

## Philip Lowe: Remarks - launch of ASIC's National Financial Capability Strategy 2018

Remarks by Mr Philip Lowe, Governor of the Reserve Bank of Australia, at the breakfast event to launch ASIC's National Financial Capability Strategy 2018, Canberra, 21 August 2018.

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I am very pleased to be here to participate in the launch of the National Financial Capability Strategy.

All of us have to make choices about money every day. Do I spend, or save? If I spend, what do I buy and how do I pay for it? If I save, where should I invest; how much risk should I take? If I borrow, how much should I borrow and how quickly should I pay it back?

In many ways these choices have become more complicated over time. We have more options than ever before – which is good – but these options can be bewildering. It is fair to say that many people find it hard to navigate their way through the myriad of possibilities out there.

But we all do need to find a way to navigate through these choices. We all need to plan. For our own sake, and that of our families, we need to do this as well as we can. If we go in the wrong direction, it can have a major effect on our families and our welfare, perhaps for years. So it is really important we make well-informed financial decisions. And, we can all do with a bit of help to make sure we are going in the right direction. The strategy that is being launched today can provide that help by providing education, information and support for Australians as they manage and make decisions about their money, and plan and save for the future. I would like to congratulate the government and ASIC for the work they have done in putting this strategy together.

At the Reserve Bank of Australia, we are also trying to play our part. As Australia's central bank, the RBA has a very strong interest in people being in control of their financial lives and making well-informed choices. I say this from the perspective of the individual and the economy as a whole. At the individual level, each of us will be better placed in our lives if we make good financial choices. And at the collective level, the financial choices that the 25 million of us make about how much we spend, save and borrow can have a major bearing on the health of the overall economy. If enough of us make risky or bad choices, the whole community can eventually feel the effects. So it matters a lot.

One of the things the RBA seeks to do is to provide balanced analysis about the economy and the financial system and where the risks lie. We hope that this helps people make informed decisions about their finances. We also have a public education program that is aligned with the school curriculum. As part of this, we are devoting significant resources to helping support the teaching of economics and finance in our schools. People can also visit the Reserve Bank's Museum, where they can learn about Australia's banknotes and economics more generally. The Bank has also been a partner in the recent upgrading of Australia's payment system, which is allowing you to make more timely payments.

For many Australians, their biggest single financial decision is whether or not to borrow to buy a home. It is an important decision, one that can have a major bearing on your finances for years to come. I am not allowed to give financial advice, but I would like to make four brief points that we should all keep in mind.

The first is that interest rates go up and down.

It is nearly eight years since the previous increase in interest rates by the RBA. This means that many borrowers have never experienced a rise in official interest rates. They have mostly

experienced lower rates. At some point this will change. Over recent times the Australian economy has been improving. This is good news. If we continue on this current improving track, as we expect we will, it is likely that the next move in official interest rates will be up, not down. This will not be welcomed by some, but it would be a sign that things are returning to normal. My advice here is to make sure your finances can withstand a lift in interest rates.

The second point is that housing prices don't always go up; like interest rates, they go up and down.

We are seeing an example of this in Sydney and Melbourne at the moment. And most of our cities have seen falls in housing prices at some point over the past decade. While I would expect housing prices to trend higher over time as our incomes increase, there is no guarantee that your home will be worth more tomorrow than it is today. So plan accordingly.

The third point is closely related. Make sure you build adequate financial buffers into your plans.

Things don't always turn out as we expect. So for most of us, having a buffer against the unexpected makes a lot of sense. We all need to prepare for that rainy day. It rarely makes sense to take all the credit that you are offered, whether on a credit card or when you apply for a loan. Many Australians with mortgages find the best way of building buffers is to put any spare money into their offset account. This makes a lot of sense.

My fourth and final point is to shop around and don't be shy to ask for a better deal; whether for your mortgage, your electricity contract or your phone plan. There are very good deals out there if you look. We can all play a role in making our markets more competitive by being smart and informed in our choices.

Again, I am pleased to be here at the launch of this important strategy. Congratulations to those who have worked so hard to put it together.

Thank you.