ANZ Survey of Adult Financial Literacy in Australia

Summary Report

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THE SOCIAL
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Contents

ANZ Survey of Adult Financial Literacy in Australia

EXECUTIVE SUMMARY

E1 INTRODUCTION

This report presents findings from the third (2008) ANZ Survey of Adult Financial Literacy in Australia[1]. The first survey, conducted in 2002, established a benchmark of the community's financial literacy while the surveys conducted in 2005, and now in 2008, have been used to monitor the benchmark measures.

The three surveys provide a comprehensive set of data including both direct measures of financial literacy and attitudinal and behavioural information useful in explaining and understanding this concept. The three sets of data are the basis of this report.

In considering the results presented here, it should be kept in mind that the 2008 survey took place against a background of financial market volatility, some high profile business failures (including those of several property developers in 2006/07), rising interest rates and increasing prices for oil and food. As a result, the economic situation in 2008 is somewhat less favourable than for the earlier surveys.

E2 KEY FINDINGS

This executive summary focuses on research findings of particular interest rather than providing an exhaustive coverage of all the survey results. Specifically, it discusses what the research has to tell us about financial literacy (that is, its distribution within the population as well as the behaviours and risks that are associated respectively with high and low levels of financial literacy) and the changes that have occurred in both literacy and related behaviours during the last six years.

E2.1 What we have learned about financial literacy

Our surveys show that Australian adults generally are financially literate but there are certain groups who face particular challenges as well as certain areas of money management and products that are not as well understood as they should be.

E2.1.1 The distribution of financial literacy within the population

Financial literacy is strongly associated with a person's age, gender, education and socio-economic characteristics.

- In the 2008 survey, a number of subgroups had mean financial literacy scores which were significantly **below** the mean FLS[2] of 83.1 reported for the total 2008 sample (note: these scores are not percentages and can exceed 100). These subgroups included:
  - People aged 18-24 years (mean FLS of 71.5) and people aged 70 years or over (mean FLS of 63.3);
  - Females (mean FLS of 80.5), particularly females aged 70 years or over (mean FLS of 56.9);
  - People whose formal education did not go beyond Year 10 secondary (mean FLS of 70.7);
  - Those living in the 20% of postal areas classified as having the highest levels of relative socio-economic disadvantage[3] (mean FLS of 75.5); and
  - Reflecting this link to socio-economic disadvantage, mean scores were also lower amongst the unemployed (mean FLS of 66.7), people currently working in lower blue collar[4] occupations (mean FLS of 76.5), people whose main source of income was a Government benefit or allowance (mean FLS of 67.2), and people whose household income was less than $25,000 per annum (mean FLS of 68.1).
  - Those who speak a language other than English at home (mean FLS of 77.9); and
  - Those of Aboriginal or Torres Strait Islander descent (mean FLS of 63.9), although this result is based on a relatively small number of interviews[5] and should be treated with caution.

[1] A telephone survey of 3,500 randomly selected Australian adults between April 29 and June 6, 2008.
[2] FLS = Financial Literacy Score
[3] According to the Australian Bureau of Statistics SEIFA index of Relative Socio-economic Disadvantage. See Section 2.3 for further discussion of this concept.
[4] Major groups 7 (Machinery Operators and Drivers) and 8 (Labourers) in the Australian Bureau of Statistics Australian and New Zealand Standard Classification of Occupations (ANZSCO). ABS Catalogue No 1221.0.
[5] Sample size, n=54

- Conversely, the mean financial literacy score was significantly **higher** than that of the total sample for:
  - People aged 35-59 years (mean FLS of 89.8);
  - Males (mean FLS of 85.9);
  - People who had completed a university degree (mean FLS of 92.7);
  - People living in the 20% of postal areas classified as having the least relative socio-economic disadvantage (mean FLS of 87.6); and
  - Reflecting this, people currently working in upper white collar[6] occupations (mean FLS of 94.5) and people whose annual household income was at least $150,000 per annum (mean FLS of 97.3).

These results point to a strong association between financial literacy and demographic/socio-economic characteristics. However, this does not necessarily imply that all members of a particular population subgroup have low (or high) levels of financial literacy.

For example, as discussed above the mean financial literacy score for people with household incomes below $25,000 (68.1) was lower than that of the total sample. Nevertheless, 19% of people from this low income group had financial literacy scores that placed them in the top 40% of the population and 7% had scores that fell in the top 20%. So although a large proportion of those with household incomes below $25,000 did have relatively low financial literacy scores (62% had scores in the lowest 40%) this was not true for all members of this group. Conversely, 6% of those with household incomes of $150,000 plus had financial literacy scores that fell in the lowest 20% of all scores.

To further assist with understanding the relative levels of financial literacy of different groups within the population, mean Financial Literacy Scores were used to assign survey respondents to bands of 20% of the population referred to as 'quintiles'. Respondents in Quintile 1 have the lowest FLS and those in Quintile 5 the highest.

Table 1 - Financial literacy and demographic subgroups

Financial Literacy and demographic/geographic subgroups	2008 Subgroup Mean FLS
Total Sample	83.1
Age group	
18-24 years	71.5
25-34 years	86.0
35-44 years	90.0
45-59 years	89.1
60-69 years	81.6
70 years or over	63.3
Age by gender	
Males	85.9
18-24 years	72.4
25-34 years	88.0
35-44 years	94.3
45-59 years	91.0
60-69 years	84.0
70 years or over	70.9
Females	80.5
18-24 years	70.4
25-34 years	84.2
35-44 years	87.5
45-59 years	87.3
60-69 years	79.5
70 years or over	56.9

Financial Literacy and demographic/geographic subgroups	2008 Subgroup Mean FLS
Total Sample	83.1
Highest level of education completed	
Year 10 or less	70.7
Year 11/12	80.4
Trade/TAFE/Diploma	88.2
University	92.7
Language spoken at home	
English	84.0
Other Language	77.9
ATSI background	
Yes	63.9
No	83.4
Geographic - Place of residence	
Capital City	83.4
Non-Capital City	82.5
ARIA Classification	
Major Cities	83.7
Inner Regional	83.4
Outer Regional	80.8
Remote/Very Remote Areas	75.6

Base: Total sample within each subgroup

[6] ANZSCO Major groups 1 (Managers) and 2 (Professionals)

E2.1.2 Behaviours associated with high levels of financial literacy

There were behavioural differences between those whose financial literacy score was in the top 20% of the population (quintile five) and those whose score fell in the lowest 20% (quintile one). In looking at these, it should be kept in mind that socio-economic factors (such as those described in E2.1.1) can influence a person's need for some of the services and information sources discussed below. For example, those with household incomes below $25,000 per annum would, *prima facie*, be less likely to need the services of a financial planner than those with household incomes of $150,000 or more. With that in mind, we note the following differences between these two quintiles.

- People in quintile five were more likely to compare alternatives when obtaining financial products and services by:
  - Shopping around when looking for a new insurance policy (87% versus 56% of quintile one), mortgage (80% versus 59% of quintile one) or everyday banking account (77% versus 49% of quintile one);
  - Using ratings agencies to compare financial products (35% versus 12% of quintile one); and
  - Using on-line calculators to compare financial products (48% versus 15% of quintile one).
- Their transacting behaviour placed greater emphasis on generally greater convenience and fee minimisation.
  - For their transacting, members of quintile five were more likely to use the convenient and lower cost electronic options such as internet banking (70% versus 26% of quintile one) and Bpay (70% versus 31%).
  - They were also more likely to have taken specific steps to minimise the fees associated with their everyday banking (91% versus 68% of quintile one).
- Members of quintile five[7] were more likely to control their exposure to risk with building insurance on their home (88% versus 70% of quintile one) and by insuring the contents of their home (88% versus 60%).

Table 2 - Comparison of behaviours associated with high and low levels of financial literacy

Those with low FL scores...	Financial Literacy	
	Quintile One %	Quintile Five %
Make less informed purchase decisions		
"Shop around" for		
Insurance policy[1]	56	87
Mortgage[2]	59	80
Used a ratings agency to compare financial products	12	35
Transacting behaviour is less convenient/cost effective		
Use of electronic channels		
Internet banking	26	70
Bpay	31	70
Taken steps to minimise everyday banking fees	68	91
Less use of insurance to reduce risk		
Have building insurance on home[3]	70	88
Insure home contents[4]	60	88
Are less aware of investment risk		
Would avoid an investment offering a "return well above market rates with no risk"	28	87
Consider diversification of investment funds to be "very important"	36	65
Understand good investments may fluctuate in value	36	88
Make less use of financial information and advice		
Read financial newspaper/other publications	38	81
Get advice from accountant, financial planner, etc.	43	80

[1] Base: Have arranged insurance policy
[2] Base: Have arranged a mortgage
[3] Base: Own/purchasing home
[4] Base: Own/purchasing/renting home

[7] Bases for the incidence of insurance are those respondents for whom each type of insurance is appropriate. For example, those who own or are purchasing their home or who are renting are the basis for reporting the incidence of contents insurance.

- Those in quintile five also showed greater awareness of investment risk. They were more likely to say they would avoid an investment advertised as having "a return well above market rates with no risk" (87% versus 28% of quintile one), better understood that good investments may fluctuate in value (88% versus 36% of quintile one) and those who have investments were more likely to consider diversification of their investment funds to be "very important" (65% versus 36% of quintile one).
- People in quintile five were more likely to use various sources of financial information and advice.
  - 81% of those in quintile five had used information sources such as financial publications, financial web-sites and seminars (versus 38% of quintile one); and
  - 80% had obtained advice from a financial management or planning specialist like an accountant, tax specialist or financial planner (versus 43% of quintile one).

E2.1.3 Risks associated with low levels of financial literacy

Most (79%) members of quintile one had sole (60%) or joint (19%) responsibility for the financial management of their household. In these circumstances, limited knowledge and understanding of financial issues has the potential to deliver negative financial outcomes for these households.

With that in mind, we note that members of quintile one performed at a relatively low level on several important aspects of financial knowledge and behaviour.

Compared to the total sample, members of quintile one were less aware of the following **rights and responsibilities** applicable to users of financial products and services.

- The requirement for accurate and honest disclosure.
  - Only 17% of insurance holders in quintile one knew an insurance company can refuse a claim if questions relevant to the loss are not answered accurately when taking out or renewing the policy (versus 54% of all insurance holders).
- The responsibility for repayment of consumer debt and the consequences for a person's credit rating if repayments are late.
  - Only 35% of credit card holders in quintile one knew the primary card holder is responsible for all debt on the card (versus 77% of all credit card holders);
  - 52% of loan holders in quintile one knew that both parties are responsible for the full repayment of a jointly held loan (versus 83% of all loan holders); and
  - 38% of all quintile one members knew that being more than 60 days late with the minimum payment on a credit card is likely to give someone a bad credit rating (versus 59% of the total sample).
- The responsibility to keep personal banking details secure.
  - 67% of quintile one knew that responsibility for any loss rests solely with the card-holder if the card and PIN have been kept together in a stolen wallet (compared with 87% of the total sample).
- Members of quintile one were also less confident they knew how to make an effective complaint about a bank or other financial institution if something does go wrong - 50% of quintile one were confident they knew how to do this versus 63% of the total sample.

As discussed earlier (see Section E2.1.2), when compared with those exhibiting relatively high levels of financial literacy, members of quintile one were less likely to engage in **financial behaviours** which had the potential to make their banking less expensive and more efficient. Members of quintile one were also:

- More likely to be at risk of loss due to their relatively lower use of insurance; and
- Less likely to obtain financial information from financial publications, the internet, seminars or advice from accountants, tax specialists or financial planners although, as mentioned earlier, socio-economic factors may limit the need to use these information sources.

E2.2 Other issues of interest including changes since 2002

This section looks at other aspects of financial literacy and related behaviours that were of particular interest. Where appropriate, changes that have occurred since 2002 or 2005[8] are noted. Consideration is given to community attitudes towards saving, awareness of consumer rights and responsibilities, investing and superannuation, comparison shopping for financial products and services, the growth in electronic banking and people's management of borrowing and debt.

E2.2.1 Attitudes

Attitudinal changes were evident in two areas:

- In 2008 more people said they try to save on a regular basis (up from 67% in 2002 to 72% in 2008).
- Secondly, more under 65's strongly disagreed with the view that "*superannuation and retirement savings and planning don't matter much because the Government will make up any gap*" (up from 49% in 2005 to 57% in 2008). Ongoing publicity on ageing of the Australian population reducing the number of workers available to support retirees and perhaps the changes designed to enhance the attractiveness of superannuation and the longevity of retirees' superannuation savings may be playing a role here.

E2.2.2 Consumers' rights and responsibilities

- Consumers showed relatively high awareness of their **rights**.
  - Two-thirds (67%) were very clear about their rights if they have a problem with a financial institution. This figure has not changed significantly since the 2005 survey when it was 68%.
  - Most respondents nominated an industry ombudsman (36%) or Government organisation like Consumer Affairs or ASIC (26%) as the place they would go if they experienced difficulties that could not be resolved with the provider of a financial product or service.
  - In 2008, more respondents were confident they knew how to make an effective complaint against a bank or financial institution (up from 59% very or fairly confident in 2002 to 63% in 2008).
- There was also greater awareness of several consumer **responsibilities**.
  - More insurance holders were aware of their obligation for **accurate disclosure** of relevant information when taking out an insurance policy – 54% knew an insurer could refuse a claim if questions relevant to a loss were not answered accurately when the policy was taken out, up 3 percentage points on the 2005 result of 51%.
  - More credit card holders were aware that the primary cardholder has sole responsibility for any debt incurred on their credit card, up from 74% in 2002 to 77% in 2008.

E2.2.3 Investing and superannuation

The 2008 survey showed a somewhat mixed picture with respect to investing and superannuation. There were some improvements but there were also some areas that may require attention. Points of interest included the following.

- There were improvements in people's understanding of some **investment fundamentals**.
  - Compared to 2002, more people said they would not invest in "*an investment advertised as having a return well above market rates and no risk*", up from 46% in 2002 to 52% in 2008; and
  - More people understood that "*short term fluctuations in market value can be expected, even with good investments*", up from 63% to 67% during this period.

  On a less positive note:

  - The proportion of investors who considered diversification of investments to be very important has remained unchanged over the last 6 years - 50% in 2008 compared with 51% in 2002.
  - Of those who have used a financial planner, around one in three (35%) did not consider the possibility of a conflict of interest influencing the advice they received.

[8] A number of measures were used for the first time in 2005

- There was reported improvement in understanding of **superannuation** fund statements but a significant proportion of people said they did not read their statements. Awareness of some advantages and risks of superannuation remained at a relatively low level.
  - Of those superannuation fund members who said they received annual statements from their fund, 31% found them difficult to understand. This was 5 percentage points lower than in 2002.

    Despite this improvement however, one in four (25%) fund members still say they don't receive or don't read their superannuation fund statements (versus 24% in 2005). Reasons for not reading superannuation fund statements were lack of interest (36% "couldn't be bothered") or because they were considered too difficult to understand (23%).
  - There was relatively low awareness of the tax advantages of superannuation - only 58% of employed fund members under 65 years of age thought superannuation is taxed at a lower rate than other investments, relatively unchanged from the 56% who thought this was the case in 2005.
  - Lack of awareness of things which result in under-performance of superannuation and managed investments has remained relatively high - 42% of employed fund members less than 65 years of age were unable to nominate anything that has this effect on fund performance, the same result as in the 2005 survey.

E2.2.4 Comparison shopping

In 2008, there was less comparison shopping for some products.

- When arranging a mortgage 73% had shopped around, down 9 percentage points on the 82% who said they had done this in 2002. This decline appears to be at least partly explained by increased use of mortgage brokers who may be seen by the consumer as doing their shopping for them (39% of mortgage holders had used a mortgage broker to arrange their loan in 2008). In 2008, 26% of respondents mentioned "*going with the advice of a broker/financial expert*" as their reason for not shopping around, up from 16% in 2005.
- There was also less shopping around for insurance - 81% in 2002 compared with 75% in 2008. It may be that increased use of direct debit premium payment has made the process of switching providers a little more complex and as a result has encouraged some consumers to remain with their current provider when their policy is due for renewal. The presence of an existing relationship was the reason given most often for not shopping around for insurance (49%).

E2.2.5 Growth in use of electronic transaction channels

Since 2002, there has been substantial growth in the use of electronic channels for banking transactions.

- The greatest increase has occurred in the use of internet banking which has risen from 28% in 2002 to 51% in 2008.
- Increases are also evident in the use of Bpay (up from 36% in 2002 to 52% in 2008), direct debit (up from 50% to 64%), EFTPOS (up from 71% to 76%) and ATM's (up from 73% to 80%).

  While use of Internet banking has increased, the proportion of internet users aware of risks associated with internet banking has remained unchanged since 2005 (at 22%) although there is new awareness of the threat posed by identity theft.

[9] That is, very or somewhat uncomfortable.

E2.2.6 Borrowing and debt

Several measures were taken of people's comfort with their current debt position. These were not financial literacy measures but were first asked in 2005 to provide quantitative background for the qualitative study "*Understanding Personal Debt and Financial Difficulty in Australia*".

Overall, there has been little change since 2005 in people's comfort with their current level of debt.

- In both 2008 and 2005, 72% of respondents said they were very or fairly comfortable with their current debt while 18% (versus 17% in 2005) were somewhat or very uncomfortable.

  As might be expected, those with significant mortgage commitments relative to their household income were the most likely to be experiencing some discomfort. Of those with mortgages of $300,000 or more and annual household incomes of $100,000 or less, 34% were "uncomfortable"[9] with their current debt. This figure rose to 44% amongst those with mortgage outstandings of this level and annual household incomes of $65,000 or less.

In the event of another interest rate increase, the majority of mortgage holders felt they could meet the higher repayments - 44% "without too many problems" while 30% felt they would have to cut back other expenditure to do so. Eight percent felt they would "really struggle" and 1% felt they would be unable to make the repayments and would be at risk of defaulting on their loan. Couples with children and an annual household income of $65,000 or less were the most likely to feel they would either really struggle or be unable to make the higher repayments (24%).

E2.3 Concluding remarks

From the commencement of this research program in 2002, it has been acknowledged that raising the community's levels of financial literacy is a long-term process and that it would be unrealistic to expect major changes in the short-term. This view is supported by the research findings. Policy focus needs to remain on those groups and areas identified in the research as requiring attention. For example, the research findings suggest that such areas as understanding of risk management, investment and superannuation are still of concern and that there continue to be some groups within the community who are more likely than others to experience difficulties in their financial dealings.

Future surveys could usefully focus on behaviour and the extent to which money management skills and knowledge translate into behaviour.

In 2009 ANZ will release research that takes a behavioural approach to understanding the success of the matched savings account SaverPlus in promoting ongoing savings behaviour. Tracking studies by RMIT[10] have shown that up to three years after participating in the Saver Plus program, 70% of participants continue to save at or above the levels they did while on the program and attribute that in some part to Saver Plus.

[10] Russell R., Harlim J. and Brooks R. (2008), *Saver Plus 2008 follow-up survey results.*

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