

Royal commission scandals are the result of poor financial regulation, not literacy

Written by Levon Ellen Blue, Lecturer, Queensland University of Technology

Thousands of Aboriginal people [were sold unsuitable financial products](#) and vulnerable consumers are [targeted by instant cash loan machines](#) because the financial landscape supports predatory practices.

And insurance agents were able to exploit and target Aboriginal people because the industry [is not fully regulated](#).

The cultural, economic and political arrangements that allow this to happen are called “[practice architectures](#)”. They include the complex language used to deceive consumers into buying unsuitable products, incentivised high pressures sales tactics, and a lack of care and concern for vulnerable consumers.

All of these aspects are within the scope of financial regulators. The funeral insurance industry can push dodgy products because no one is watching. Predatory financial practices will continue until governments and/or regulators do something about it.

Changing exploitative and predatory financial practices

To change predatory financial practices requires regulatory action to constrain the ability to exploit vulnerable consumers. Educating consumers about predatory financial practices and fostering [critical thinking skills](#) is also needed.

But financial literacy education alone is [not enough](#) when [deliberate deception](#) in financial products and services is permitted.

[Research shows](#) Indigenous Australians are too trusting in the role of government to regulate financial matters and can fall prey to predatory lenders. For example, the researchers found there was a belief the Australian Securities Investment Commission would check the accuracy of all prospectuses and that personal loan interest rates are legislated.

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To ensure vulnerable consumers are protected requires a lot more than financial education. It [requires regulation](#).

Read more: [***Financial literacy is a public policy problem***](#)

Earlier this year the royal commission revealed, among other things, mortgage brokers were paid a commission based on the [size and duration of the loans they issued](#).

This meant an applicant going to a broker was more likely to end up with a larger mortgage over a longer term than one who dealt directly with their bank, a finding that was revealed in a review of the [industry](#).

Consumers best interest must put be above those of the agents when it comes to insurance products and mortgages.

Much like how [certified financial planners](#) are now mandated under the corporations act to work in the best interest of their clients.

Read more: [***Time to bring some science to financial regulation***](#)

The royal commission has also revealed funeral insurance agents gave the [appearance](#) of being an Aboriginal organisation, while deliberating exploiting Aboriginal people.

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Fixing the problem requires the Australian Securities Investment Commission to change the predatory financial practices so the financial landscape can operate ethically.

In the case of mortgage brokers, exploitative practices were encouraged based on the way brokers are remunerated. So how brokers are remunerated has been changed to align with the best interest of the client.

Selling insurance similarly has a number of cultural, social and financial elements that can be acted upon. There are the cultural aspects of what it means to be a broker, the economic incentives to push clients towards certain products, and social elements that encourage agents to put their own needs ahead of those wanting insurance to protect and cover their loved ones.

Together, these arrangements form practice architectures which make it possible to constrain the practices used in mortgage broking and the insurance industry. Different practice architectures are required to make possible other, non-predatory, methods of mortgage-broking and selling insurance.

Once what it means to be an ethical mortgage broker or an ethical funeral insurance agent becomes the norm, then the social and cultural concern for others' well-being may be realised.

Read more: [Why we can't just throw more regulation at the ethical issues raised by the banking royal commission](#)

Predatory financial practices will not go away without effective regulation. The finance and insurance industry needs more effective regulation that forces higher ethical standards to be met in order to establish new financial practices.

This change can [begin by asking](#) whether the financial practices that have already been

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exposed are rational, reasonable, productive, sustainable, socially just or inclusive. And since they aren't, what action can be taken to change the unjust financial practices? More and better regulation to protect consumers.

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