FINANCIAL PRODUCT DISCLOSURE:
CONSUMER PREFERENCES

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Research Overview

Research Objectives

- The Financial Services Council commissioned this research in order to inform a response to the Financial Systems Inquiry Interim report requesting views on different policy options to amend product disclosure::

  "the current disclosure regime produces complex and lengthy documents that often do not enhance consumer understanding of financial products and services, and impose significant costs on industry participants"

- The key aim of the research is to understand what consumers need in terms of financial product information in order to make purchase decisions:
  - Current financial product disclosure experience
  - Relative importance of different aspects of 'disclosure' from consumer perspective
  - Appeal of enhancement mechanisms as outlined in the Interim FSI report

Research methodology

- A survey of 1007 adult (18 years and over) Australians was conducted to answer the research objectives.
- Data was weighted by age, gender and location (state) to match the Australian Bureau of Statistics population data in order to ensure it was representative of the Australian adult population

Gender	%
Male	49
Female	51

Age	%
18-24	13
25-34	19
35-44	18
45-54	17
55-64	15
65-74	15
75 and over	4

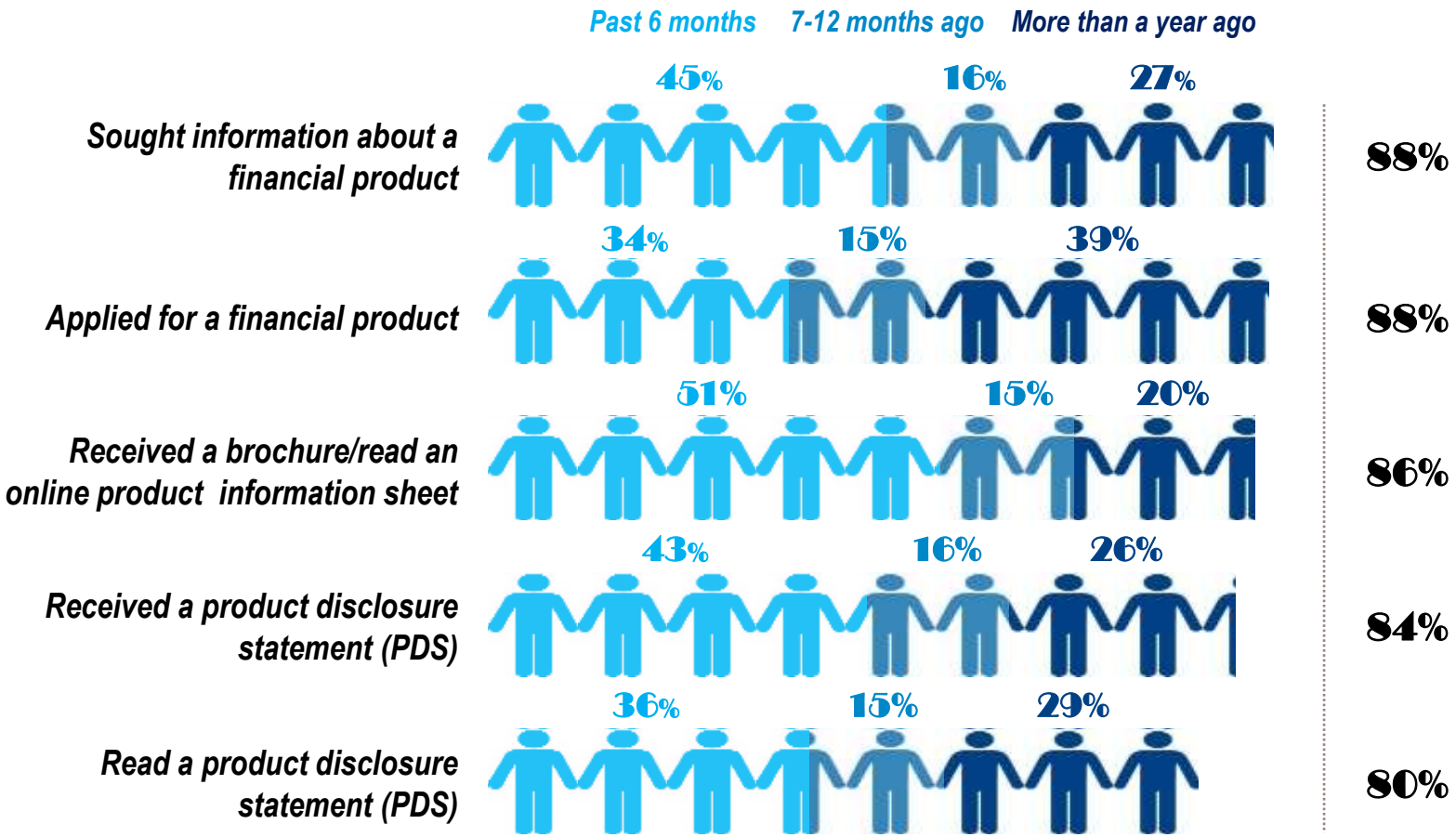
Location	%
NSW	32
VIC	25
QLD	20
WA	11
SA	8
TAS	2
ACT	2
NT	1

Wealth management involvement	%
A (professionally) managed investment	27
Self-managed share or investment portfolio	28
Online share trading account	22
A financial adviser	24
None of these	41

Current Product Disclosure Experience

Around 3 in 4 (73%) Australians have read financial product information in the last year but only 1 in 2 have read a PDS

EXPERIENCE IN TAKING OUT FINANCIAL PRODUCTS



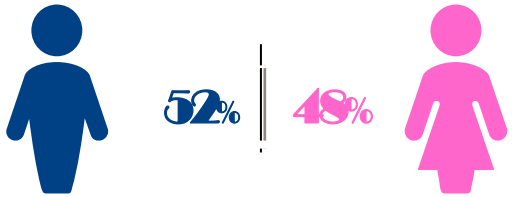
Financial product definition: day to day banking, insurance, superannuation and wealth management products such as managed investments, retirement funds, share accounts and so on.

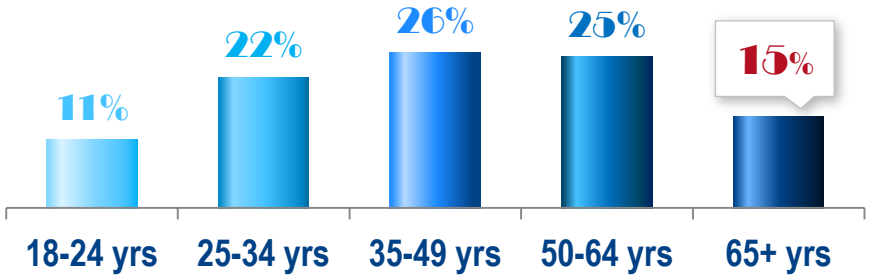
PDS definition: a document that financial product providers are required to provide about their products. It contains all relevant information about a financial product that should enable you to make an informed decision about choosing to take out that product. It should include information such as the cost, any fees and charges, key product benefits and characteristics and any risks associated with owning the product.

Base: Total Sample, n=1007

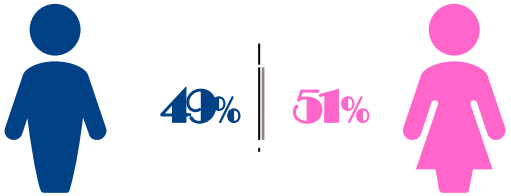
The 3 in 4 Australians who have read received financial product information in the last year generally match the population in profile, but skew younger and are more likely to have a financial adviser

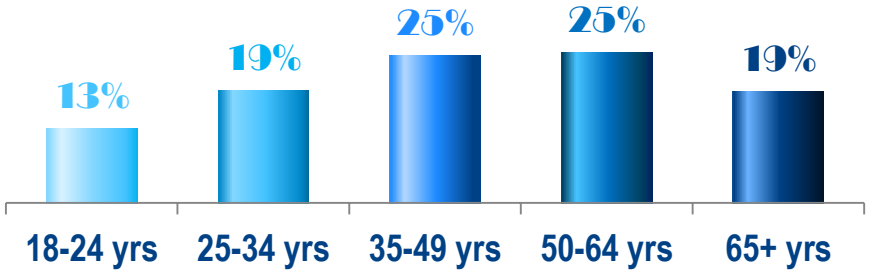
READ PDS/PRODUCT BROCHURE IN LAST 12 MONTHS

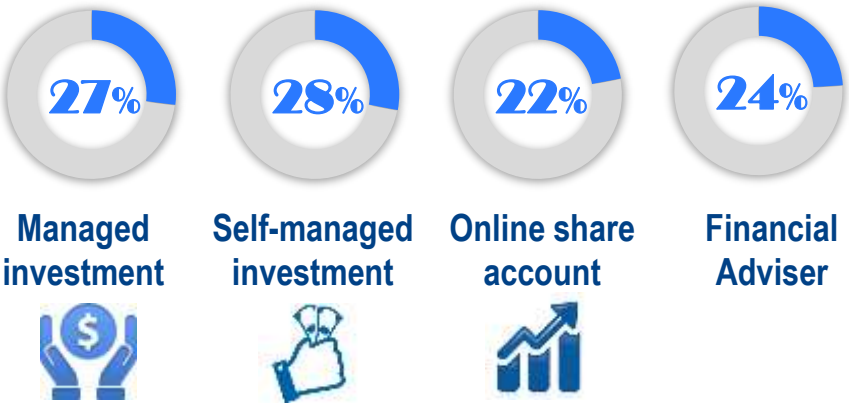




TOTAL ADULT POPULATION





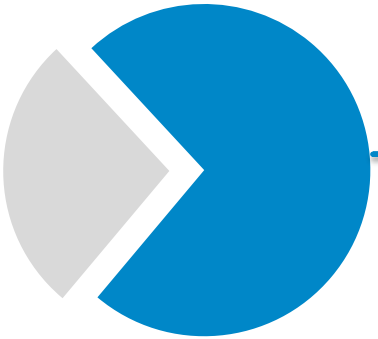


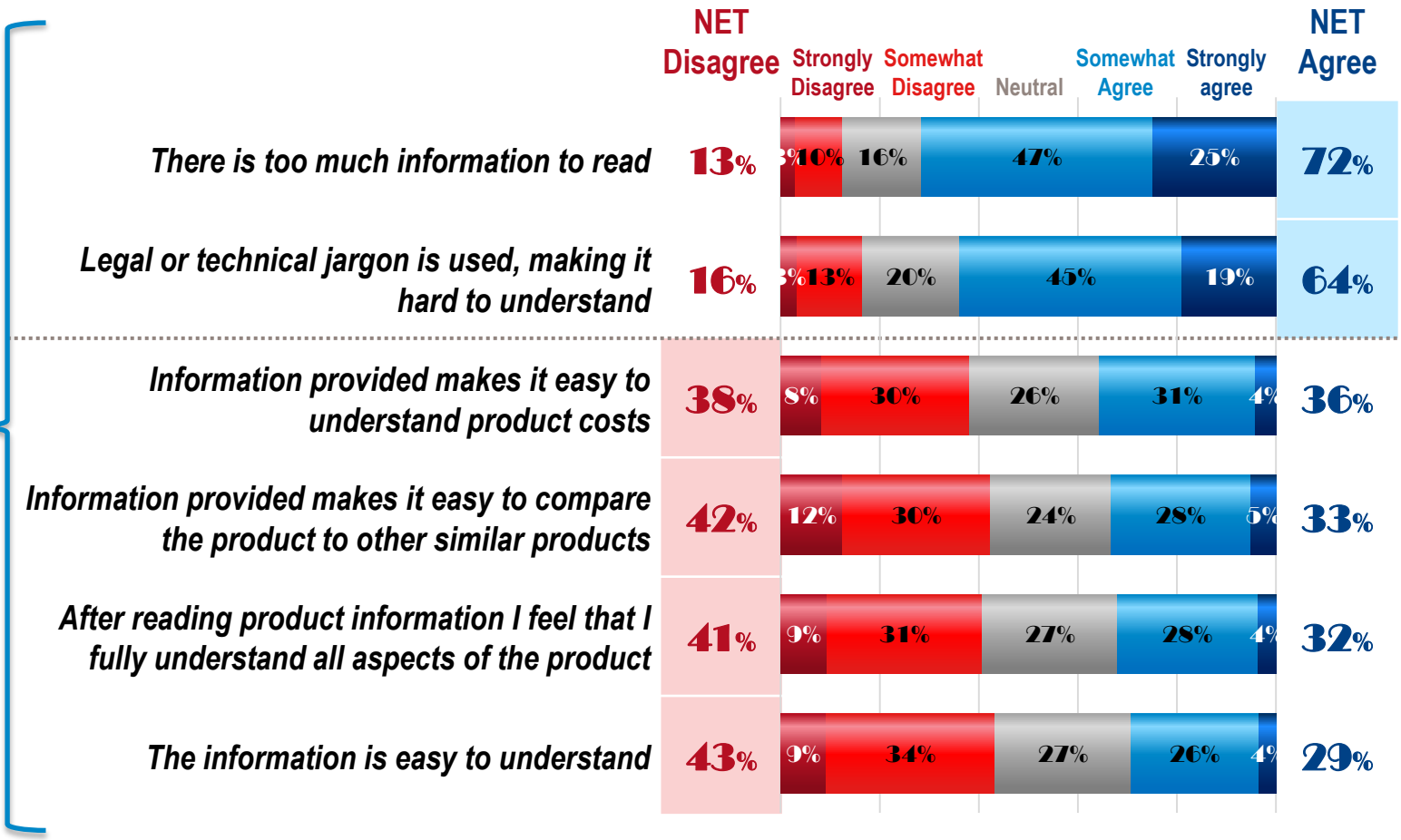
Base: Read a PDS or product brochure in last 12 months n=734; Total Sample, n=1007 **xx** significantly higher than total population **xx** significantly lower than total population (95% confidence)

Consumers who've read product information in the last year rate it as too onerous and difficult to understand… and just as many say it hinders decisions as helps them

HOW WOULD YOU GENERALLY RATE THE INFORMATION AVAILABLE ON FINANCIAL PRODUCTS

73% *read product disclosure information in last 12 months*





Base: Read a PDS or product brochure in last 12 months n=734

PDSs generally contain product information, charges and where to go for information, but are less likely to include information to help choose the right product (including risks)

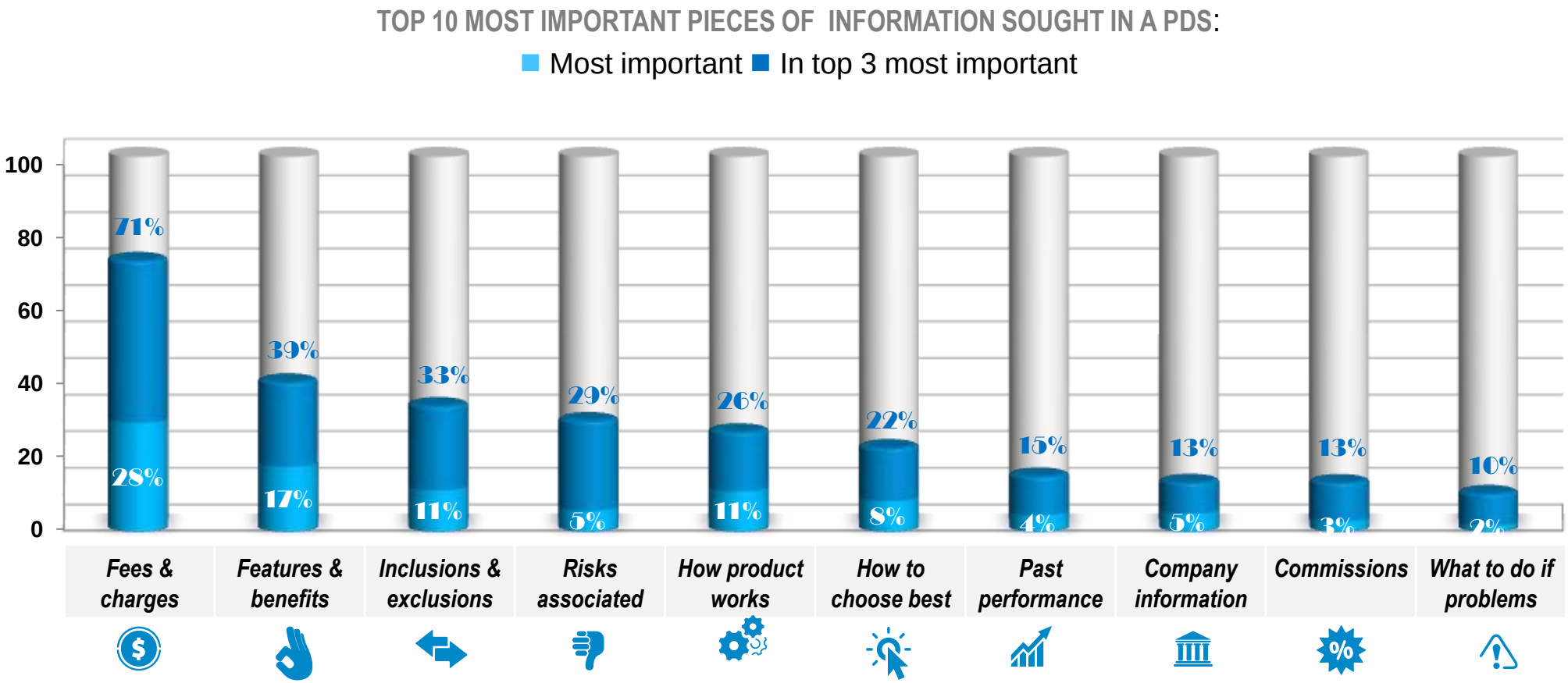
51% *read a PDS in last 12 months*

WHEN YOU LAST READ A PDS, WHAT INFORMATION DID IT CONTAIN?	✓	✗	?
Main product features and benefits	**87%**	6%	7%
Who is offering the product/ company information	**82%**	9%	9%
What information you need to provide to apply	**78%**	10%	12%
How the product works	**77%**	10%	13%
Product fees and charges	**76%**	14%	10%
What to do if you have any problems/complaints	**71%**	11%	18%
What is included in and excluded from the product	**70%**	13%	17%
Cooling off period	60%	17%	23%
Definitions of any technical words	59%	22%	18%
Different options available for the product	54%	**25%**	20%
Any risks associated with the product	47%	**28%**	24%
Past performance (for investment, superannuation etc.)	41%	**33%**	27%
Commissions being paid (and size of these)	37%	**35%**	28%
How to choose the best product for your needs	35%	**38%**	27%

Base: Read a PDS in the last 12 months, n=517; **xx** significantly higher than other information sources (95% confidence)

What’s important to consumers when choosing financial products?

Fees/charges are by far the most sought after product information, followed by features and benefits, and inclusions and exclusions. How products work / how to best choose are important to only 1 in 5



Cooling off period, Different product options, Information required to apply and Technical definitions were all selected in top 3 most important by less than 1 in 10 people

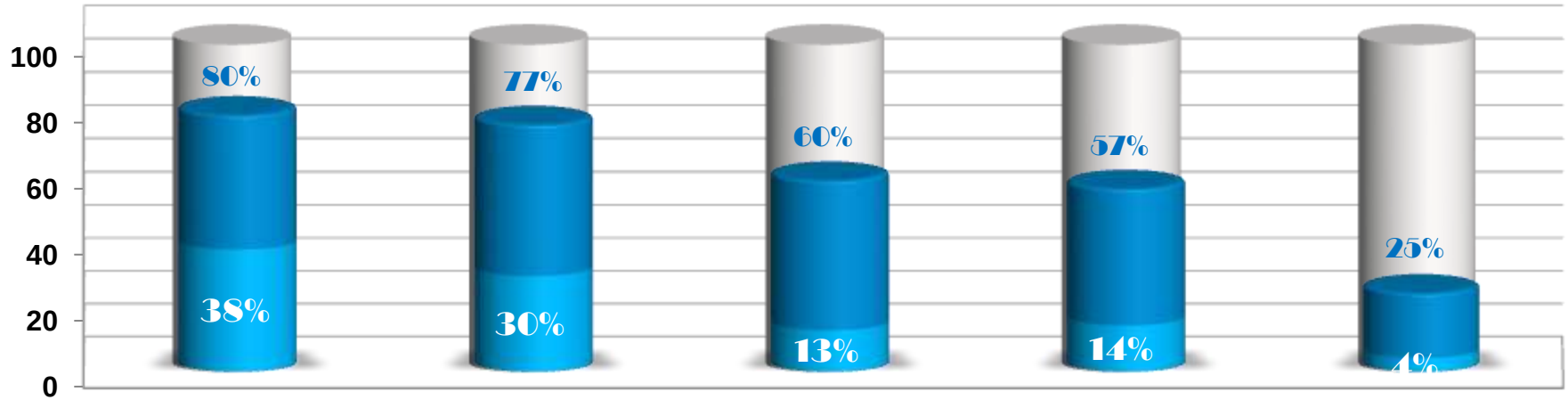
Base: Total sample n=1007

Appeal of enhancement mechanisms

Having a standardised format and / or plain English product disclosure documents with graphics are far preferred to the current format (which ranks last in preference). This is true across all person demographics.

OVERALL PREFERENCE FOR PRODUCT DISCLOSURE FORMAT:

■ Favourite ■ In top 3 most preferred



Example: MySuper template	***A standardised format used across all product disclosure documents to allow easy comparison of key information such as risk.***	***Product disclosure documents to be reformatted into short, clear documents with plain English and graphics***	***Financial product information is disclosed in a series of steps (layered or piece by piece).***	***All information provided in product disclosure statements be available in online product comparison sites.***	***The way financial product information is currently provided.***

Base: Total sample n=1007

Only half (57%) of consumers are open to assistance in financial product literacy and a third (32%) are comfortable with someone else determining the best product for their needs

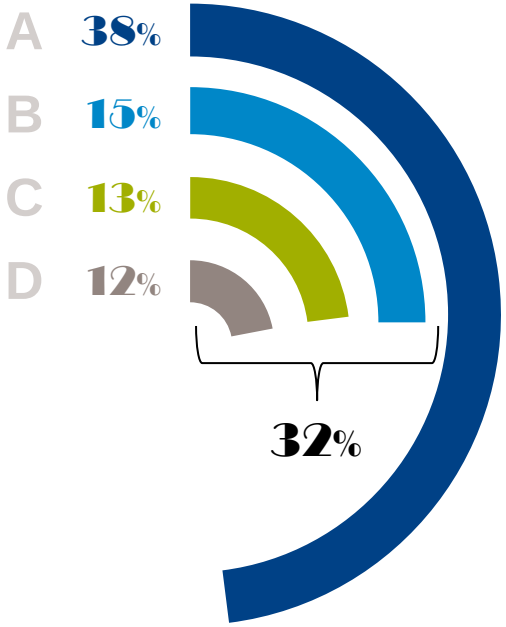
IF YOU WERE TO TAKE OUT A NEW FINANCIAL PRODUCT, WHAT IS YOUR OPINION ABOUT THE FOLLOWING OPTIONS FOR DECIDING WHICH PRODUCT WOULD BEST SUIT YOUR NEEDS?

A *I would be comfortable with a financial adviser recommending which product best suits my needs*

B *I would be comfortable with a financial adviser determining which product best suits my needs*

C *I would be comfortable with a product provider(s) determining which product best suits my needs*

D *I would be comfortable with the government regulator determining which product best suits my needs*



43% want to make the decision as to which products meet their need themselves

If people have a financial adviser, 64% are happy for their adviser to recommend and 28% are happy for their advisor to choose which product best suits their needs

Base: Total sample, n=1007

Summary

Summary

Current experience of financial product information appears to be challenging for consumers

- Most (94%) adult Australians have experience with financial product information, and three in four (74%) have interacted with financial product information in the last 12 months
  - One in two (51%) have read a product disclosure statement (PDS) in the last 12 months, increasing to two thirds of those who have a managed investment, shelf-managed investment or online share trading account (62%, 69% and 67% read a PDS in the last 12 months, respectively)
  - No real demographic differences in product information exposure apart from a slight young skew (fewer people over 65 are reading financial product information compared to other age groups)
- Evaluation of the current way in which financial product information is provided is not favourable
  - A third of consumers who have read financial product information in the last 12 months believe there is too much information to read (72%) and that legal or technical information makes it difficult to understand (64%)
  - Whilst a third of consumers agree that the information is easy to understand and informs all aspects of products, making comparisons easy, more consumers disagree with these statements
- Therefore, current financial product disclosure does not necessarily make product choice easy
  - At least 3 in 4 who have read a PDS in the last 12 months say that it contained product features and benefits, charges, inclusions and exclusions and how the product works
  - However, a third state that the PDS did not include information to help choose the right product (including risks, past performance and different product options available)

Summary

Information sought to inform product choice focuses on product costs versus benefits

- Fees/charges are by far the most sought after product information when choosing a new product, with over a quarter of consumers (28%) choosing this as the most important information and over two thirds (71%) choosing it in their top three
- Product details (features, benefits, inclusions and exclusions and risks) are the next most sought after information, selected by around a third of consumers
- How a product works and how to choose the best product to meet needs are the other product choice information sought by at least one in five consumers
- All other product information, such as company information, commissions, complaint avenues, cooling off periods, application information and technical definitions are sought after by few
- There are no real demographic differences in information sought, nor does it differ by financial product ownership or involvement with a financial adviser

Summary

Current product disclosure is not optimal – consumers want standardised information so they can make informed product choices

- When presented with the range of possible mechanisms for financial product disclosure current practice was ranked last in preference
  - Most preferred: A standardised format used across all product disclosure documents to allow easy comparison of key information such as risk (Risk profile disclosure)
  - Second: Product disclosure documents to be reformatted into short, clear documents with plain English and graphics (Better information presentation)
  - Third: Financial product information is disclosed in a series of steps (Layered disclosure).
  - Fourth: All information provided in product disclosure statements be available in online product comparison sites (Online comparators and choice engines)
  - Last: current product disclosure format (current PDSs)
- Standardised risk profile disclosure and better information presentation are clear favourites in terms of product disclosure, accounting for two thirds of first preference (38% and 30% respectively)
- Only half of consumers are open to assistance in financial product literacy – one in two (43%) do not want product suitability decided or advised for them
  - One in three (32%) are comfortable with someone else determining the best product for their needs, with an even split across the government regulator, product issuer or a financial adviser
  - One in two (45%) are open to financial advise though one in three (30%) want product recommendations only rather than for an adviser to decide what is best

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