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Submission to The Retirement Commission on the Draft National Strategy for Financial Literacy

NCWNZ is an umbrella organisation representing 47 Nationally Organised Societies and National Members. It has 28 Branches throughout the country attended by representatives of those societies and some 150 other societies. It also has three satellite groups and three regional consultation groups. NCWNZ is representative of approximately 350,000 women, via its affiliated bodies. The Council's functions are to serve women, the family and the community at local, national and international levels through research, study, discussion and action.

NCWNZ welcomes the opportunity to consider this consultation document. The response has been prepared by the Economics Standing Committee in consultation with the wider membership.

NCWNZ is pleased to respond to the issues noted in this Draft National Strategy (DNS) which describes its aim as seeking to "improve the financial literacy of New Zealanders ... spanning the public, private and not-for-profit sector". Such a description meets with the view of NCWNZ members, that the responsibility for being financially literate should not exclude the policy-makers, officials and politicians in local and central government. Indeed, ever since the 1880s this organisation has often raised with those in government, issues on economic principles such as asset ownership and income equity

Members found the use of the terms "reaching people", "extending delivery" and "sharing what works" to be a sound basis of the strategy, and particularly valid, given the intention of "getting rid of jargon", as noted in the foreword by Retirement Commissioner Dianne Crossan.

Members feel the problem with the term "financial literacy" is the implication that managing money is the central issue, rather than the careful husbanding of economic resources, their ownership and use-rights. These are what ultimately determine the outcome of economic activity, including "personal financial well-being". NCWNZ agrees with the penultimate statement in the Executive Summary on page two: "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."

Therefore no discussion on finances should evade the basic economic questions of what to produce, how to produce it, and FOR WHOM it is to be produced. With global and national statistics revealing a widening income gap between richer and poorer, the " for whom" question needs to be addressed urgently. Even the ANZ-Retirement Commission Survey (2005) classes wealth as monetary income (Appendix 2, p 40). True, that money is a claim on real goods and services. It is one of mankind's most useful inventions in as much as money transactions help to facilitate the exchange of products in which people and nations specialise. But, as most economics textbooks explain, money is not itself a factor of production - it has unfortunately been commodified, generating a huge financial industry in currency trading from which relatively few people benefit, while many nations and individuals suffer. So NCWNZ welcomes the inclusion (p.5) of reference to "broader factors which influence the macro-economy....".

NCWNZ agrees with some of the reasons given in the introduction on the importance of financial literacy today, including the proliferation of financial products and the world-wide concern about rising household debt levels - plus the reports of bankruptcies and insolvencies. But the draft avoids mention of government debt, both local and national, let alone S.O.E. debt nearly all owned by private financial institutions. Nor does the draft list the sales by successive governments of banks, utilities, and other assets resulting in the draining of interest payments, profits and dividends out of our economy - sales prompted by the advice of "experts" presumed to be financially literate!

Members are not convinced that financial security is strained by an ageing population and are dismayed to see the dependency ratio argument still invoked as a threat to the viability of state pension schemes. It is understandable that it is in the interests of the savings/insurance industry to promote the fear of future state benefits becoming inadequate, denying the work of economists like Paul van Moeseke (formerly Chair of Economics, Massey University) and Len Baylis, (former economist to the Bank of New Zealand), both highly critical of the dependency ratio myth. Labour productivity becomes less important to the GDP as capital/technological productivity increases. The argument fails to account for the immense progress in telecommunications and automation, let alone the possibility of individual incomes including the "earnings" of such capital - provided, of course, such assets are not sold off or made collateral for overseas loans.

On page 14 the diagram entitled "Personal Financial Literacy and Personal Financial Wellbeing" includes the Words "investing" and “saving”. A problem identified by some members is that individuals and money managers face restrictions on where to invest savings. Many finance houses are writing down the value of their buildings. Insurance companies, the ultimate yield hunters, are selling down their stock holdings, lowering the value of investments. Lowered rates of interest set by central banks such as the United States Federal Reserve, reduce what insurance companies earn on corporate bonds and sovereign debt. Of course they can turn to New Zealand treasuries and government bonds as our Official Cash Rate (OCR) is ratcheted upward, so attracting the speculators and pension fund agents. Much depends here on the compliance of the taxpayers who must service such investment dollars.

NCWNZ supports the desirability of socially responsible investing (p 46) : it is pleasing to note therefore, that Guardians of the Superannuation Fund are considering withdrawing their investments in tobacco and armaments in order to meet their brief for the Fund. In the short term, the option of "leaving your money in the bank” **seems** the safest. The risk here is that inter-bank lending problems plus debt defaulters will absorb any interest a client may hope to receive.

It has been suggested that perhaps it is time for an acceptance that the most workable scenario could be a balance between dependence and independence financially. NCWNZ is not advocating a return to dependence on a spouse or on charity but for emphasis on the value of the collective provision of social insurance through public education, healthcare, better public transport, cheaper electricity, affordable access to justice and so on.

Otherwise the fear of inadequate public services will continue to drive those who can afford it to rely on private health insurance and superannuation while others must look to philanthropy. Members believe that people have every right to take out private insurance but better it be for positive reasons, not out of false fears encouraged by financial sector propaganda. No amount of "consumer protection legislation" (p14) can save investors from company collapse and companies cannot expect taxpayers to come to the rescue.

These reservations are reflected under the sub-heading: "Environmental Prerequisites" (p. 16) where it states: "Collectively as a nation... we do not know whether we will cope if we encounter a steep hill."

Stabilisers are recommended but if they are confined to an amalgam of better financial literacy and government regulation, this country could be caught out by world events. The question is whether financial literacy is information on a failing economic model or whether there is a need to start looking at a new economic model as suggested by union leader, Andrew Little, at a recent forum in Wanganui.

There was a concern regarding the accusation of naivete directed by Reserve Bank of New Zealand (RBNZ) Governor Dr Alan Bollard at consumers who accept more and more debt from mainstream financial institutions (page 16). After all, raising the OCR has not prevented higher food and energy costs - meaning that much consumer debt is occasioned by expenditure on essential items.

One affiliated organisation made the following contribution to this submission:
" Before we can look for improvement to the economy through 'financial literacy' programmes, we should first identify what is really driving up debt." There is further criticism of the savings industry which continues to blame the consumer, not the financial system, as "*the weakest link*".

Another affiliate expresses deep concern at the large loans taken out by young people for higher education - fostering a belief that credit cards, easy loans and mortgages will always be accessible.

This affiliate also chastises the government for the way its policies are *"taking our country further into debt"*. Along with that is an observation about the way New Zealand's banking system is geared toward making profits for overseas companies and the need to put our banking system "*in the hands of New Zealander".*

Most contributors were highly critical of the news media for making financial matters "a mystery" unless the message was to spend more in order to boost business confidence! Advertisements offering no down-payment on cars, white-ware and furniture were also condemned by nearly every branch, one putting forward a positive way the television media could make financial education popular i.e. produce a panel programme, using the format of the late Selwyn Toogood's "Beauty and the Beast". Viewers could send in their financial problems for discussion.

While some respondents favour the use of television for financial literacy programmes, others do not want expensive advertisements. Most members favour better education in schools - even allowing trained budget advisers into classrooms, similar to the way St. John's and Red Cross officers, also traffic police, may instruct pupils in the presence of qualified teachers. It was also suggested that financial topics should be part of professional development courses for teachers.

As for ways to better fund our public health system and low-cost housing, one branch urged the use the Reserve Bank powers to issue nil-interest credits. and that "*public sector financial operations be always transparent*". The dangers of compound interest appeared in most branch and individual responses.

NCWNZ cannot claim unanimity when it comes to tax incentives for private superannuation and the KiwiSaver scheme. These appear attractive to some but there is always the question of which taxpayers ultimately carry the cost. Whatever opinions are about KiwiSaver, there is general consensus that the scheme has raised awareness about financial matters.

Tribute must be accorded to those community financial services in which many NCWNZ members serve voluntarily. These include the Citizens Advice Bureau, the NZ Federation of Family Budgeting Services and locally established groups like the Nelson Business Development Company (2DC) which gives free advice on home ownership.

A particularly interesting suggestion came from one branch which advocates more literacy regarding financial transactions done electronically. Not only does this branch favour more women in small business but wants more warnings about the "scam" merchants, whether Nigerians or New Zealanders. NCWNZ commends programmes like television's "Fair Go" for informing the public about dubious commercial practitioners.

As draft implies there will be a final document issued, NCWNZ assumes that at that time existing grammatical errors will be corrected. Of note were:

- P15, line 3 where the collective noun *Plunket* should attract the singular verb *is*.
- Similarly on page 16, last paragraph, first line, *a portion of society* is a collective statement which should be followed by *does.*
- Page 17 paragraph 2. Line 5 has an irrelevant *and.*
- Page 17 recommendation 3 has a strange construction in the first sentence with the use of *cross agency* bereft of a preposition. Even using *across* may assist. Does this construction fulfil the implied aim of simple language, or does that aim only apply to the audience and not the deliverers of the strategy?
- Page 17 paragraph 5, last line: the word *off* seems redundant in this context.
- Page 30, paragraph 2. Again the *ANZ Bank* is a single entity which should be followed by the singular verb *has*.

Such grammatical errors tend to distract the reader from the message.

NCWNZ believes that any strategy that has the potential to add to the information base of New Zealanders benefits women in all walks of life. The organisation's processes have the ability to assist with the dissemination of such information through its monthly newsletter *The Circular,* and by inviting relevant speakers to local and national meetings.

Thank you for the opportunity to comment on this commendable strategy.

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