charge)</li> <li>• Credit cards: (annual fee for card, charge interest to unpaid balance monthly, charge interest on cash advances daily)</li> <li>• Store cards</li> <li>• EFTPOS (fee per transaction)</li> <li>• Direct debit</li> <li>• Automatic payment</li> <li>• Loans (loan fee, charged interest)</li> <li>• Lay-bys</li> <li>• Ability to compare the financial advantages and disadvantages of different forms of payment</li> <li>• Awareness of the sorts of fees that apply to basic banking services (<i>electronic banking, account fees, EFTPOS</i>) - which is the cheapest/most</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Ability to make strategic use, to maximise personal financial advantage, of: <ul style="list-style-type: none"> <li>• Basic banking</li> <li>• Electronic banking (e.g. ATMs, EFTPOS, telephone banking, Internet banking)</li> <li>• Other investments (e.g. shares, term deposits, managed investments, life insurance with an investment element)</li> <li>• Risk insurance products (e.g. house and contents insurance, including coverage and exclusions, health insurance)</li> </ul> </li> </ul>

Knowledge/Skill Area	Basic Understanding	Advanced Understanding
	<p>effective/wisest way to pay?</p> <ul style="list-style-type: none"> <li>Awareness that one should shop around before purchasing financial products</li> </ul>	
<p><b>Money management - Understanding of mortgages</b></p>	<ul style="list-style-type: none"> <li>Understanding of fixed interest rates vs. variable interest rates</li> <li>Understanding of the effect of interest rates on the amount of repayments, time mortgage takes to repay and the total interest bill (interest compounding) - <i>eg how do you reduce the cost of a mortgage?</i></li> <li>Understanding concept of equity</li> </ul>	<ul style="list-style-type: none"> <li>Understanding of how to use equity in your property for personal financial advantage (e.g. investment)</li> <li>Revolving credit / line of credit (better term)</li> </ul>
<p><b>Money management - Ability to understand financial records and appreciation of the importance of reading and retaining them</b></p>	<ul style="list-style-type: none"> <li>Ability to understand and check accuracy of official financial records, such as:</li> <li>Bank statements</li> <li>ATM service statements</li> <li>Credit card statements</li> <li>Insurance</li> <li>Understanding of the need to keep records, including for tax purposes.</li> </ul>	<ul style="list-style-type: none"> <li>Ability to reconcile a bank statement to allow for items not yet reconciled</li> <li>Ability to read investment reports eg, a report from a managed fund to see the asset classes invested in and % return over time</li> <li>Investment statements (for those who have investments)</li> <li>Understanding of the need to monitor an investment over time</li> </ul>
<p><b>Financial planning: Goal Setting - should be:</b></p> <p><b>Specific, Measurable, Achievable, Relevant, Time bound (SMART)</b></p>	<ul style="list-style-type: none"> <li>Understanding that short/med/long-term goals are more likely to be achieved through financial planning</li> <li>Financial planning involves the management of money to achieve goals</li> <li>Goals change as life cycle changes</li> <li>Understanding of the difference between long-</li> </ul>	<ul style="list-style-type: none"> <li>Ability to assess the financial implications of personal life choices in terms of career choices and life-long learning opportunities</li> <li>Understanding that the composition of net worth matters - having a balance between cash (sufficient to meet short term goals and emergencies) and non-cash - growth assets (eg investment property and shares).</li> </ul>

Knowledge/Skill Area	Basic Understanding	Advanced Understanding
	term and short-term needs	
<b>Financial Planning:</b>  <b>Long term goals &amp; planning for the future</b>	<ul style="list-style-type: none"> <li>• Understanding of why people save for the long-term future (eg retirement, children’s education)</li> <li>• Understanding of where money comes from in retirement (NZ Govt provides New Zealand Superannuation at the age of 65 years and remainder comes from private savings), and how much you will need.</li> <li>• Knowledge of level of NZ Superannuation</li> <li>• Understanding that if you want more than NZ Super you need to prepare financially for retirement.</li> <li>• Understanding of how you make financial preparation/grow your wealth can be done in many ways - managed investments, building businesses, property, share market, continuing to work in retirement etc.</li> <li>• Understanding of net worth (what is net worth and how to calculate it ie. assets-liabilities) (and the difference between lifestyle (eg family home) versus investment (eg shares) assets)</li> <li>• Understanding that some workplace superannuation schemes include an employer contribution</li> </ul>	<ul style="list-style-type: none"> <li>• Understanding of need to check records (e.g. Annual Statements) from managed funds and other investments, eg shares, to determine whether current contribution levels and % returns are appropriate for anticipated needs</li> <li>• Knowing your financial independence point (the amount of capital required to provide your lifestyle requirements) and the savings required to achieve that.</li> </ul>
<b>Financial planning:</b>  <b>Budgeting</b>	<ul style="list-style-type: none"> <li>• Understanding of how to use budgets to plan and control personal spending</li> <li>• Understanding the need for planning for a surplus.</li> </ul>	<ul style="list-style-type: none"> <li>• Ability to budget strategically to make payments as late as possible and keep money earning interest as long as possible</li> </ul>

Knowledge/Skill Area	Basic Understanding	Advanced Understanding
	<ul style="list-style-type: none"> <li>• Understanding the impact of unplanned spending</li> <li>• Understanding need to prioritise needs and aspirations (wants)</li> <li>• Ability to forecast and recognise the impact of irregular major financial outlays (e.g. vehicle registration; holidays)</li> <li>• Ability to prioritise different needs to balance income and expenditure within financial capacity</li> </ul>	
<b>Financial Planning:</b>  <b>Debt management</b>	<ul style="list-style-type: none"> <li>• Understanding of the need to plan and manage debt</li> <li>• Awareness that both savings and borrowing are offered on differing terms and interest rates that vary over time</li> <li>• Understanding of what are the options for debt? (Should you save if you have debt?)</li> <li>• Understanding of principles that you borrow to buy assets and save for expenditure (concept of value builders and value losers) subject to understanding the risk.</li> <li>• Ability to compare costs, obligations and timeframes of different forms of credit arrangements (hp, loans)</li> <li>• Understand the tradeoffs between paying now and paying later (opportunity cost of debt rather than saving)</li> <li>• Awareness that individuals are responsible for debts of spouse/other family members with whom they have a joint financial</li> </ul>	<ul style="list-style-type: none"> <li>• Understanding of the implications and key features of unsecured credit and debt, including both fixed: <ul style="list-style-type: none"> <li>- Personal loans</li> <li>- Lease</li> <li>- Hire purchase and revolving: <ul style="list-style-type: none"> <li>- Credit cards</li> <li>- Store cards</li> <li>- Overdrafts</li> <li>- Other “line of credit” facilities</li> </ul> </li> </ul> </li> <li>• Understanding of finance rate and ways to compare interest rates and the effects of fees and other charges</li> <li>• Understanding that some loans and purchase agreements are secured while others are unsecured, and the implications for default</li> <li>• Understanding of the concept and implications of personal guarantor and co-borrower arrangements</li> <li>• Understanding of how credit records are generated and the implications of bad records for future borrowing</li> </ul>

Knowledge/Skill Area	Basic Understanding	Advanced Understanding
	product	
<b>Financial Planning: Saving</b>	<ul style="list-style-type: none"> <li>• Understanding of the purpose of saving and why people save</li> <li>• Understanding that there are a variety of places and ways in which to save money (bank accounts, managed funds, shares etc)</li> <li>• Understanding that you need to adjust amount saved each year for inflation</li> <li>• Awareness that both savings and borrowing are offered on differing terms and interest rates and returns vary over time (people can be saving in other ways too - not just the bank)</li> </ul>	
<b>Financial responsibility</b>  <b>Financial Planning: Managing risk</b>  <b>Estate planning:</b> <ul style="list-style-type: none"> <li>• enduring power of attorney</li> <li>• insurance</li> <li>• wills</li> </ul>	<ul style="list-style-type: none"> <li>• Understanding that risk is part of financial planning and needs to be understood.</li> <li>• Understanding that financial shocks can occur and need to be planned for/managed</li> <li>• Understanding of the purpose of insurance (what are the different types, when should a person consider these, what factors to consider when buying insurance)</li> <li>• Understanding financial impact of relationship break-up - What happens? How to safeguard.</li> <li>• Understanding purpose of wills, EPA, insurance and life stage.</li> </ul>	<ul style="list-style-type: none"> <li>• Understanding the financial implications of relationship break-up and what can be done to minimise these risks (eg, contracting out and Family Trusts).</li> </ul>
<b>Financial planning: Investing</b>	<ul style="list-style-type: none"> <li>• Understanding of the value of diversification when investing</li> </ul>	<ul style="list-style-type: none"> <li>• Understanding of four basic principles of investing - duration, risk, liquidity and</li> </ul>

Knowledge/Skill Area	Basic Understanding	Advanced Understanding
	<ul style="list-style-type: none"> <li>• Awareness of risks associated with some financial products and appreciation of the relationship between risk and return</li> <li>• Understanding of the particular features of a scam</li> <li>• Understanding that short-term ups and downs in value are less important for long-term investments</li> <li>• Understanding that your most important return is the return on your capital</li> </ul>	<p>return</p> <ul style="list-style-type: none"> <li>• Investing/building financial assets/building net worth - (understanding the need for diversification, ability to recognise a range of investment options, asset classes - short term deposits, bonds, property, shares)</li> <li>• Understanding of net real rate of return, NPV</li> <li>• Ability to identify potential risks and determine whether they need to be eliminated or mitigated against</li> <li>• Understanding that you can invest directly or through a managed fund/ professionally</li> <li>• Understanding of guarantees on investments</li> <li>• Understanding of currency issues, including the impact of fluctuations in exchange rate for the New Zealand dollar</li> <li>• Understanding of socially responsible investing (i.e. that you can take into account your ethical, social and environmental considerations when making investment decisions)</li> </ul>
<b>Financial planning: Tax</b>	<ul style="list-style-type: none"> <li>• Understanding of gross/net, and how it's calculated - and that there is tax eg simple GST and income tax.</li> </ul>	<ul style="list-style-type: none"> <li>• Tax on income vs capital gains</li> <li>• Deductibility or use of Company or Trust</li> </ul>
<b>Understanding of consumer rights and responsibilities</b>	<ul style="list-style-type: none"> <li>• Understanding that consumers do have rights</li> <li>• Understanding that consumers have a right to clear information about advice and products both pre-purchase and ongoing post-purchase</li> <li>• People have right to ask adviser for their disclosure</li> </ul>	<ul style="list-style-type: none"> <li>• Understanding the need to check, before handing over money for an investment. Questions to ask an investment adviser</li> </ul>

Knowledge/Skill Area	Basic Understanding	Advanced Understanding
	<p>document</p> <ul style="list-style-type: none"> <li>• Awareness of and ability to access independent dispute resolution schemes for financial products</li> <li>• Understanding of consumer responsibilities and the implications of not meeting them, including:</li> <li>• Safeguarding of PINs for transaction banking</li> <li>• Taking the necessary precautions to protect their PCs and safeguard their internet banking access.</li> <li>• Understanding that our financial choices are guided by law</li> </ul>	
<p><b>Understanding and confidence to access assistance when things go wrong</b></p>	<ul style="list-style-type: none"> <li>• Awareness of the distinction between financial advisers charging fee-for-service vs. taking commission, and understanding of its implications</li> </ul>	

# Supporting the National Strategy for Financial Literacy

Aiming to build a financially literate population is a hugely ambitious goal. This outcome cannot be achieved by one organisation alone. The involvement of the public, private and voluntary sectors is necessary for implementation to be successful. Many organisations have endorsed the Strategy, and support working together to achieve the Strategy’s mission statement that:

*New Zealanders are financially well-educated and can make informed financial decisions throughout their lives.*

If you would like to become a supporter of the National Strategy for Financial Literacy, please complete the following:

Name \_\_\_\_\_

Position \_\_\_\_\_

Organisation \_\_\_\_\_

Address \_\_\_\_\_

Phone \_\_\_\_\_

Email \_\_\_\_\_

Yes, my organisation would like to be recognised as a supporter of the National Strategy for Financial Literacy

By email to: [financialliteracy@retirement.org.nz](mailto:financialliteracy@retirement.org.nz)

Or by mail to:

National Strategy for Financial Literacy  
Retirement Commission  
PO Box 12-148  
Wellington  
New Zealand



