

Head of Secretariat  
Financial System Inquiry  
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5 December 2013

Dear Treasurer

Thank you for the opportunity to comment on the draft terms of reference for the financial system inquiry.

**We think the draft terms are sufficiently wide to enable the committee to make effective recommendations with two tweaks.**

- 1) **Clause 2.1** appears to set up a tension between competition, innovation and efficiency on one hand with stability and consumer protection on the other.

These factors are not mutually exclusive and we suggest the following construction at 2.1:

**“balancing competition, innovation, efficiency, stability and consumer protection”.**

- 2) At **clause 4** consistent with clause 2.1 we think it would be useful to directly empower the inquiry **to make recommendations in respect of consumer protection measures**. We feel some key measures flowing from the Wallis report could be modernised in light of evidence that has emerged from studies in behavioural economics over the last decade.

While 4.3 refers to recommendations that would support individual and businesses to be reasonably able to manage their finance by understanding risks and rewards, compulsory superannuation has made an investor of all us. Compulsory super has brought people into financial markets that would not otherwise be there and it brings them in a very vulnerable time in their lives, usually around retirement.

It doesn't matter who you are, if you have never managed money before you retire you are by definition a vulnerable consumer. Financial literacy and education will work for many people but it takes time to be an effective tool and it will never work for all people.

Given that financial markets are complex and that many consumers are there because of government policy some consumer protection measures will always be necessary.

While financial literacy is a powerful tool it cannot fix all problems and takes time to develop. It cannot fix market failure. It cannot completely protect consumers from fraud. Other tools are necessary in these cases.

**Therefore we believe the capacity to make recommendations on consumer protection measures – particularly those that derive from an understanding of consumer behavioural economics - must be part of the committee's consideration.**

- 3) Finally we would also like to say that we think it **important that the inquiry panel includes a consumer policy expert**. This need not be a stand-alone skill but an academic or business person could be found who understands these issues.

Thank you very much for the opportunity to comment. We look forward to participating in the inquiry.

Yours sincerely



Jenni Mack  
Chair  
Superannuation Consumers' Centre