Community Development Finance in Australia ANZ Response to Consultation

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Australia and New Zealand Banking Group Limited ABN 11 005 357 522.

Contents

Key findings and priorities

Following the Brotherhood of St Laurence *Banking on the Margins* forum in October 2003, ANZ has been examining the potential for community development finance (CDF) in Australia. CDF programs aim to address financial exclusion, the lack of access by certain consumers to appropriate low-cost, fair and safe financial products and services from mainstream providers where this lack of access causes a level of harm to the consumer.

Research conducted by Chant Link & Associates found that low levels of income and savings (<$2000) are the most likely risk indicators of financial exclusion. As a consequence, the sectors of the community most likely to be at risk of financial exclusion include people in poverty, people from Indigenous backgrounds, people with a disability and people on social security benefits. Long-term financial exclusion can be caused by factors such as financial illiteracy, learned dysfunctional credit or savings behaviour and intergenerational exclusion.

While there is no data focussing specifically on financial exclusion, analysis of the Roy Morgan *Finance Monitor* data indicated 0.8 per cent of Australia's adult population, or over 120 000 people, could be considered totally excluded with no ownership of financial products. Around six per cent of adults had minimum financial access owning only a transaction account.

Consultation with stakeholders indicated there are a limited number of CDF programs already operating in Australia but there is still a significant need for CDF programs including:

- small loans, which provide alternatives to payday lending;
- more financial counselling services and financial literacy education (while financial literacy was not considered the 'be all and end all' for helping individuals improve their financial situation, it was considered an essential component of any CDF program);
- low-fee transaction accounts; and
- low-cost, interest-bearing savings accounts or savings incentive programs (while alternative credit programs may assist in times of hardship, building a savings habit — no matter how small — is a major contributor to lifting people out of poverty).

While 'traditional' CDF programs such as loans for micro-businesses were not considered a priority, they may offer some significant benefits to Australian communities of most apparent need, such as Indigenous communities.

How is ANZ responding?

In addition to providing mainstream banking solutions which assist those who may be financially excluded, such as Access Basic (offering unlimited free transactions for Centrelink recipients) and Progress Saver (allowing individuals to set their own timelines and savings goals), ANZ will do the following:

- expand delivery of MoneyMinded, a generic adult financial literacy program for use by financial counsellors and community educators, targeting 100 000 potentially at risk consumers over the next five years;
- expand the Saver Plus matched savings program, including into Indigenous communities;
- develop and deliver in partnership with community organisations a small loan program for consumers who may otherwise use payday lenders;
- develop and deliver in partnership with specialist community organisations and lenders microfinance programs to assist Indigenous communities develop viable businesses; and
- commission further research to inform the development of these programs.

Community Development Finance in Australia

ANZ RESPONSE TO CONSULTATION

EXECUTIVE SUMMARY

ANZ made a commitment at the Brotherhood of St Laurence *Banking on the Margins* forum in October 2003, to examine the potential for community development finance (CDF) in Australia.

CDF is an umbrella term which encompasses programs such as small loans, loans for enterprise development, matched savings schemes, insurance, financial counselling and advice and financial literacy training.

ANZ is conducting this examination in two parts:

1) research into the size and nature of financial exclusion in Australia (the market that could be served by CDF); and
2) consultation with key stakeholders through the release of the Community Development Finance in Australia discussion paper in May 2004 (available at www.anz.com/aus/aboutanz/Community).

WHAT IS THE NEED FOR CDF IN AUSTRALIA?

ANZ commissioned Chant Link & Associates to conduct an examination of financial exclusion in the Australian context. The examination comprised four parts:

- a review of literature on financial exclusion in Australia;
- collection of the views of stakeholders to shed light on the size and nature of that part of the Australian population which may be currently excluded from various financial products and services and the impact this exclusion has on the lives of those people;
- an analysis of relevant quantitative results from the Roy Morgan Research *Finance Monitor* data collected in the 12 months to March 2004; and
- implications for future research on the size and nature of the financially excluded market within Australia.

LITERATURE REVIEW

The literature review highlighted limited research, a lack of a widely accepted definition of financial exclusion in Australia and no empirical data on the size and extent of Australia's financially excluded.

The literature highlighted that financial exclusion is most often linked to people on low incomes with insecure employment. Other risk factors include disability or long-term illness, rented or public housing, ethnicity, sole parents, female gender and age associations, some of which may be strongly linked with lower incomes.

STAKEHOLDER CONSULTATION

Stakeholders were of the view that financial exclusion is an important area requiring study and attention given there is no accepted definition in Australia and no empirical data.

Many felt a definition of financial exclusion in Australia would be different to the overseas experience. The vast majority of Australians own a transaction account. Following the analysis of the literature and stakeholder feedback, financial exclusion was defined as:

> ***"… the lack of access by certain consumers to appropriate low-cost, fair and safe financial products and services from mainstream providers … where this lack of access causes a level of harm to the consumer"*** (ANZ 2004e).

Low levels of income and low levels of savings (e.g. savings of less than $2000) were the most commonly observed indicators of an individual being at risk of financial exclusion. Stakeholders assumed that financial exclusion was more likely to be prevalent in the following sectors of the community as a result of their higher incidence of low incomes and low savings levels:

- Indigenous people;
- certain other ethnic groups;
- people with a disability;
- those in poverty;
- those on social security benefits;
- sole parents, especially single mothers if not working; and
- early school leavers (ANZ 2004e).

THE EXTENT OF FINANCIAL EXCLUSION IN AUSTRALIA

Given, there are no accurate estimates or data on the financially excluded in Australia, Chant Link conducted an analysis of the Roy Morgan Research *Finance Monitor* data. The data provided some insight into the level of use of financial products in Australia but were not able to demonstrate whether use of a particular product was due to choice or as a result of difficulties in accessing alternative products. Further, the data is not able to highlight differences within specific populations such as Indigenous communities.

The analysis showed that 0.8 per cent of the population (and 0.7 per cent of decision-makers in the home) could be considered totally excluded, that is, they owned no financial products. This compared with seven per cent in the UK. Around six per cent could be considered to have minimum access, owning only a transaction product.

Factors that influenced financial product use include:

- employment status;
- income;
- the level of savings and investments; and
- home ownership status for some product classes, in particular insurance.

The location of people, whether in a large city, inner regional, outer regional, remote or very remote, did not result in any significant differences in the number of products owned and those receiving an aged pension did not appear particularly excluded.

WHAT CDF PROGRAMS ARE NEEDED?

At present, there are a limited number of CDF programs that serve to fill part of the gap left by the absence of mainstream financial service providers, such as loan schemes, lending for micro-enterprise for specific target groups, matched savings schemes such as Saver Plus and financial literacy programs. However, even with the presence of these programs, stakeholders highlighted a number of areas where there is still a need for programs to address financial exclusion.

WHERE ARE THE GAPS?

Feedback from stakeholders highlighted a need for a range of different products and services, from credit-related products to savings accounts, basic bank accounts and financial counselling.

Those services considered of the highest importance according to the stakeholders sampled were small fixed-term or fixed-amount loans (i.e. alternatives to payday lending), financial counselling, ‘safer’ credit cards, low-cost interest-bearing savings accounts or other savings incentive programs and low-fee transaction accounts.

Some stakeholders emphasised that while alternative credit options may assist individuals facing hardship, building a savings habit for major expenses and a ‘rainy day’ — no matter how small — is a major contributor to people lifting themselves out of poverty.

Individuals would also benefit from further financial counselling and financial literacy education. The latter being an essential part of any CDF program.

Finance for small business start-up was not considered a high priority. If individuals were already experiencing difficulties with their personal finances, they would need to develop sound financial literacy skills before starting a small business.

Given that successful overseas micro-enterprise credit programs tend to have a dual purpose — to provide greater access to finance and to improve employment in impoverished communities — these programs are likely to have the best chance of success in communities of most apparent need, such as the Indigenous community and where the greatest impact potentially may be achieved.

HOW DO WE IMPLEMENT A CDF PROGRAM?

The need for a coordinated approach

A coordinated approach is needed if CDF programs are to have the best chance of achieving their objectives and becoming sustainable. In the long-term, an overarching Community Development Finance Organisation or Institution (CDFI) could be established to perform this role, to undertake research and program development and to provide funding for pilot programs.

All sectors need to be involved

Each sector can bring different strengths:

- Community organisations — have developed 'goodwill' with and are trusted by the community; can anticipate what individuals and communities may need from a program; are best-placed to manage the direct relationship with the client and assist them with applications to join the program.
- Financial institutions and other for-profits — have technical skills; loan and saving processes; capital; infrastructure and a greater capacity to manage risk in a partnership.
- Governments — can provide insight into the need for CDF given their knowledge of demand for government services; can address any regulatory barriers that may exist.

Are there regulatory impediments to consider?

A number of potential regulatory issues could act as barriers to the development of CDF programs:

- compliance requirements, such as the Uniform Consumer Credit Code (UCCC), can make it difficult for small organisations to deliver, or even consider, interest-bearing loans. While there is an exemption available under the UCCC for certain products or providers, any exemption must be considered in the public interest to ensure consumer protections are not 'watered down';
- prudential regulations such as the requirement to be an authorised deposit-taking institution in order to accept deposits can limit a community organisation's ability to raise funds;
- capital requirements for large exposures can be limiting for smaller organisations providing finance; and
- the current taxation and welfare system may make the transition from welfare to work difficult for those who are attempting to become self-employed.

However in ANZ's experience with the Saver Plus program, these issues are not insurmountable and can be overcome through different sectors working together.

ANZ'S RESPONSE

ANZ recognises there is a wide range of CDF initiatives that could be pursued. What is clear from the feedback received is that a financial education component and ongoing mentoring and support must be part of any CDF program, if the program is to create long-term, sustainable outcomes.

ANZ's response to the consultation is two-fold:

1) through our mainstream transaction and savings products; and
2) through the extension and development of programs in partnership with key community organisations that have the expertise to reach those most in need.

ADVOCACY AND DEVELOPING A NATIONAL APPROACH

ANZ will play a role as an advocate for CDF with government. ANZ will also work with other sectors — community organisations, governments and for-profits — to develop a national, coordinated approach to CDF programs.

MAINSTREAM TRANSACTIONS AND SAVINGS PRODUCTS

ANZ's Community Banking package provides no monthly account service fee and unlimited free ANZ transactions on selected Access transaction accounts (non-ANZ ATM fees apply) for government benefit recipients, people with disabilities, customers aged 60 and over, full-time students and customers aged 18 and under. ANZ also offers the Progress Saver account which allows the customer to nominate a savings goal and a timeline for saving. Goals can include education, Christmas, home renovations and motor vehicle expenses or can be tailored through other major multi-purpose or 'rainy day' expenditures.

COMMUNITY PROGRAMS

Financial literacy programs

ANZ will ensure that financial literacy education is a key component of any CDF program it establishes.

ANZ has developed MoneyMinded, a facilitator-led adult learning program, in conjunction with the Financial Counsellors' Association of NSW Inc. (FCAN), the Australian Financial Counselling and Credit Reform Association (AFCCRA) and the Australian Securities and Investments Commission (ASIC). The Brotherhood of St Laurence is the first community organisation to partner with ANZ to use MoneyMinded in its work with low-income earners in Melbourne. ANZ aims to partner with 100 financial counselling and community organisations, which would act as facilitators to deliver MoneyMinded to 100 000 consumers throughout Australia over the next five years.

ANZ will continue to look for opportunities to further improve ANZ's mainstream financial products and services and to ensure products are structured in such a way that they are simple and easy to understand.

Savings programs

ANZ will expand the Saver Plus matched savings program with local partners throughout Australia. This includes the recently announced commitment of a further $1 million to the program. ANZ will establish a new program in Queensland in partnership with The Smith Family in 2004-05 and will pilot Saver Plus with Indigenous communities.

Individual credit

ANZ will develop a loan program for consumers who may otherwise use payday lenders. ANZ will partner with a community organisation with expertise in this area to deliver the program.

Small business credit for Indigenous communities

ANZ will develop a microfinance program to assist Indigenous communities develop viable businesses, in partnership with community organisations and lenders who work in these communities.

ANZ is investigating a number of options for this, in particular, ANZ has commenced discussions with the Credit Union Services Corporation (Australia) Limited (CUSCAL), to determine the feasibility of establishing a partnership with interested credit unions to develop and deliver such a program.

Further research into financial exclusion

ANZ will commission further research to inform the development of small loans for consumers who may otherwise use payday lenders and microfinance programs to assist Indigenous communities to develop viable businesses.

Community Development Finance in Australia

ANZ RESPONSE TO CONSULTATION

1. INTRODUCTION

BACKGROUND

In October 2003, the Brotherhood of St Laurence held a forum entitled *Banking on the Margins*. The objective of the forum was to:

- examine the options available for low-income consumers accessing banking and financial services; and
- discuss why there are people who are 'on the margins' of banking — or financially excluded — in Australia.

Around 150 representatives attended from major banks, credit unions, governments, academia, financial counsellors, consumer advocates, welfare organisations and the broader business community (Brotherhood of St Laurence 2003).

The forum was held on the premise that the emphasis of current welfare policy in Australia is too geared towards income protection. Other policies, such as those which create an environment that encourages low-income earners to build assets — such as tailored savings accounts and small loans — should be considered (Brotherhood of St Laurence 2003).

Professor Michael Sherraden first highlighted asset-building policies as potential tools to alleviate poverty in developed countries more than a decade ago. He proposed that traditional income support mechanisms used in OECD countries did not aim to reduce poverty, just alleviate it, whereas asset-building policies could lead to better long-term outcomes (OECD 2003).

In Australia, these policies have taken on many forms under the umbrella of community development finance (CDF). They specifically aim to meet the needs of people who do not have ready access to mainstream financial services or are financially excluded. CDF can include the provision of small, low- and no-interest loans, loans for enterprise development, matched savings schemes, insurance, financial counselling and advice and financial literacy training (ANZ 2004a). CDF policy and the delivery of CDF programs in Australia is fairly ad-hoc. There is no central coordination of policy and outcomes. Governments deliver some programs that may be classified as CDF but most are delivered through community organisations either alone or in partnership with other not-for-profit organisations or for-profit organisations.

BROAD RATIONALE FOR CDF IN DEVELOPED COUNTRIES

The purpose of asset-building policies such as CDF differs between developing and developed countries. In developing countries these policies tend to provide opportunities for the poor to save small amounts for specific purposes, primarily precautionary, such as smoothing fluctuations in subsistence and near-subsistence incomes and paying for unexpected health expenditures. They also provide opportunities to borrow small amounts to finance modest entrepreneurial activities to create employment (microfinance) (OECD 2003).

On the other hand, developed countries generally have extensive welfare systems, more universal health coverage, greater employment opportunities and greater levels of financial inclusion. All of these factors limit the need for policies strictly focused on precautionary savings and employment creation. This makes it difficult to directly translate developing country asset-building policies to developed countries.

This is not to say there are no arguments for providing CDF programs in developed nations — quite the contrary. It is argued that there is an element of market failure in mainstream retail banking markets. Interaction between buyers and sellers may not be smooth due to asymmetries in the information between providers and consumers. The asymmetries arise because these consumers know more about their creditworthiness than lenders do. They will often be considered as higher risk, in the absence of lenders having enough information to assess individual risk or the costs of doing so being too high. As a result, some consumers may find themselves forced to accept higher-cost substitutes from alternative financial service providers who fill the void (OECD 2003). These consumers are often considered 'financially excluded' in a developed economy, providing the rationale for the development of CDF programs.

The level or nature of financial exclusion can differ across developed countries. For instance, research in the United Kingdom and the United States has highlighted that there is a significant proportion of the population that could be considered totally excluded, that is, do not have a bank account. As is highlighted later in this paper, financial exclusion in Australia is quite different in terms of size and scope. The vast majority of Australians have a bank account and therefore may not be considered completely excluded but some may have difficulties accessing other financial products.

ANZ'S COMMITMENT

CDF is a difficult area for a major bank. Lending under the CDF umbrella is different to mainstream lending. For example, it needs different methods to assist in measuring risk, such as one-on-one interviews, assistance with budgeting plans and ongoing mentoring, which are more costly than mainstream scoring methods. If mainstream banks enter the market without due consideration, they may not make appropriate lending decisions, may put their capital and reputation at risk and shareholders may become concerned that their investment is at risk. If mainstream banks do not enter the market, it may be left open to those who may take advantage of the most vulnerable consumers. Perhaps the worst outcome could be that the market is under-served and the aspirations of members of our society are not met.

To ensure any entry into this market is well-informed, ANZ made a commitment at the *Banking on the Margins* forum to further examine the potential for CDF in Australia (speech can be found at www.bsl.org.au/pdfs/Banking_on_margins_conf.pdf). ANZ is conducting this examination in two parts:

1) research into the size and nature of financial exclusion in Australia (the market that could be served by CDF); and

2) consultation with key stakeholders through the release of the Community Development Finance in Australia discussion paper in May 2004, to determine how a program could be developed.

The research is being conducted in phases. ANZ commissioned Chant Link & Associates (Chant Link) to conduct the initial exploratory phase of the research, which included:

- a review of literature and pre-existing data on financial exclusion in Australia;
- collection of the views of stakeholders and authorities in fields that can shed light on the size and nature of that part of the Australian population which is currently excluded from various financial products and services and the impact this exclusion has on the lives of those people; and
- preparation of an appropriate research design for collecting primary data on the size and nature of the financially excluded market within Australia.

This phase is complete. ANZ will commission further research to examine the products or programs which will best suit the needs of those outside the margins. The results of this research will inform the development of ANZ's CDF programs.

CONDUCT OF THE CONSULTATION

The discussion paper and consultation process aimed to determine whether there was a need for CDF in Australia and if so, how a program could be developed to address the need.

The discussion paper was circulated to over 200 stakeholders with interest and expertise in this area. An additional 600 stakeholders received notification of the paper and it was made available on ANZ's website.

ANZ held face-to-face discussions with around 20 organisations and 24 written submissions were received. Appendix A provides a list of organisations that participated in the consultation process.

OUTLINE OF THIS REPORT

This report is presented in two further parts. Section 2 of this report provides an analysis of what the need is for CDF in Australia based on the Chant Link research. Section 3 examines what the 'financially excluded' need from a CDF program, including:

- examples of programs currently operating in Australia which address aspects of this need;
- who has a role to play; and
- what impediments exist to the development of CDF.

Section 4 outlines ANZ's response to the consultation and next steps.

2. WHAT IS THE NEED FOR CDF IN AUSTRALIA?

CDF aims to address the lack of mainstream financial services available to the 'financially excluded'. However, in order to determine the nature of the CDF program needed and the feasibility and sustainability of any program, it is important to determine who the financially excluded in Australia are, the size of the financially excluded population and the type of CDF program they would most benefit from.

WHAT IS FINANCIAL EXCLUSION?

As outlined earlier, ANZ commissioned Chant Link to conduct an examination of financial exclusion in the Australian context. The examination comprised four parts:

- a review of literature on financial exclusion in Australia;
- a collection of the views of stakeholders to shed light on the size and nature of that part of the Australian population currently excluded from various financial products and services and the impact this exclusion has on the lives of those people;
- an analysis of relevant quantitative results from the Roy Morgan Research *Finance Monitor* data collected in the 12 months to March 2004; and
- implications for future research on the size and nature of the financially excluded market within Australia.

The outcome of this analysis is discussed below. The executive summary of the report is attached at Appendix B. The full research can be found at www.anz.com/aus/aboutanz/Community.

LITERATURE REVIEW

The aim of the literature review was to identify relevant international and Australian literature on financial exclusion. Two key papers were considered as starting points — the report for the UK Financial Services Authority (FSA) entitled *In or out? Financial exclusion: a literature and research review* (FSA 2000) and the report for the Chifley Research Centre, *Financial Services and Social Exclusion* (Connolly and Hajaj 2001).

The literature search on financial exclusion in the Australian context highlighted the limited research and lack of a widely accepted definition of financial exclusion in Australia. Most Australian papers and reports focused on specific target groups such as Indigenous Australians or rural communities, or were more broadly related to poverty and disadvantage. For example the Parliamentary Joint Committee on Corporations and Financial Services (PJCCFS) inquiry report, *Money Matters in the Bush*, focused specifically on the level of banking and financial services available in rural, regional and remote areas of Australia (PJCCFS 2004).

Searches of overseas literature on financial exclusion also revealed limited articles in peer-reviewed literature on the subject of financial exclusion, an experience mirrored in broad academic databases and general library searches.

Overall, the literature review revealed that the most common authors of research and reports on financial exclusion were:

- governments and government authorities, for example, the Social Exclusion Unit of the Office of the Deputy Prime Minister, UK Government, the UK FSA, Reports of the Australian Parliament (e.g. PJCCFS inquiry report, *Money Matters in the Bush*);
- university-based research and policy centres, for example, Personal Finance Research Centre (Bristol University UK), Financial Services Consumer Policy Centre (University of NSW), Social Policy Research Centre (ANU) and Centre for Aboriginal Economic Policy Research (ANU); and
- independent, religious and community groups with a focus on social policy, for example, Good Shepherd Youth and Family Services, The Smith Family and the Joseph Rowntree Foundation (UK) (ANZ 2004e).

In contrast to the United Kingdom, there does not appear to be a consistent view in Australian literature on financial exclusion. This appears to be due to the relative lack of formal channels for communication of financial exclusion research in Australia and no organisation providing a central ‘clearing house’ role similar to that performed by the FSA in the UK (ANZ 2004e).

Definitions of financial exclusion in the literature vary significantly, from broad definitions around barriers to the disadvantaged accessing the financial system, to narrow definitions, such as consumers not having access to specific ‘essential’ financial products from mainstream providers (such as basic bank accounts). Most stakeholders gave consideration to financial exclusion in terms of the latter, more practical definitions (ANZ 2004e).

The literature review also identified that financial exclusion is considered a dynamic concept, contrasting short-lived financial exclusion as a result of major life or work changes with the long-term financial exclusion of families with particular socioeconomic characteristics (ANZ 2004e).

Financial exclusion is most often linked to people on low incomes with insecure employment. Other risk factors also identified are disability or long-term illness, renting or public housing, ethnicity, sole parents, female gender and age, although some of these factors may be strongly linked with lower income which could explain their relationship with financial exclusion (ANZ 2004e).

A significant finding of the literature review was that the themes of fairness and equity in accessing financial services underpin most research on financial exclusion. Access to financial services is considered essential for individuals to participate in a modern economy. The consequences of financial exclusion are always considered negative (although data showing causation is limited), such as:

- compromised standard of living as a result of a lack of access to affordable short-term credit;
- higher costs associated with non-mainstream credit providers;
- increased risk of association with predatory or unregulated providers;
- costs associated with managing cash flow and payments;
- greater vulnerability as a result of being uninsured; and
- extended dependence on welfare (ANZ 2004e).

Australian literature highlighted similar drivers and outcomes of financial exclusion, although greater focus was given to issues such as lack of access to a bank branch in rural and regional areas (ANZ 2004e).

Discussion of the relationship between ethnicity and financial exclusion in Australia primarily focused on Indigenous Australians. This is most likely because Indigenous Australians are broadly considered the most socially and financially excluded members of Australian society as a result of many complex factors, such as lower life expectancy at birth, lower school retention rates, lower levels of household and individual income and economic participation and greater health concerns (SCRGSP 2003).

Many of the approximately 1200 remote Indigenous communities have never had access to banking, but the issue is broader than banking. Infrastructure in these communities is limited. Around 854 of these communities have populations of less than 500 people and do not have the buildings or infrastructure where banking services such as ATMs or EFTPOS facilities could be located (PJCCFS 2004).

STAKEHOLDER CONSULTATION

Chant Link conducted in-depth interviews with 23 stakeholders, listed in Appendix C, who were considered to have expertise in CDF or related areas. All were of the view that financial exclusion is an important area requiring study and attention.

Most stakeholders observed there was no universally accepted definition of financial exclusion in Australia and a lack of data on the type and extent of financial exclusion in Australia. Many felt that financial exclusion in Australia was not so much about the ‘unbanked’ as it is in some similar economies, as the vast majority of Australians own a transaction account. However, it was likely to have the following characteristics:

- true exclusion — those ***unable to access certain mainstream products*** (e.g. they do not meet income/risk criteria or have a disability excluding them from certain life insurance products);

- cost exclusion — many products are simply unaffordable to some people highlighting the notion of a ***lack of access to low-cost mainstream products***;
- unfair prices or conditions — some may have a ***lack of access to fair products*** which higher value customers would ordinarily access easily. In contrast, some 'unfair' products were the only versions available to certain people, such as very high interest credit offered by payday lenders;
- poor financial habit reinforcing — some mainstream providers and alternative providers market products to low-income earners (among others) that do not encourage good credit management, indicating a ***lack of access to safe (or positive financial habit reinforcing) products*** (ANZ 2004e).

A WORKING DEFINITION

Following the analysis of the literature and the feedback from stakeholders, the working definition of *financial exclusion* was defined as:

> ***"… the lack of access by certain consumers to appropriate low-cost, fair and safe financial products and services from mainstream providers … where this lack of access causes a level of harm to the consumer"*** (ANZ 2004e).

In this instance, 'mainstream providers' is considered to include "regulated and accessible larger providers offering a wide array of financial products in savings, credit and insurance areas" (ANZ 2004e). There was some conjecture as to whether mainstream providers should be specified in the definition, as second-tier providers might display the characteristics of low-cost, fairness or safety. Therefore, it was concluded that the inclusion of 'mainstream providers' in the definition must be on the proviso that the lack of access to appropriate low-cost, fair and safe financial products and services ***causes a level of harm*** to the consumer.

It was also argued that there are various extensions to the basic definition of financial exclusion which take account of the greater concern for low-income consumers (or consumers in financial hardship), the fact that it may affect individuals, families, households and specific geographic locations and that it may apply to small businesses and community enterprise organisations.

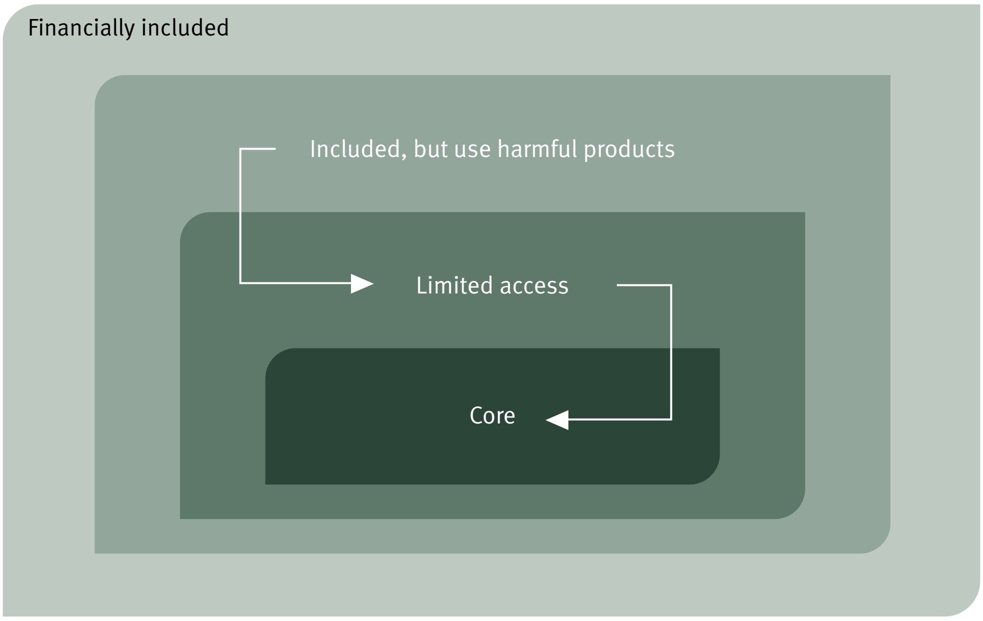
> ***"Financial exclusion is the lack of access by certain consumers to appropriate low-cost, fair and safe financial products and services from mainstream providers.***
>
> ***Financial exclusion becomes of more concern in the community when it applies to lower income consumers and/or those in financial hardship.***
>
> ***Financial exclusion is observable at the individual, family or household level but can also be heavily concentrated in suburbs or regions and sometimes among ethnic minorities in a suburb or region.***
>
> ***Financial exclusion can also apply to individual small businesses, not-for-profits and other community enterprise organisations"*** (ANZ 2004e).

Chant Link's discussions with stakeholders also indicated that there are likely to be different levels of financial exclusion, from the general population who are financially included, to those at the 'core' of financial exclusion (Figure 1). Consumers who are marginally excluded may find themselves drawn into deeper levels of financial exclusion. They may:

- be ***included but using harmful/inappropriate products*** — this group of consumers may start on the 'downward spiral' if there is no intervention;
- have ***limited access*** — this group of consumers may have a basic bank account but may have poor financial habits and financial literacy and receive little advice, making it difficult to form more positive financial behaviour; or
- exhibit ***core exclusion*** — this group of consumers is likely to be in extreme poverty, operating completely outside the regulated financial system (ANZ 2004e).

Stakeholders generally believed financial exclusion to be either temporary (acute) or permanent (chronic). ***Temporary*** financial exclusion can occur when the circumstance of low income is temporary, for example, as a result of illness, family breakdown or the presence of young children preventing either or both partners from working. ***Permanent*** financial exclusion is more likely to occur as a result of long-term unemployment, financial illiteracy, learned dysfunctional credit or savings behaviour, intergenerational exclusion or other behavioural issues such as problem gambling.

Figure 1: Gradations or levels of financial exclusion



Source: ANZ 2004e

Low levels of income and low levels of savings (for example, savings of less than $2000 was often cited as an indicator of hardship) were the most commonly observed indicators of an individual being at risk of financial exclusion. Stakeholders assumed that as a result of their higher incidence of low incomes and low savings levels, financial exclusion was more likely to be prevalent in the following sectors of the community:

- Indigenous people;
- certain other ethnic groups;
- people with a disability;
- those in poverty;
- those on social security benefits;
- sole parents, especially single mothers if not working; and
- early school leavers (ANZ 2004e).

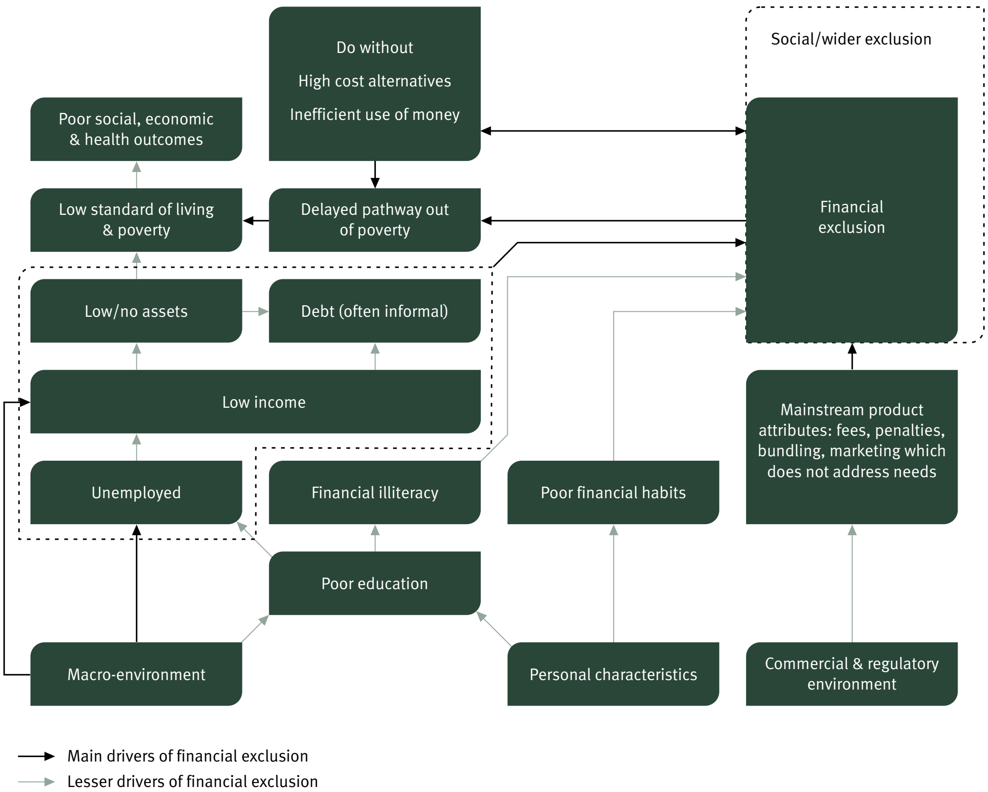
Low-income levels (including nil or low savings and a lack of assets) were also considered the main driver or cause of financial exclusion by stakeholders. Other frequently mentioned drivers or contributors included unemployment (discontinuous and casual work history leading to low incomes and poor qualification for credit), product and promotion policies of mainstream providers (which have resulted in a lack of access or use of inappropriate products by people on low incomes), financial illiteracy and poor financial habits. Psychological and disability-related issues and the perception of being excluded, while less frequently mentioned, were also considered important drivers of financial exclusion (ANZ 2004e).

It was clear from stakeholder discussions that the impacts of financial exclusion could be many and varied. The primary impacts were viewed as:

- economic:
    - individual and household level — lower standard of living which delays people from rising above hardship and social exclusion;
    - community level — failure to foster community enterprises in Australia may have significant effects;
    - mainstream service providers — lost business opportunities are significant at all levels;
    - national level — adverse impact on the economy as a whole;
- education, health and social impacts on households;
- safety and security;
- use of inappropriate mainstream products;
- exploitation/use of fringe products from payday lenders, cheque encashment services, debt consolidation, store debt, second-tier card credit, solicitor loans, etc; and
- the need to use community-based financial services (ANZ 2004e).

The views of stakeholders and the literature review were summarised into a model of financial exclusion in Australia (Figure 2). It demonstrates how financial exclusion is part of the wider phenomenon of social exclusion and how the drivers and effects of financial exclusion interact.

Figure 2: Model of financial exclusion



Source: ANZ 2004e

WHAT IS THE EXTENT OF FINANCIAL EXCLUSION IN AUSTRALIA?

Chant Link developed a number of hypotheses of various kinds of financial exclusion based on stakeholder views (Table 1).

The analysis highlighted that the extent of financial exclusion tends to vary by the type of product the consumer does not own, that is, the type of exclusion. While it is difficult to determine the accuracy of stakeholder views in the absence of definitive data measuring financial exclusion, the summary is useful in that it demonstrates that stakeholders consider financial exclusion to touch on consumers in the bottom two quintiles of income and savings, depending on the product needed (ANZ 2004e).

As an illustration, stakeholders tended to consider credit cards as 'inappropriate products' for those who are unemployed or in poverty (no savings and very low income) so the views on financial exclusion do not tend to extend to those in the lowest quintile. Stakeholders also considered that the demand for financial counselling services was increasing, as they see more consumers on higher incomes experiencing difficulties managing debt (ANZ 2004e).

As highlighted previously, there are no empirically-based estimates or data on the financially excluded in Australia. Chant Link conducted an analysis of relevant quantitative results from the Roy Morgan Research *Finance Monitor* data collected in the 12 months to March 2004 in order to test the hypotheses based on stakeholder views. The data provided some insight into the level of use of financial products in Australia, a measure of financial exclusion used in other countries. However, it is important to note that this analysis is limited as it is not able to demonstrate whether use of a particular product was due to choice or as a result of difficulties in accessing alternative products. Further, it may not be possible to draw inferences from the data about specific populations such as Indigenous communities.

There were 55 687 individuals, aged from 14 years, in the *Finance Monitor* data set. The analysis showed that 0.8 per cent of the population (and 0.7 per cent of decision-makers in the home) could be considered totally excluded, that is, they owned no financial products. This compared with seven per cent in the UK. Around six per cent could be considered to have minimum access, owning only a transaction product (ANZ 2004e).

The median number of financial products owned in Australia was six. The median increased until middle age from one product at age 14–15, to four products by the age of 20–24 and seven products at 40–44 and then decreased to six products at 60–64, and five products at age 70 and over. There was little difference between the sexes, although females owned slightly fewer products than males on average (ANZ 2004e).

Employment status influenced financial product use. Those who were employed had a median number of seven products, while the unemployed had four. Only 2.5 per cent of employed people had either no products or a transaction product only (0.5 per cent used no products and two per cent only had a transaction account), as opposed to 18 per cent of those who were unemployed (where three per cent had no financial products and 15 per cent had a transaction product only) (ANZ 2004e).

The median number of products also increased with income, from three products at an annual income of $10 000, to seven products at $40 000 per annum and eight products for annual incomes exceeding $100 000. However, those receiving an aged pension did not appear particularly excluded, having a median number of five products and a similar proportion having at least one product (five per cent as opposed to six per cent of the total population). The level of savings and investments also had a significant effect on financial product ownership, especially for those with less than $10 000 in savings and investments (ANZ 2004e).

Home ownership status was a sound indicator of financial product ownership for some product classes, in particular insurance. Probably not surprisingly, those paying off their home were more likely to have a larger number of products (a median of eight) than those who already owned their home (a median of six products). Renters (29 per cent of the population) had a lower median number of products of only three, while those who had other housing arrangements or did not state their housing tenure status, also had a median of only three products (ANZ 2004e).

The remoteness of where someone lived, whether in a large city, inner regional, outer regional, remote or very remote area, did not result in any significant differences in the number of products owned (ANZ 2004e).

Table 1:
Hypothesised relatively high incidence of various kinds of financial exclusion by wealth segment

Source: ANZ 2004e

CONCLUSION

Limited data are available on the extent of financial exclusion in Australia. The Chant Link research has been able to determine a potential working definition of financial exclusion in Australia based on literature and stakeholder views. It is clear there is a need for further research if a deeper understanding of financial exclusion in Australia is to be achieved. ANZ will commission research to further examine those areas of need on which it has been chosen to focus. The results of this research will inform the development of ANZ's CDF programs.

3. WHAT CDF PROGRAMS ARE NEEDED?

As highlighted in the *Community Development Finance in Australia* discussion paper, CDF can encompass a number of different financial products and forms of assistance, such as small loans, savings and transaction accounts, insurance, financial counselling and advice and financial literacy training (ANZ 2004a).

Stakeholder feedback during ANZ's discussion paper consultation and the Chant Link research indicated there is a need for CDF programs to assist those who are considered financially excluded; those who lack access to appropriate low-cost, fair and safe financial products and services from mainstream providers (ANZ 2004e).

At present, there are a limited number of CDF programs that fill the void left by the absence of mainstream financial service providers. Some examples of these programs are featured below. However, even with the presence of these programs, stakeholders highlighted a number of areas where there is still a need for programs to address financial exclusion.

PROGRAMS CURRENTLY ADDRESSING FINANCIAL EXCLUSION IN AUSTRALIA

There were a number of CDF programs brought to our attention during the consultation process. The programs outlined below have been cited as they highlight some key learnings that could be drawn upon in the development of a CDF program.

By no means does this discussion include a complete list of all the programs currently under way which come under the auspices of CDF. There are literally hundreds of programs operating in Australia which could be classified as CDF, from those offering saving incentives to those providing small business finance to specific target groups, to those offering low-cost loans to individuals for essential items and assistance for people in crisis. Ingrid Burkett's study, *Microfinance in Australia,* provides a more detailed summary of different models and forms of microfinance currently in use in Australia.

LENDING TO INDIVIDUALS

The approach to providing finance to individuals varies significantly. Different programs have different requirements such as what the finance can be spent on and whether no-, low- or market-interest will be charged on the loan. Many programs are run by financial counsellors or community organisations, with some operated in partnership with financial institutions such as banks and credit unions.

No-interest loan schemes (NILS) are one example which provide small loans at no interest to people on low incomes. The loans are usually for amounts up to $1000, on terms of up to 18 months for essential household items such as white goods.

There are around 75 NILS providers across Australia, which offer alternatives to high-interest loans such as credit cards and payday lenders for people on low incomes, often whose primary source of income is social security (Patterson, K., Minister for Family and Community Services 2004). The structure of these programs differs across providers, from programs operated by single financial counselling agencies, to programs operated by a centralised administrator through a number of agencies (see Box 1).

Capital to fund NILS programs is usually sourced from donations or bequests to the NILS organisation, although some receive funding from Government and State lotteries funds (Australia Street Company 1999). In addition, many NILS programs receive payments from recipients directly from their Social Security benefits through Centrepay. The Department of Family and Community Services waives Centrepay fees to NILS organisations that receive loan payments from Centrelink recipients. In 2004-05 this waiver is expected to save NILS organisations a total of $180 000 (Minister for Family and Community Services submission).

Many studies have highlighted the benefits of NILS programs to the individual recipients and the wider community. For individuals, the schemes offer the opportunity to purchase urgently needed goods such as fridges or washing machines, to access affordable financial assistance and avoid getting into debt traps. For the community, NILS programs can build skills among volunteers and result in public health benefits by ensuring people maintain a basic standard of living and remain engaged with the community (Australia Street Company 1999).

There are a number of elements considered critical to the success of NILS programs:

- delivery through a community or not-for-profit organisation. Community organisations are generally highly trusted by the community and considered to be best-placed to identify and assist those most in need;
- containing loan loss ratios. The most significant concern for NILS programs is the erosion of the capital base used for loans. Many NILS programs use Centrepay to receive loan repayments directly from participants' Social Security benefits to ensure loss ratios and default rates are kept to a minimum;
- containing administrative costs. Many NILS schemes are run by community organisations staffed by volunteers, which on one hand may put the organisation under pressure because of its limited resources and on the other hand helps to keep administrative costs down. Further, NILS programs that have demonstrated strong sustainability have tended to operate under more centralised administrative systems, which minimises administrative costs (see Box 1); and
- providing associated services, such as buying services, to help the client obtain the best price, or financial literacy education programs (Australia Street Company 1999).

Box 1: WA No Interest Loans Scheme Network

The WA No Interest Loans Scheme (WANILS) network is run as a centralised processing/administration model. It has a network of 104 agencies operating throughout WA from Kununurra to Esperance. The agencies have a direct relationship with the client.

Loans are for a maximum of $1000 to Centrelink and healthcare card recipients for essential household items such as fridges or washing machines. The funds are paid directly to the supplier of the goods. Minimum repayments are $2.50 per fortnight per $100 borrowed. The average term of the loan is 12-15 months.

The agency assists participants to examine their finances, develop a budget and determine whether they have sufficient funds to service a WANILS loan. Around 5% of clients return for a second or third loan and often, different members of the same family apply for a loan.

To further develop their skills, clients must be involved in the application process. They must put together the paperwork including their Centrelink statement, residency agreement and obtain a minimum of two quotes for the item they intend to purchase.

WANILS evolved from the WA Government whitegoods scheme. When established, WANILS received $500 000 in State Government funding for the first four years of operation, of which 30% was for administration and the remainder for loans. WANILS now manages around $1.7 million. From 2007-08 the WA Government will fund only administration costs.

WANILS operates as a commercial business with a loans committee that meets each Wednesday to assess applications. WANILS has a 96-97% repayment rate, secured through a direct debit from the recipients' Centrelink payments through Centrepay.

Tasmania has also just started a NILS scheme based on the WA model.

Source: WANILS Network

LENDING FOR MICRO-ENTERPRISE

In her stocktake of microfinance initiatives, Ingrid Burkett highlighted lending for micro-enterprise development is still in its infancy in Australia (Burkett 2003). Those programs that are in place are generally motivated by a need to respond to long-term unemployment and the consideration that many unemployed may have little collateral or only want small loans, making it difficult to access appropriate finance (Burkett 2003).

Micro-enterprise lending programs in Australia have been primarily initiated by community organisations, however governments have also implemented programs as part of their mandate to address unemployment. While some programs are targeted at the low-income mainstream, others are targeted at specific communities such as Indigenous communities and people from non-English speaking backgrounds.

The Brotherhood of St Laurence Achiever Business Loan offers assistance to people facing an uncertain financial future to help grow or stabilise their small business. This project was designed to assist people involved in the Commonwealth Government's New Enterprise Incentive Scheme (NEIS), discussed below, who are finding it difficult to obtain credit for their enterprises through mainstream financial institutions (Burkett 2003).

The Brotherhood of St Laurence offers the variable interest rate loan in partnership with the Fitzroy Carlton Community Credit Cooperative. Loans of $1000 to $2000 are offered for the purchase of an item that will help increase profitability, reduce overhead costs or improve efficiency. The loan also helps the participant to develop a credit history which can be used when dealing with mainstream institutions. Support, training and mentoring for program participants is provided by Technical and Further Education (TAFE) Australia (www.bsl.org.au).

One example of micro-enterprise development aimed at Indigenous communities is the Opportunities International Australia Many Rivers Opportunities Micro-enterprise Development project (Many Rivers). The Many Rivers pilot began in March 2002 in the Northern Rivers of NSW, encompassing Clarence Valley, Grafton, Lismore, Coffs Harbour and Casino.

Many Rivers offered initial loans of between $500 and $2500 with scope for second and third loans (of up to $4000 for a second loan and $10 000 for a third loan) (Burkett 2003). Loans are offered at interest rates of around eight per cent per annum.

The pilot worked with approximately 100 participants, of which 51 had taken out loans to grow their businesses as at September 2004. The pilot has attracted a range of businesses including services (lawn mowing, tree lopping, tourism), arts and crafts, retail businesses (cafes, fishing bait sales) and manufacturing (boomerangs, rugs and didgeridoos). A key part of the program is small business mentoring where the project worker works over time with the participant to develop their business idea and business plan. There is also the option of undertaking on-the-job support and training, which is offered for an additional fee (Opportunity International Australia).

An independent evaluation of the pilot highlighted that all clients involved in the program reported increased growth in incomes and assets. The on-time repayment rate for loans as at September 2004 was 94 per cent, with a 30-day arrears rate of 4.4 per cent. The benefits to clients through the provision of credit and training include:

- an average of 64 per cent growth in income generated from the business;
- reduced welfare dependency to around 40 per cent of their income, compared to 62 per cent of their income previously being sourced from government income support; and
- greater self-esteem and the creation of community role models (Opportunity International Australia).

The Whittlesea Women's Micro Finance Pilot Project was developed to address the financial exclusion of women on low incomes from newly arrived and/or culturally and linguistically diverse backgrounds. The project — based on Street Cred, a women's micro-credit program in the United Kingdom — offered a small group of women access to micro-credit for their micro-enterprises, in addition to enterprise training and support.

Women's Health In the North (WHIN) and Kildonan Child and Family Services (KCFS) in Victoria operated the pilot from July 2003 to June 2004. Funding was received from the Victorian Government's Community Support Fund to undertake research and development, with further funding received for the project from the Ross Trust and the Myer Foundation to engage an independent evaluator.

The program signed up only a limited number of participants. Of the 86 initial contacts with women expressing interest in the program, approximately six per cent (five women) were participating at the end of the third quarter (HDG Consulting Group 2004). The key findings from the evaluation, including learnings for future similar initiatives, are highlighted in Box 2.

As reviewed above, some government initiatives have the characteristics of a CDF program which aims to assist the unemployed to achieve self-employment through the development of small business. Programs include NEIS and the Community Development Employment Projects (CDEP) program and Business Development Program (BDP) targeted at Indigenous communities.

NEIS aims to assist eligible unemployed people to start and run a new small business. The assistance includes a NEIS allowance for up to 52 weeks, an accredited small business management course for three months and business advice and mentor support for the first year. The support is provided through the NEIS network, which include a number of Business Enterprise Centres, TAFE Small Business Centres, community organisations and private sector organisations (www.workplace.gov.au).

The criteria for eligibility for NEIS, both personal and business, emphasises the aim to ensure that businesses operating under NEIS are viable and sustainable in the long-term. These include requirements to participate in training and work full-time in the business in order to be assessed as commercially viable by a NEIS provider and approved by the Department of Employment and Workplace Relations (www.workplace.gov.au).

CDEP is an employment and training program operated by the Commonwealth Government targeted at Indigenous Australians. CDEP also offers opportunities for Indigenous people and communities to establish their own businesses to create employment. CDEP programs are managed by Indigenous organisations and communities in remote, regional and urban areas for over 36 000 participants (www.workplace.gov.au).

The BDP, administered through Indigenous Business Australia (IBA), is a loans and grants program offered to Indigenous Australians. The BDP offers the following services to individuals, partnerships, joint ventures, corporations and community groups:

- business support — such as professional business and marketing advice, training and mentoring; and
- business finance — including loans, loan-grant mixes and/or guarantees to eligible Indigenous clients (www.workplace.gov.au).

In 2002-03, almost 200 Indigenous Australians were directly employed through IBA efforts generating employment wages of $5.2 million (www.workplace.gov.au).

A key lesson from consultation with stakeholders and the programs highlighted above is that mentoring is likely to be a critical part of the success of any small-business lending program. First and foremost, participants need to have the financial literacy skills to manage their own personal finances before starting a small business. While some may have difficulty accessing finance altogether, for many the difficulty is not so much about the availability of finance in the market but their capacity to prepare documentation (for example, business plans, application forms) and 'build a case' to access the appropriate finance.

Mentoring and training should help participants improve financial literacy and gain an understanding of some of the difficulties involved in running a small business, including the high failure rates and hard work needed to give the business the best chance of success.

Box 2: Whittlesea Women's Microfinance Pilot Project (WWMP)

WWMP was a pilot project in Victoria operated by Women's Health In the North (WHIN) and Kildonan Child and Family Services (KCFS) from July 2003 to June 2004. The aim was to pilot a no-interest credit loan system to support the development of micro-enterprises by a small group of women from culturally and linguistically diverse (CALD) backgrounds as well as provide group development and training in business skills.

A project Steering Committee was established for the duration of the pilot with representatives from WHIN and KCFS, Community Information Whittlesea, City of Whittlesea, Plenty Valley Community Health, International Women's Development Agency, AMES and Good Shepherd. Plenty Community Credit Union managed the loan pool.

Eligibility criteria were loosely defined as residing in the Whittlesea area, a CALD background and an interest in micro-enterprise development.

The identification and retention of participants was an ongoing challenge for the pilot. Of a total of 86 initial contacts with women, four women were members of the Enterprise Group by the end of the final quarter and had accessed the micro-credit loans, with an additional three women remaining casual members. This suggests that over a 12-month period, for every 25 initial contacts, one woman is likely to remain involved and access a micro-credit loan.

The independent evaluation highlighted that low retention rates are likely to be due to a number of factors, including the narrow catchment area (City of Whittlesea), transport issues associated with an urban fringe location, the narrow target group and the subset of the target group interested in micro-business.

Overall the project was found to be successful in meeting social and economic objectives. The independent evaluation made a number of recommendations for the pilot's replication in other areas. These include the need for:

- *a broader target group and catchment area to ensure enough participants are attracted and retained over time;*
- *a longer time period for the pilot (e.g. 3 years) to allow for development of personal and micro-business skills, business start-up and monitoring;*
- *ongoing skills development and support, both formal and informal;*
- *support for and monitoring of participant loan repayments;*
- *ongoing support after the pilot; and*
- *access to appropriate counselling and other services if needed.*

Source: HDG Consulting Group 2004

SAVINGS PROGRAMS

ANZ and the Brotherhood of St Laurence established a partnership in October 2002 to develop Australia's first matched savings pilot in Frankston, Victoria. Saver Plus aims to improve the savings habits of low-income earners so they have the ability to save for assets, to cushion the financial impact of unexpected changes and build financial security.

The Saver Plus pilot offers parents or guardians of children in secondary school the opportunity to save for education-related costs. Program participants identify an education-related savings target and work toward this goal by regularly saving a portion of their earned income in an ANZ Progress Saver account, a mainstream savings product. They also participate in training that enhances and develops their financial skills. At the conclusion of the pilot, each $1 saved by participants will be matched with an additional $2 by ANZ. Matched funds are capped at a maximum of $2000.

Throughout the program, participants work with a Relationship Manager who oversees participants' progress and acts as a facilitator of the training, a mentor and a personal coach. Participants are invited to join Saver Plus through local school networks. To be eligible to join Saver Plus, the account holder and/or their partner must:

- be a parent or guardian of a student/s who will be attending secondary school in 2005; and
- have children attending government schools in the Saver Plus pilot program areas; and
- have a current Health Care Card or Pension Card; and
- have regular income from paid employment; and
- be able to demonstrate a capacity to save after regular expenses have been paid.

The pilot now has 268 families participating and is being run in three locations:

- Frankston, Victoria in partnership with the Brotherhood of St Laurence (from July 2003);
- Shepparton, Victoria in partnership with Berry Street Victoria (from October 2003); and
- Campbelltown, NSW in partnership with the Benevolent Society (from November 2003).

The effectiveness of the pilot is being evaluated by RMIT University. The interim evaluation report was released in June 2004 (report can be found at www.anz.com/aus/aboutanz/Community).

The interim report analysed the progress of Saver Plus between July 2003 and March 2004. During that period, 236 Saver Plus accounts had been opened and 211 of these participants agreed to participate in the research. Further participants have joined since March and will be taken into account in the final evaluation to be completed in mid-2005 (Russell and Fredline 2004).

The interim report drew on information from questionnaires completed by participants agreeing to participate in the research, participants' saving activity and interviews with staff involved with the program development and implementation. The analysis illustrated that Saver Plus participants are mostly female, sole parents aged between 30 and 50 years with 2.6 dependent children (the average age being 11.8 years). The most common education level attained is partial completion of school education followed by a subsequent TAFE qualification. The average participant family income (after tax) is $688 per week, with the primary source being from paid employment (Russell and Fredline 2004).

The report also compared the average Saver Plus participant income with the Australian Bureau of Statistics average weekly incomes for 2000-01 (Table 2). The comparison highlights that a Saver Plus couple with children earns less on average than the average Australian couple with children, whereas Saver Plus sole parents earn more than the average Australian sole parent (Table 2).

Table 2:
Comparison of Saver Plus participants with average weekly Australian incomes (after tax)

	National average 2000-01	Saver Plus participant average	% below average
Couples with children	$998	$738.34	92.1%
Single parents with children	$574	$662.69	22.4%

Source: Russell and Fredline 2004

In the analysis of savings behaviour, participants were categorised into one of the following:

- consistent savers — participants who have deposited the same amount each month;
- variable savers — participants who have deposited each month but the amount has varied;
- sporadic savers — participants who have missed some months; and
- withdrawal — participants who have made a withdrawal at some time (Russell and Fredline 2004).

On average, participants were able to save $74.91 per month and the average account balance (deposits minus withdrawals) as at March 2004 was $271.21 (Table 3). The majority of participants (89 per cent) were able to save each month either on a consistent or variable basis (Table 3). Less than one-in-ten had made a withdrawal from their account (Table 3).

Table 3:
Average monthly deposits, balances and saving patterns[1]

Variables		Frankston	Shepparton	Campbelltown	Entire sample
Average monthly deposit		$67.25	$83.59	$81.69	$74.91
Average total account balance (deposits less withdrawals)		$276.15	$291.77	$244.32	$271.21
Savings pattern	Consistent	10.0%	18.8%	25.0%	16.3%
	Variable	67.5%	64.6%	54.5%	63.4%
	Sporadic	13.8%	8.3%	9.1%	11.0%
	Has made a withdrawal	8.8%	8.3%	11.4%	9.3%

[1] For participants involved in the program for at least two months.
Source: Russell and Fredline 2004

Many participants had more than one savings goal. More than half of all respondents (54.6 per cent) stated they were saving towards a computer or computer accessories, while books (29.5 per cent of respondents), uniforms (29 per cent of respondents) and general education costs (26.6 per cent of respondents) were also significant goals for participants (Russell and Fredline 2004).

Twenty-three per cent of Saver Plus participants said they never saved anything prior to joining the program. Of all participants, 38.5 per cent had been able to save something every week before joining the program and 38 per cent were able to save sometimes but not regularly. Around 30 per cent of the participants had savings of less than $50, while only one-quarter had saved more than $1000 (Russell and Fredline 2004).

The Saver Plus partnership was also evaluated by Deakin University. The key learning from the partnership review was that without the partnership between ANZ and the non-government organisations (NGOs), it is unlikely that Saver Plus would have had the same focus — the development of self-reliance — or achieved the same outcomes (Birch 2004).

The feedback from participants (as highlighted in Box 3) was unlikely to have been received if ANZ had launched Saver Plus as a new 'product' by itself. Eligible participants would not have been reached as easily without community partners introducing them to ANZ. Low-income earners tend to be more distrustful of banks and NGO partners tend to relate to the target groups of the program in a way that differs to business in that they are more able to see the 'people side' of the program (Birch 2004).

Other key lessons include:

- Saver Plus has had clear impacts beyond the expected outcomes of the partnership and program, on the participants of Saver Plus, school principals who have dedicated considerable time to ensuring the success of the pilot through their schools and the ANZ branches involved;
- the individual participants have gained considerable benefits, not only in asset building and financial literacy but in quite unexpected, less tangible ways such as creating support networks with other parents to share travel duties and child care;
- the role of the Relationship Manager in running the pilot is critically important;

- the Saver Plus information sessions have played a very important role, often beyond just providing information to participants — they have allowed participants to learn from one another's experiences;
- the Saver Plus education program has been necessary and highly beneficial for participants; and
- the rigorous independent evaluation of the success or otherwise of both the partnership and the program needs to be ensured.

Box 3: Saver Plus – experience from participants

Frankston

Lauren Walmsley joined Saver Plus in Frankston so she could save for books, uniforms, excursions and the school camp for her 12-year-old son's first year at high school.

"I'm a single parent and it's a huge weight lifted off me to be part of Saver Plus," said Lauren.

The financial education program has also assisted Lauren in setting aside $20 a week to help meet her savings goal.

"I learned about how to deal with the incomings and the outgoings of our daily expenses, the difference between needs and wants, how to really fine-tune my budget. Now I'm confident I've got budgeting skills for the rest of my life."

Shepparton

Lynette Hewson completed the 10-week Saver Plus education program in July and credits it with helping her become a better saver and budgeter.

"The sessions were most beneficial but the rewards will be even better. Saver Plus is a fabulous program that the community (and me!) can only benefit from."

Lynette is saving for a computer package so her children aged 11, 12 and 14 can complete their homework at home.

Campbelltown

"I have always been a gambler and my mother was too. But since undertaking the Saver Plus education training I feel in control of my finances for the first time in my life.

"I have stopped gambling, given my credit cards to a friend for safe-keeping and stopped smoking.

"For the first time ever I'm not in debt. I have money in the bank and $160 in the kids' saving tin at home. I saved $110 last month. I have even bought glasses for my daughter, which she has needed for a while." Single mother of three children

Source: ANZ 2004c

FINANCIAL LITERACY PROGRAMS

Australian consumers live in a developed economy, where deregulation of financial services and improvements in information technology and telecommunications have led to a dramatic increase in the number and variety of financial products and services and related information. Financial literacy skills are therefore critical to our ability to sift through this information, achieve financial independence and improve our opportunities, standard of living and our ability to guard against frauds and scams.

ANZ released Australia's first survey of adult financial literacy in May 2003. The survey highlighted that many Australians have a good foundation of basic skills but it is clear there remain challenges.

In acknowledgement of the importance of improving the level of financial literacy in the community, the Commonwealth Government established the Consumer and Financial Literacy Taskforce (the Taskforce) in February 2004. The aim of the Taskforce is to:

- map and evaluate current consumer and financial literacy programs in Australia;
- identify any gaps or ways of working more effectively; and
- develop a national strategy to raise the levels of consumer and financial literacy in Australia (www.cfltaskforce.treasury.gov.au).

In its preliminary analysis of the current Australian landscape, the Taskforce identified a significant number of initiatives already under way that aim to improve financial literacy — over 100 organisations delivering over 700 initiatives (Consumer and Financial Literacy Taskforce 2004). Around three-quarters of the initiatives identified were targeted at the general public and investors, while the non-government sector (both for-profit and not-for-profit) provided most of the programs identified (Table 4).

Table 4:
Consumer and financial information stocktake

Target audience	Initiatives
General public	373
Investors	149
Youth (including school students)	62
Seniors (including retirees and pensioners)	68
Indigenous	18
Women	7
Other	34
Total	711

Provider	Initiatives
Commonwealth Government	152
State/Territory Government	86
Private sector	161
Community sector	51
Education sector	18
Independent (including consumer/financial magazines, publications and regular newspaper columns)	243
Total	711

Source: Consumer and Financial Literacy Taskforce 2004

However, it was clear from this analysis that while there were many programs already under way, there is limited coordination in the delivery of these programs, increasing the risk of duplication. In addition, there is no central database of initiatives, no standards and no criteria for measuring the effectiveness of programs. The Taskforce therefore identified areas where the Government could add value. In its key recommendation to Government, the Taskforce proposed the establishment of a national financial literacy body to:

- provide a clearinghouse website for better access to existing information;
- facilitate the teaching of consumer and financial literacy in schools;
- encourage adult education and promote consumer and financial literacy training in the workplace through vocational education programs and employer information channels;
- conduct ongoing national research on what leads to key consumer and financial decision-making. This research would feed into the setting of benchmarks that could be measured over time;
- facilitate an ongoing social marketing campaign to embed consumer financial literacy in the Australian culture;
- promote best practice and raise the awareness of key initiatives through providing an annual awards program for excellence in the field of consumer and financial literacy; and
- facilitate collaboration between organisations to reduce duplication and inconsistency across existing initiatives and programs (www.cfltaskforce.treasury.gov.au).

Feedback from stakeholders during ANZ's consultation highlighted that financial literacy education, while not the only contributing factor, is an important factor in assisting the improvement of an individual's financial position and wealth. It is also likely to be important to the success of any CDF program. For example, Camcare stated:

> "… the program should involve promoting participation in financial literacy. In fact … satisfactory completion of a financial literacy program and submission of a viable business plan should be a pre-requisite for loan eligibility. This participation aspect should show the client's desire to succeed." (Camcare submission)

As highlighted earlier, financial education is a key component of the Saver Plus program and a condition of participating in the program.

Box 4: MoneyMinded

ANZ's survey of adult financial literacy highlighted groups in our community that have the most to gain from improved financial literacy, including those on lower incomes, those with low education levels, those with low savings, those out of work or in unskilled work and those at both extremes of the age spectrum, i.e. young people aged 18-24 and older people aged 70 and over.

Overseas experience demonstrates that money management is not a topic many people 'lock on' to or seek information about until they are in crisis. With this in mind, ANZ has sought to develop a program aimed at assisting the most vulnerable members of the community.

MoneyMinded is a facilitator-led adult learning program, developed with input from the Australian Financial Counselling and Credit Reform Association (AFCCRA), Financial Counsellors' Association of NSW Inc. (FCAN), the NSW Department of TAFE, Open Training and Education Network, Australian Securities and Investments Commission (ASIC) and ANZ.

MoneyMinded covers six core topics separated into 17 workshops. The core topics are planning and saving, easy payments, understanding paperwork, living with debt, everyday banking and financial products and rights and responsibilities.

MoneyMinded recognises the importance of community educators and financial counsellors who work with and can reach those in the community most in need of financial education.

The Brotherhood of St Laurence is the first community organisation to partner with ANZ to use MoneyMinded in its work with low-income earners in Melbourne.

As part of a three-month evaluation, the Brotherhood of St Laurence will deliver MoneyMinded through its existing programs and services for adults throughout Victoria. The Brotherhood of St Laurence will also facilitate training of other local community organisations interested in the MoneyMinded program.

ANZ's aim is to partner with 100 community organisations, which would act as facilitators to deliver MoneyMinded to 100 000 consumers throughout Australia over the next five years.

More information on the MoneyMinded program can be found at www.moneyminded.com.au

Source: ANZ and ANZ 2004d

WHERE ARE THE GAPS?

Feedback from stakeholders on the discussion paper and the Chant Link research highlighted a need for a range of different products and services from credit-related products, to savings, basic bank accounts and financial counselling.

Chant Link asked stakeholders to rank the most-needed products or services as being of high, medium, low or no importance. An initial summary of these views is presented in Table 5. Following this process, it was considered to be valuable for this list to be reconsidered by the stakeholders involved, in order to allow for more considered views on the veracity of this hierarchy of needs (ANZ 2004e). However, in the meantime the list is a useful indicator of products and services needed.

Table 5:
Most important needs as a result of financial exclusion

Needed service or financial exclusion issue	Total number of mentions [1]	High Importance	Medium Importance	Low or no Importance
Small personal loans access[2]	19	16	3	0
Financial counselling (especially on credit/debt management)	13	13	0	0
Access to 'safer' major credit cards	17	10	4	3
Low-fee interest-bearing savings account access	15	9	5	1
Basic transaction account with low fees, plenty of free transactions for those in need	8	7	1	0
Home contents insurance (and buildings insurance for those owning property outright)	13	3	9	1
Third party property vehicle insurance	9	2	6	1
Insurance in general (including life insurance, income protection, unemployment and consumer credit insurance) access and better value products	10	3	6	1
Investment advice (especially for super) where low fund balances involved	6	4	2	0
Internet/phone channel access/education	7	0	4	3
Superannuation/retirement savings access	5	0	2	3
Home equity/home mortgage access/perhaps via an interest–free deposit loan-savings program dovetailed to a mortgage acquisition process	4	2	2	0
Community enterprise finance and management support	4	4	0	0

1 There were 23 interviewees altogether. This table reports mentioned needs. For example, only 19 of the 23 interviewees mentioned small 'personal' loans, of which 16 regarded this need as highly important.

2 Rather than a specific product, the term 'personal' loan refers to loans with similar characteristics of a personal loan such as a fixed amount and fixed term.

Source: ANZ 2004e

In discussions with Chant Link, stakeholders appeared to base their assessment of the importance of the need on three main criteria:

- the number of people thought to be affected by that type of financial exclusion, that is, the extent of the underlying access problem;
- the severity of the consequences for those most affected; and
- the degree to which ANZ could have a reasonable likelihood of making a difference by tackling the exclusion issue (ANZ 2004e).

As highlighted in Table 5, those services considered to have the highest importance according to the stakeholders interviewed were:

- small personal loan-type products (i.e. loans for a fixed amount and a fixed term which provide alternatives to payday lending);
- financial counselling;
- 'safer' credit cards;
- low-cost interest-bearing savings accounts or other savings incentive programs; and
- low-fee transaction accounts (ANZ 2004e).

This was further substantiated by feedback received during the consultation on the discussion paper. Stakeholders suggested that, in the first instance, individuals seek access to an affordable basic bank account, more specifically, with features that allow people on low incomes to manage their money on their terms. The Consumers' Federation of Australia highlighted:

> "Access to a basic bank account is critical for all Australians … For those on low incomes, any bank fee will have an impact, even what seem to be relatively small account keeping fees. Dishonour fees (cheques or direct debits) are extremely high."
> (Consumers' Federation of Australia submission)

These comments also highlight the concerns mentioned by a number of stakeholders with respect to those fees which a customer incurs if they have insufficient funds to cover a cheque or direct debit or overdraw their account. Stakeholders highlighted that low-income customers who are managing their money around a zero balance are more likely to incur these fees, which are significant for a person on a fixed low income and can affect their ability to budget.

With regard to credit, many found it difficult to reconcile the possible need for people on low incomes to access credit with the possibility they may become over-indebted.

What became clear from discussion paper feedback was that the concern was not so much that people on low incomes were not able to access credit (in fact many were of the view that credit was too readily available), but that the credit they can access is generally at very high interest rates, which is more likely to lead to unmanageable debt.

Some people on low incomes only have access to payday loans, which are short-term, usually unsecured loans at high interest rates for amounts under $1000 for less than 62 days. Research conducted by the Consumer Law Centre Victoria showed that users of payday lending services usually earn about $24 000 per year and borrow around $250 for two to four weeks to cover bills or day-to-day living expenses. Male borrowers tend to be employed in a full-time job while female borrowers are generally sole parents with income sourced primarily from Centrelink benefits (Consumer Law Centre Victoria 2002).

The Senate Community Affairs References Committee report on poverty and hardship, *A Hand Up not a Hand Out: Renewing the Fight Against Poverty*, also highlighted concerns about the availability of expensive credit, concluding that there were "concerns in relation to the easy availability of credit and the lending practices of some credit providers and the adverse financial impact this has had on low-income households in particular (Senate Community Affairs References Committee 2004)."

Therefore, if there is a need for people on low incomes to access credit, the gap appears to be in the availability of affordable alternatives to payday lending for individuals facing 'temporary hardship', that is, to pay for unexpected bills or meet peaks in expenditure.

Some stakeholders emphasised that while alternative credit options may assist individuals facing hardship, building a savings habit for major expenses and a 'rainy day' — no matter how small — is the only way people at the margins will be able to 'lift' themselves out of poverty. Individuals would therefore benefit from savings products, which provide greater incentives to save while still giving access to their money in case of emergency.

It was also clear from discussion paper feedback that individuals would benefit from further financial counselling and financial literacy education. While financial literacy education was not considered the 'be all and end all' for helping individuals improve their financial situation, it was considered an essential part of any CDF program.

From the feedback received from the majority of stakeholders during both the Chant Link research and discussion paper processes, finance for small business start-up was not considered a high priority. In general, stakeholders appear sceptical as to whether lending to individuals who are outside the margins in order to start small businesses would have a significant effect on the individual's situation. Many thought that the effect would be minimal if they do not already have their personal finances in order.

The difficulty individuals faced in starting small businesses was considered not so much to be the availability of start-up finance but rather the individual's ability to prepare documentation (for example, business plans, application forms, etc) and 'build a case' to access the appropriate finance. As a result, many end up using higher cost finance such as credit cards as they are easier to access, rather than secure more appropriate, cheaper forms of credit.

Stakeholders stressed the 'rules' for an individual wanting to start a small business are the same no matter what the circumstances. They need to be aware of the difficulties, the failure rates and the hard work needed to give the business the best chance of success. As such, mentoring and financial literacy was considered a critical part of the success of any small business lending program.

Overseas models for credit for micro-entrepreneurs tend to have a dual purpose — to provide greater access to finance and to improve employment in impoverished communities (Rogaly et al 1999). Discussion with stakeholders revealed that in a developed economy, CDF schemes which provide finance to micro-enterprise can experience difficulties in attracting participants and reaching a sustainable, long-term critical mass. The most successful programs in Australia appear to be those targeted at specific communities, such as women from non-English speaking backgrounds and Indigenous communities.

Notwithstanding that Australia is a developed market economy, some Indigenous communities have been described as having features typical of developing countries, for example, lower life expectancy at birth, lower school retention rates, lower levels of household and individual income and economic participation and greater health concerns (SCRGSP 2003).

It is likely that programs which aim to provide finance targeted at micro-enterprise will have the best chance of success when targeted at communities of most apparent need, such as the Indigenous community, and where, potentially, the greatest impact may be achieved.

HOW DO WE IMPLEMENT A CDF PROGRAM?

Discussions with stakeholders indicated that while there was a need for CDF programs to address the gaps in products and services highlighted above, there was not a great deal of information provided on how these programs could or should be implemented. However, stakeholders did provide feedback on the need for a coordinated approach to CDF, the roles each sector could play and the regulatory impediments to CDF programs that may need to be addressed.

THE NEED FOR A COORDINATED APPROACH

Discussions with stakeholders highlighted that a coordinated approach is needed if CDF programs are to have the best chance of achieving their objectives and becoming sustainable. This was also highlighted in written submissions received. For instance, the Care Financial Counselling Service stated:

> " [There are] limitations of CDF initiatives or like activities, in the absence of a broader, coordinated social policy agenda. Industry alone, or as partner with community organisations is unlikely to be able, even if it were willing, to address the underlying causes of poverty." (Care Financial Counselling Service submission)

The need for input from different sectors was further emphasised by Camcare and the Women's Health In the North and Kildonan Child and Family Services Enterprising Women Whittlesea project:

> " … the success of any Community Development fund requires a mixture of business and community organisations involved in the decision making. … You need both to make a project like this work." (Camcare submission)
>
> "From our experience with the Enterprising Women Whittlesea project we found it beneficial for the program to foster partnerships across sectors." (Women's Health In the North and Kildonan Child and Family Services Enterprising Women Whittlesea project submission)

Suggestions were made in discussions that an overarching Community Development Finance Organisation or Institution (CDFI) could be established to perform this role, to undertake research and program development and to provide funding for pilot programs.

CDFIs have emerged in many different forms in developed countries such as the United States, the United Kingdom, Canada and throughout Europe. Their growth has been in response to the range of credit needs of disadvantaged communities which are not being met by mainstream financial institutions (Parker and Lyons 2003).

In the United States, the CDFI sector is significant, with more than 450 CDFIs managing more than $1.5 billion and having lent around $5 billion (Parker and Lyons 2003). As highlighted in the *Community Development Finance in Australia* discussion paper, their growth has come out of a regulatory response to discrimination; the Community Reinvestment (1997) Act (CRA). The CRA has required banks to serve low-medium income areas following evidence of commercial banks choosing not to offer loans in the 1970s to areas based on a number of factors including their racial composition, regardless of the creditworthiness of individual applications (White Hagg 2000).

CDFIs have expanded in the United Kingdom in recent years as a result of the policy recommendations of the Social Investment Task Force. The Task Force recommended a number of approaches to stimulate investment in the area including a Community Investment Tax Credit to encourage private investment through CDFIs and support for CDFIs such as an effective trade association and new mechanisms to collect funds at the wholesale level (Social Investment Task Force 2000).

There are very few organisations in Australia that could be characterised as CDFIs. Organisations in Australia that arguably have CDFI characteristics include some credit unions and friendly societies (e.g. the Traditional Credit Union), community foundations (such as the Victorian Community Foundation, Queensland Community Foundation, Tasmanian Community Foundation and the newly established Western Australian Community Foundation), micro-credit loans (e.g. NILS programs) and local and regional development funds (Parker and Lyons 2003).

However, on the whole there are few CDFI-type organisations in Australia. The Australian Centre for Cooperative Research and Development (ACCORD) at the University of Technology, Sydney, suggests that this may have been due to a lack of demand. Community development in Australia tends to be managed and implemented by governments through building facilities, providing income support and in some instances, employment. Efforts to develop enterprises to generate jobs have been limited (Parker and Lyons 2003).

Consultation suggested that further work needs to be done in this area, including examining the role a coordinating body such as a CDFI could have and what form it could take.

ALL SECTORS NEED TO BE INVOLVED

As discussed above, it was clear from stakeholder feedback that there is a role for all sectors — community organisations, for-profit institutions and government. Each sector has its strengths and weaknesses.

The Brotherhood of St Laurence highlighted that community organisations have strengths and weaknesses when it comes to offering loans to clients. While they are in touch with the most vulnerable sections of the community, they would need training when it comes to assessing loans:

> "An advantage of community organisations playing a role is that they have much experience in understanding the plight of people on a low income and solutions to problems. … The Brotherhood's research, "Credit to the Community", also indicated that customers felt community organisations provided a more personalised or appropriate service. … However, a challenge is that loan assessment is very different to assessment for some other services provided by a community organisation. … Despite this, staff can be trained in different processes and most would be capable of seeing the harm over the long term of approving loans with low prospects of repayment." (Brotherhood of St Laurence submission)

The goodwill that community and other non-welfare organisations have with the community was seen as an undeniable strength when determining who is best-placed to deal directly with potential clients:

> "… community groups have a significant level of goodwill which is important for building trust from the CDF customer group. Other non-welfare organisations, such as sporting clubs and schools could play a role in outreach to the CDF customer group. As a result, a mixture of banking and community approaches may be needed." (Brotherhood of St Laurence submission)

Camcare and the Women's Health In the North and Kildonan Child and Family Services Enterprising Women Whittlesea project also considered community organisations to be best-placed to manage the direct relationship with the client and assist them with applications to the program:

> "Community workers could complete applications and send with appropriate documentation to a central location for assessment." (Camcare submission)

> "Many Victorian community organisations have been providing programs, counselling and responding to material aid requests on behalf of marginalised consumers for an extensive period of time. We believe such community organisations are best placed to assess potential barriers to participants and provide tailored support and training …" (Women's Health In the North and Kildonan Child and Family Services Enterprising Women Whittlesea project submission)

In general, most considered that financial institutions brought technical skills, loan and saving processes, capital, infrastructure and a greater capacity to manage risk to a partnership. These strengths should limit the need for CDF programs to 'reinvent the wheel':

> "By partnering with a financial institution our project benefited as monies were effectively administered by the institution and we could concentrate on social support and training for participants rather than wasting resources on replicating loan repayment mechanisms and infrastructure." (Women's Health In the North and Kildonan Child and Family Services Enterprising Women Whittlesea project submission)

> "An advantage of bank involvement is that they have much larger balance sheets than any community organisation and a capacity to diversify lending risks. Bank staff are also experienced with the principles of lending, saving and provision of advice." (Brotherhood of St Laurence submission)

There was also the view that financial institutions could have access to potential participants in their day-to-day dealings in branches. If staff were aware of alternative programs which would assist individuals, they could inform them about available programs:

> "Awareness of this facility at a banking level would enable staff to refer clients who were not eligible for a bank loan but could meet the criteria of the CDF program." (Camcare submission)

While not discouraging the involvement of financial institutions in the development and delivery of CDF programs, stakeholders did consider a need to be prudent about their involvement, given they are for-profit institutions and they therefore have different objectives in their day-to-day business which may conflict with the goals of a CDF program:

> "Partnerships between community and business providers can add value for community service users and providers alike. But the drivers for the partners are quite different. For the industry partner, no matter how genuine the wish to assist, there will always be a connection back to the profit motive, for example as a marketing tool, a team building activity, or a social reporting initiative." (Care Financial Counselling Service submission)

> "… it could be a disadvantage that many front-line bank employees are incentivised by profits, as this could skew motives in dealing with CDF customers. Responsible lending and the welfare of the customer must be a priority in this market and there is a fine line between helping and harming these people. A profit motive may also discourage bank staff from investing the time needed to understand the customers' needs and ensure the applicant recognises their rights and responsibilities." (Brotherhood of St Laurence submission)

There was general consensus in discussions that governments had an important role to play in discussions about CDF. In the first instance, it was thought that governments could provide insight into the need for CDF given their own knowledge of demands for government services and address any regulatory barriers that may exist:

> "The government could analyse needs of communities on a macro basis. They could also oversee efforts of community groups and banks and create a conducive regulatory environment for CDF." (Brotherhood of St Laurence submission)

The importance of government involvement was further emphasised by Care Financial Counselling Service. Given governments' overarching responsibility for equity, the provision of basic income support and redistribution, concerns were raised that if government were not involved, it may weaken their role to some extent:

> "There are advantages in partnerships but they must be balanced by a strong government leadership role that supports the integrity of community services and acknowledges the dangers of industry driving social policy rather than a government accountable to the people." (Care Financial Counselling Service submission)

In summary, partners from different sectors can bring different strengths. These strengths can be utilised to overcome barriers that may be encountered.

ARE THERE REGULATORY IMPEDIMENTS TO CONSIDER?

Stakeholders raised a number of potential regulatory issues that could act as barriers to the development of CDF programs. Firstly, there were views that the compliance requirements of the Uniform Consumer Credit Code (UCCC) make it difficult for small organisations to deliver, or even consider, interest-bearing loans. There is an exemption available under the UCCC for certain products or providers, however, most stakeholders were equally of the view that the protections the UCCC provides to consumers should not be 'watered down' to any extent:

> "During the design of the [Enterprising Women Whittlesea] project it was found that regulations did hinder us exploring interest, interest on a second loan and sustainability based on interest because of our capacity to comply as community organisations. … We would not encourage deregulating or 'loosening' credit code conduct for the purpose of making it easier for community organisations to offer micro-finance. It is important that strict regulations for financiers charging interest are enforced as these measures are vital in protecting consumers." (Women's Health In the North and Kildonan Child and Family Services Enterprising Women Whittlesea project submission)

The Consumers' Federation of Australia also highlighted that the UCCC, the Financial Services Reform Act and the Privacy Act all provide legislative constraints for smaller credit unions. However, addressing this should not lead to a reduction in consumer protections:

> "To do so would be completely counter to the rationale for such legislation – it is designed often to protect those who are vulnerable – the same group targeted through CDF interventions." (Consumers' Federation of Australia submission)

If a particular CDF program were to be granted an exemption from the UCCC, it would have to demonstrate that the exemption would be in the public interest.

Partnerships between different sectors could look to overcome the compliance difficulties that may be experienced. Large financial institutions already have processes in place to comply with these regulations and CDF programs could 'piggy-back' on these processes.

Some also expressed concerns that prudential regulations can act as a barrier to the development or expansion of CDF. For instance, the requirement to be an authorised deposit-taking institution (ADI) in order to accept deposits can limit a community organisation's ability to raise funds:

> “[An] issue for [Opportunity International Australia] is that current “regulations” do not allow us to take deposits, which we are able to do in many overseas countries, thereby providing our clients with a valuable service and also helping OI to raise funds at a low cost.” (Opportunity International Australia submission)

Further, capital requirements for large exposures can be limiting for smaller organisations providing finance. The prudential standard, APS 221, ensures that the risks ADIs are exposed to are not concentrated with individual external parties, groups or related parties, groups of parties with similar characteristics (e.g. in specific geographical regions or industry sectors) or particular asset classes (APRA 2003). As outlined by the Brotherhood of St Laurence, this can set a fairly small upper limit on the total amount a small organisation can loan to one party:

> “One of the greatest difficulties for small organisations in providing community development finance is the APS 221 regulation. This limits individual exposure to 25% of an organisations’ capital base. … This means that [small credit unions] cannot easily subsidise their services through the provision of larger loans or adequately service their existing member base.” (Brotherhood of St Laurence submission)

Again, partnerships between larger financial institutions and community organisations or other smaller financial institutions such as credit unions, may be able to address some of these difficulties, given the scale advantage that larger financial institutions may have.

It was clear from consultation that there are concerns about whether the current welfare system adequately assists the transition from welfare to work for those who are attempting to become self-employed. Many expressed the need for more effective transitional arrangements which allow the phasing in of taxation as much as the phasing out of welfare:

> “CDF arrangements must not, at least at the delivery end, be linked to assessment for income support. Transitional arrangements will need to be developed to deal with issues such as:
>
> - ongoing access to income support entitlements and
> - taxation, particularly if a CDF process is aimed at facilitating a transfer from welfare support to other income.
>
> Unless those transitional arrangements are sufficiently generous to allow new individual capacities to evolve in a sustainable way, vulnerable and disadvantaged consumers would not and arguably should not take the risk of being involved.” (Care Financial Counselling Service submission)

The experience of the Enterprising Women Whittlesea project found that it can often be the case that regardless of whether the current transitional arrangements are adequate, or the fact that staff in Centrelink offices are supportive, potential CDF program participants are often concerned they would be penalised if they participate:

> “… some participants receiving a welfare payment felt it was too much of a risk to register as a business because it would incur unwanted attention from Centrelink. Whilst it is our experience that local Centrelink staff and case managers are supportive of welfare recipients pursuing self employment there is still a lot of fear of disclosing business activity to Centrelink from the welfare recipient’s perspective.” (Women’s Health In the North and Kildonan Child and Family Services Enterprising Women Whittlesea project submission)

Some welfare issues raised were target-group specific. Opportunity International Australia highlighted difficulties with the current CDEP for Indigenous participants:

> “Many of our clients are on the Community Development Employment Project (CDEP) which is, essentially, ‘work for the dole’. The problem is that, if a client’s enterprise income exceeds a certain level, they would lose all of the CDEP benefit, i.e. there is no phasing out or transition permitted. This acts as a serious deterrent for Indigenous people to enter the formal economy … A period of continued welfare whilst the business is developed (as is allowable in the NEIS arrangement), with a subsequent phasing out as income increases, would be extremely helpful.” (Opportunity International Australia submission)

ANZ addressed the impact that matched funds would have on any benefits that participants received from Centrelink for Saver Plus through seeking a class ruling from the Australian Taxation Office (ATO). The ATO ruled that the matched savings payment received by participants did not constitute assessable income in accordance with section 6-15 of the *Income Tax Assessment Act 1997* (ATO 2004). Among other issues, the rationale for the ATO's decision was that the matched savings payment is received by participants solely as a result of successfully completing the requirements of Saver Plus and does not have any connection with the recipient's occupation or employment. In addition, eligibility for the program is restricted to persons with regular employment and who can demonstrate a capacity to save so the recipient does not rely on the payments for regular maintenance of themselves or their dependants (ATO 2004).

In conclusion, it is clear there are a number of regulatory, welfare and taxation policy issues that would affect the development and delivery of CDF programs. However in ANZ's view and experience, these concerns are not insurmountable. In some instances, they could be overcome by the strengths that different partners bring to the program and in other instances, such as taxation, Saver Plus has demonstrated that solutions can be found.

4. ANZ'S RESPONSE

ANZ recognises there is a wide range of CDF initiatives that could be pursued. These include savings models, like Saver Plus, lending models to micro-enterprise like those operating in the United Kingdom by Street (UK) (www.street-uk.com) and the United States by Accion USA (www.accionusa.org) and lending to individuals as an alternative to payday lending.

What is clear from the feedback received is that any CDF program must be accompanied by a financial education component and in the case of micro-enterprise, ongoing mentoring. These factors are essential if the program is to create long-term, sustainable outcomes for individuals and micro-business.

ANZ's response to the consultation is two-fold:

1) through our mainstream transaction and savings products; and
2) through the extension and development of programs in partnership with key community organisations that have the expertise to reach those most in need.

ADVOCACY AND DEVELOPING A NATIONAL APPROACH

As previously highlighted, when taken as part of a broader set of policies, CDF programs can be useful as a means of alleviating poverty and financial exclusion.

However, what is clear from the feedback from stakeholders is that a coordinated approach will be needed in the long-term if CDF programs are to have the best chance to achieve their objectives. What is also clear is that government involvement either directly or indirectly will assist in giving CDF programs legitimacy.

In response, ANZ will play a role as an advocate for CDF with government. ANZ will also work with other sectors — community organisations, government and for-profits — to develop a national, coordinated approach to CDF programs. This will involve conducting further research with potential partners into what form a coordinating body should take, for example, a CDFI.

MAINSTREAM TRANSACTIONS AND SAVINGS PRODUCTS

Stakeholders emphasised the need for basic bank accounts which allow people on low incomes to manage their money in a way that suits their needs. ANZ's Community Banking package provides no monthly account service fee and unlimited free ANZ transactions on selected Access accounts (non-ANZ ATM fees apply) for government benefit recipients, people with disabilities, customers aged 60 and over, full-time students and customers aged 18 and under (see Table 6).

Table 6:
Community Banking package

	Eligibility	Which account	Features
A Senior (aged 60 or above)	• Receive a pension or allowance from the Department of Social Security or Veterans' Affairs • Your benefits must be directed into your ANZ account	Access Deeming	No monthly account service fee and Unlimited free ANZ transactions including ANZ Branches, ANZ Phone Banking, ANZ Internet Banking, ANZ ATMs and EFTPOS*
	• Do not have to receive a pension	Access Advantage	
A full-time Student	• You must be attending an Australian institution on a full-time basis • Student ID card required • Annual renewal required	Access Advantage Progress Saver	
Under 18	• Aged under 18 years > Electronic access is restricted for under 18's	Access Advantage Progress Saver	
A person with a disability	• Hold a Pensioner Concession card or Health Care card showing that you receive a disability support pension or mobility allowance	Access Advantage	
A government benefit recipient	• Receive a pension or allowance from the Department of Social Security or Veterans' Affairs • Your income or benefits must be directed into your ANZ account	Access Deeming	
	• Hold a Seniors card, Pensioner card, Commonwealth Government Health Care card or a Repatriation card • Your income or benefits must be directed into your ANZ account	Access Basic	

* Non-ANZ ATM fees apply
Source: ANZ.

The unlimited free transactions allow eligible customers to manage their cash flow as they see fit, be it withdrawing small amounts regularly or large amounts less regularly.

ANZ commissioned an independent audit of its community banking package and savings products. Consumers from disadvantaged segments of the community were asked about their banking needs and the effectiveness of ANZ products was assessed against those needs.

The audit concluded that ANZ's basic banking products meet the large majority of the needs of consumers and compare favourably to other products in the market place. The accounts are easy to understand and manage as they are:

- free to operate (if not overdrawn and if foreign ATMs are avoided);
- include adequate features for managing banking needs such as unlimited branch, EFTPOS, ANZ ATM, telephone and Internet transactions; and
- are targeted at the people who need them.

The report did, however, highlight some issues to be addressed. In particular, the impact that fees such as honour and dishonour fees have on low-income earners, especially in relation to bill payments and the need to raise awareness of the availability of the account. ANZ is considering its response to the issues raised.

Stakeholders also raised the need for savings accounts, which allow customers to set goals such as saving for significant purchases. Significant purchases can include unexpected expenditures such as car repairs and house maintenance or expected expenditures such as insurance, Christmas, children's birthdays or large bills.

Rather than offer a number of different savings accounts for different savings goals (e.g. Christmas club accounts and car savings accounts), ANZ offers the Progress Saver account which allows the customer to nominate a savings goal and a timeline for saving. Goals can include education, Christmas, home renovations and motor vehicle expenses or can be tailored through other major multi-purpose or 'rainy day' expenditures. ANZ also runs campaigns mid-year each year to promote saving for Christmas.

The audit report referred to above highlighted that Progress Saver is equal to the best savings accounts on offer. It has many of the features consumers say they want such as no fees and incentives to make deposits not withdrawals.

COMMUNITY PROGRAMS

FINANCIAL LITERACY PROGRAMS

Stakeholders highlighted that financial literacy education, while not the only contributing factor, is an important factor in assisting the improvement of an individual's financial position and wealth. It is also likely to be important to the success of any CDF program.

These views are consistent with ANZ's approach. Financial education is a key component of the Saver Plus program. The education program, written by the Victorian Schools Innovation Commission, aims to better equip participants with the skills to manage their money for the long term.

ANZ has also developed a facilitator-led adult learning program, MoneyMinded, in conjunction with the Financial Counsellors' Association of NSW Inc. (FCAN), the Australian Financial Counselling and Credit Reform Association (AFCCRA) and the Australian Securities and Investments Commission (ASIC). The United Kingdom experience demonstrates that the majority are not interested in money management, so many people do not 'lock on' to messages or seek out information until they are in crisis. With this in mind, ANZ has sought to aim this program at assisting the most vulnerable members of the community when they most need it.

The Brotherhood of St Laurence is the first community organisation to partner with ANZ to use MoneyMinded in its work with low-income earners in Melbourne. As part of a three-month evaluation, the Brotherhood of St Laurence will deliver MoneyMinded through its existing programs and services for adults throughout Victoria. The Brotherhood of St Laurence will also facilitate training of other local community organisations interested in the MoneyMinded program.

ANZ's aim is to partner with 100 financial counselling and community organisations, which would act as facilitators to deliver MoneyMinded to 100 000 consumers throughout Australia over the next five years.

ANZ understands that educational initiatives aimed at improving financial literacy are not sufficient in themselves. To be properly effective such measures need to be accompanied by action to improve consumer accessibility to financial services, in particular through ensuring products, services and customer communications are easy to understand and use.

ANZ undertook a review of its transaction products in January 2002 when it simplified and streamlined its Access transaction accounts. Customers responded to the simple and more transparent pricing structures of these new accounts and by June 2004, ANZ had opened 125 000 new accounts net of account closures. Account closures were down by around 15% in the same period. ANZ is also engaging in an ongoing process of simplifying its customer communications to ensure they are written in simple language and easy to understand.

ANZ will continue to look for opportunities to ensure products are structured in such a way that they are simple to use and easy to understand and to further improve how information booklets on financial issues and ANZ financial products and services are presented. While progress has been made, more can be done in this area, especially by giving careful attention to the issues and perceptions that influence consumers in relation to individual products. This will remain a priority for ANZ.

SAVINGS PROGRAMS

Stakeholders highlighted the need for programs that assist low-income earners to achieve set savings goals. Saver Plus has been successful in helping to improve the savings habits of low-income earners so they have the ability to save for assets, to cushion the financial impact of unexpected changes and build financial security.

Given this success, ANZ has made a long-term commitment to expand Saver Plus with local partners throughout Australia, assigning a further $1 million. ANZ will establish a new program in Queensland in partnership with The Smith Family in 2004-05 and will pilot Saver Plus with Indigenous communities.

MICRO-CREDIT PROGRAMS

There are a number of different approaches to delivering lending programs and a number of different potential target groups.

Discussions highlighted a need for individuals to be able to access low-interest alternatives to payday lending for essential items, or more particularly, to assist individuals facing ‘temporary hardship’ to pay for unexpected bills or peaks in expenditure. However, many found it difficult to reconcile lending to people on low incomes for smoothing expenditures with concerns about credit being too readily available and leading to over-indebtedness; an issue highlighted in the Senate Community Affairs References Committee inquiry into poverty and hardship as having adverse impacts on low-income earners (SCARC 2004). Assisting individuals to create a long-term savings habit, no matter how small, was considered more likely to help overcome unexpected expenditures and break the poverty cycle.

Individual credit

ANZ will develop a loan program for consumers who may otherwise use payday lenders. ANZ will partners with a community organisation with expertise in this area to deliver the program.

There are a number of possible models that could be examined. One example is the Alternative Products to Payday Lending (APPLE) pilot project being operated by the National Federation of Community Development Credit Unions (the Federation) in the United States (www.cdcu.coop).

The Federation has been awarded a grant of $US350 000 to expand credit union alternatives to high-cost payday loans. The foundations of JPMorgan Chase and Bank One are funding the grant.

In November 2004, JP Morgan Chase & Co and the Federation awarded APPLE grants up to a maximum amount of $US50 000 to six credit unions to help their members protect their assets and avoid the high costs of commercial payday loans.

A total of $US225 000 was awarded, with the aim of establishing a six-site, 12-month pilot program. Awardees are expected to use 50 per cent of APPLE grant funds for loan loss reserves and may use the balance of the grant award (up to a maximum of $US25 000) for financial education and counselling, marketing, data collection and other program expenses.

The Federation will use part of the remaining grant to cover program administration, documentation, reporting and other expenses and $US50 000 to evaluate the pilot program.

The 12-month pilots commence in January 2005.

ANZ will examine the feasibility of this and other models in Australia.

Small business credit for Indigenous communities

Consultation revealed that in a developed economy, CDF schemes which provide finance to micro-enterprise can experience difficulties in attracting participants and reaching a sustainable, long-term critical mass. This is in part due to the ‘well banked’ nature of their host economies and the availability of other employment prospects relative to developing economies.

Given that successful overseas micro-enterprise credit programs tend to have a dual purpose — to provide greater access to finance and to improve employment in impoverished communities — these programs are likely to have the best chance of success in communities of most apparent need, such as the Indigenous community and where the greatest impact potentially may be achieved.

ANZ will develop a program to assist Indigenous communities develop viable businesses, in partnership with community organisations and lenders who work in these communities.

ANZ is investigating a number of options for this, in particular, ANZ has commenced discussions with the Credit Union Services Corporation (Australia) Limited (CUSCAL), to determine the feasibility of establishing a partnership with interested credit unions to develop and deliver such a program.

FURTHER RESEARCH INTO FINANCIAL EXCLUSION

ANZ will commission further research to examine the products or programs which will best suit the needs of those outside the margins. The results of this research will feed into the development of small loans for consumers who may otherwise use payday lenders and microfinance programs to assist Indigenous communities to develop viable businesses.

APPENDIX A: ORGANISATIONS PARTICIPATING IN THE CONSULTATION

ANZ would like to thank the following organisations and individuals for their time and interest in this process:

Australian Centre for Co-operative Research and Development, University of Technology Sydney and Charles Sturt University

Berry Street Victoria

Beyond Shelter – Australia

Brotherhood of St Laurence

Camcare

Care Financial Counselling Service

Centre for Credit and Consumer Law, Griffith University

Chant Link and Associates

Consumer Affairs Victoria

Consumer Credit Legal Centre (NSW) Inc.

Consumer Credit Legal Service

Consumer Law Centre Victoria

Consumers' Federation of Australia

Credit Union Services Corporation (Australia) Limited

Commonwealth Department of Employment and Workplace Relations

Commonwealth Department of Family and Community Services

David Carrington, Member, Social Investment Task Force, United Kingdom

Department of Victorian Communities

Elaine Kempson, Personal Finance Research Centre, University of Bristol, United Kingdom

Financial Counsellors Resource Project of WA Inc.

Financial Services Consumer Policy Centre, University of NSW

Ingrid Burkett, University of Queensland

NSW Department of Fair Trading

Office of the Attorney-General, Victoria

Office of the NSW Minister for Aboriginal Affairs

Office of the NSW Minister for Fair Trading

Office of the Victorian Minister for Community Services

Office of the WA Minister for Consumer and Employment Protection

Opportunity International Australia

Queensland Financial Counsellors Association

Results Australia

Rio Tinto Limited

Senator the Honourable Kay Patterson, Minister for Family and Community Services

Small Business Counselling Service Inc.

Therese Wilson, Faculty of Law, Griffith University

Victorian Council of Social Service

WA No Interest Loans Network Inc.

Western Australian Community Foundation

Women's Health in the North and Kildonan Child and Family Services

APPENDIX B: A REPORT ON FINANCIAL EXCLUSION IN AUSTRALIA PREPARED BY CHANT LINK AND ASSOCIATES: EXECUTIVE SUMMARY

This report aims to present, for the first time, an overview of the current literature, available data and expert opinions on financial exclusion in Australia. The report was commissioned by ANZ as a first step in a research program aimed at measuring and understanding financial exclusion in Australia, so that policies and programs to address it could be better informed.

This summary comprises four parts:

- literature review findings;
- stakeholder views;
- relevant quantitative results from the Roy Morgan Research "Finance Monitor" data collected in the 12 months to March 2004; and
- implications for future quantitative measurement of financial exclusion in Australia.

This is a summary of Volume 1 of a two-volume report. The second volume deals in more detail with the results of analysing quantitative data from the *Finance Monitor* series.

SUMMARY OF LITERATURE REVIEW

FINANCIAL AND SOCIAL EXCLUSION: Financial exclusion is seen in the literature as both a cause and a consequence of social exclusion, although the latter term is sometimes criticised in Australian sources, as it is difficult to separate from poverty.

WHO IS WRITING? The main writers on the subject of financial exclusion have been governments and government authorities, university-based research and policy centres and independent non-profit organisations with a focus on social policy. Publications are predominantly independent reports and not in the peer-reviewed literature. In Australia, unlike other countries such as the UK, there is no strong evidence of a formal network or "clearing house" forum for study and debate on financial exclusion.

DEFINITIONS OF FINANCIAL EXCLUSION: Definitions of financial exclusion in the literature vary from broad definitions (e.g. processes that prevent poor and disadvantaged social groups from gaining access to the financial system), to narrow definitions, defined by absence of ownership of particular types of (sometimes "essential") financial products. Fairness and equity in access for all is an underlying assumption of much of the literature.

RELATIVE AND DYNAMIC IN NATURE: Some of the literature stresses that financial exclusion is a relative concept, in that it is continually to be contrasted with "hyper-inclusion", and should be seen in the context of unprecedented expansion in the use and levels of consumer credit over the past decade. Short-lived financial exclusion (work and life transitions) is contrasted with long-term, even inter-generational exclusion. The literature contains underlying assumptions that financial exclusion is growing in importance as a problem requiring resolution, although there is no empirical data claiming or supporting macro-trends in incidence of financial exclusion[1] in identified published sources, either in Australia or internationally. However, there is a general view in social policy literature that the gap between rich and poor (and between included and excluded) is widening.

ALTERNATIVE TERMS, MEASURES AND CONSTRUCTS: The term "unbanked" is not widely used outside the US. "Vulnerable" consumers has been a term used in Australia and in UK OFT[2] reports. Measures of financial stress and hardship often overlap with or indicate financial exclusion. While UK surveys have explored ownership and usage of bank accounts, and Kempson et al have cited cross-tabulated data on ownership of zero, one and multiple financial products by various demographic variables, there has been no relevant published data in Australia beyond income, labour dynamics and household expenditure patterns[3].

[1] Indeed, the fact that financial exclusion is a relative term, in some ways analogous to "the poverty line", means that its incidence may be definable as constant over time, as the bar or "norm" in society is raised.

[2] Office of Fair Trading.

[3] ABS household expenditure surveys do include deprivation, credit and cash management measures of some relevance to financial exclusion.

DIMENSIONS AND TYPES OF FINANCIAL EXCLUSION: There were two broad themes regarding types of exclusion: various types of physical or geographic exclusion, versus various utility versus cost-based exclusion types. The Kempson (UK) classification has been widely used in the literature, including in Australian sources to date, which attempts to distinguish between various drivers of exclusion: access exclusion, condition exclusion, price exclusion, marketing exclusion, and self exclusion.

The shortcomings of this approach, arguably, include a high degree of overlap between these types of financial exclusion, no attention to perceived value of the financial products and services involved and too little attention to financial illiteracy as a driver of financial exclusion.

UK economists have posited the “exclusion curve” concept, which deploys simple charting of ownership (or non-ownership) of various financial products in the population, against annual income. A steep gradient or discontinuity in such plots indicates “income exclusion” — where the product is either totally/almost totally unaffordable or inappropriate below a certain income threshold.

Gentle gradients on such “exclusion curves”, on the other hand, indicate “price exclusion” is present for increasing parts of the community as income decreases. Later sections of this report apply the exclusion curve concept to Australian data.

UNDERLYING (MACRO) CAUSES OF FINANCIAL EXCLUSION: Much of the literature both here and overseas, largely attributes the phenomenon of financial exclusion to global trends and policies in mainstream financial services and consumer credit markets. Increased reliance on “market forces” and full cost-recovery (as opposed to regulated access/inclusion), the consequent or associated removal of cross subsidies, increasing complexity both of products and of technologies deployed in emerging channels and discretionary targeting by mainstream providers are all seen as hallmarks of these trends, culminating in higher, and in many cases unaffordable, prices of many financial products.

ASSOCIATED CONDITIONS: Financial exclusion is most often linked to low-income, long-term or insecure employment, with a commonly quoted list of other associated “risk factors” (sometimes without empirical evidence) such as disability or long-term illness, renting or public housing, ethnicity (although some international studies have shown that income is the key underlying variable rather than race or ethnicity), lone parents, female gender, and age (although age has been shown to have a variety of effects and associations on various types of exclusion). At the community or geographic area level, high levels of financial exclusion have been shown to be linked with “deprived” areas (e.g. using the UK “deprivation index”).

CONSEQUENCES OF FINANCIAL EXCLUSION: While the literature always assumed there were negative financial and social consequences, there was little data establishing a causal linkage between financial exclusion and financial stress or hardship.

The more tangible outcomes of financial exclusion appearing in the literature included cost and security issues in managing cash flow and payments, compromised standard of living resulting from lack of access to short-term credit, higher costs associated with using non-mainstream credit providers (e.g. payday lenders and pawnbrokers) increased exposure to unethical, predatory and unregulated providers, vulnerability to uninsured risks, and long-term or extended dependence on welfare (as opposed to savings).

Importantly, the educational and behavioural consequences of financial exclusion are not explored in depth in the financial literature, being more commonly covered in studies pertaining to financial literacy.

AUSTRALIAN PERSPECTIVES: While the Australian literature pointed to broadly similar drivers and outcomes of financial exclusion, there was a less consistent thread in the local financial exclusion writing and no evidence of a widely accepted definition or diagnostic. However, there appeared to have been a greater emphasis in Australia than in other countries on bank branch closures, remoteness and IT&T[4] themes in relation to rural and regional areas, including the resulting impact on remotely located Indigenous people. More broadly, the Australian writing on ethnicity and financial exclusion has only focused consistently on one ethnic group — Indigenous Australians — who are widely thought to be associated with financial exclusion, for complex reasons.

[4] Information technology and telecommunications.

SUMMARY OF STAKEHOLDER VIEWS

A series of interviews was conducted with 23 stakeholders from Australian financial regulators, consumer associations, ombudsman and other EDR[5] organisations, legal and social services academics, consumer credit legal and financial counselling services and policy oriented community service providing organisations. A rich understanding of financial exclusion in Australia was generated. A few of the main insights are summarised here.

DEFINING FINANCIAL EXCLUSION: The following Australian definition of financial exclusion emerged from various stakeholder views:

> ***Financial exclusion is the lack of access by certain consumers to appropriate low-cost, fair and safe financial products and services from mainstream providers.***
>
> ***Financial exclusion becomes of more concern in the community when it applies to lower income consumers and/or those in financial hardship.***
>
> ***Financial exclusion is observable at individual, family, or household level, but can also be heavily concentrated in suburbs or regions and sometimes among ethnic minorities in a suburb or region.***
>
> ***Financial exclusion can also apply to individual small businesses, NFPs and other community enterprise organisations.***

Other main findings included:

GRADATIONS: Consistent with this definition, there are gradations of financial exclusion, ranging from people who are included, but use some "harmful" financial products, through others who have very limited access to appropriate products, to a core group, who operate largely or completely outside of formal financial institution frameworks. Consumers can be drawn deeper towards the core and many observers appear to confuse these levels.

TYPE OF FINANCIAL EXCLUSION: The main product-based exclusion types were identified as:

- transaction accounts;
- savings accounts (with interest);
- financial advice (financial counselling and investment advice);
- appropriate credit (affordable fixed-term loans, major credit cards);
- insurance (e.g. home contents or TPP for motor vehicles);
- home equity/mortgage loans;
- superannuation; and
- community enterprise financial support.

EXCLUSION FROM APPROPRIATE CREDIT: Of these exclusion types, exclusion from appropriate credit was seen as a very important issue, comprising three main forms:

- MAJOR CREDIT CARD EXCLUSION (low income or constrained credit record means denial of a card; lack of a card can mean some bill paying options are closed off; belief that high error rates in credit reference agency records reinforces such exclusion).
- CREDIT CARD INCLUSION AND ABUSE (many people who abuse cards, arguably should not possess them, providers target those with high revolving balances with their marketing; "credit limit surfing" is now common and involves financially dangerous behaviour).
- AFFORDABLE FIXED TERM LOANS (exclusion often occurs when only a small amount of credit is needed by low-income, good money managers needing to buy basic assets or provisions at a time of unexpected short-term financial turmoil; belief that banks will not lend less than $4000, marketing credit cards in lieu; key virtues of loans compared to credit cards are seen to be their positive financial behaviour impact).

[5] EDR: external dispute resolution.

EXTENT OF FINANCIAL EXCLUSION: While there were no accurate estimates of the extent of financial exclusion in Australia, it was now apparent in a wide range of income levels of the population, at unknown incidence levels. Particular groups displaying higher than average incidence of financial exclusion included the unemployed and "the working poor", approximately covering the lowest and second lowest quintiles of income respectively.

MAIN DRIVERS OF FINANCIAL EXCLUSION: The main drivers of financial exclusion were thought to be:

- low income (and consequent problems of nil or low savings, and lack of assets, leading to no security for acquiring loans or credit);
- unemployment, discontinuous or casual work history;
- policies and marketing of mainstream financial product and service providers; and
- financial illiteracy and poor financial habits.

Of these, by far the most important driver was thought to be low income.

- There were a number of less important drivers, including psychological and disability related issues, a feeling of being excluded, membership of Indigenous and other ethnic communities, geographic remoteness, lack of time (e.g. the working poor), lack of PC/internet access and the availability of alternative/fringe financial products and suppliers.

POVERTY AND LOW INCOME — CAUSE OR EFFECT OF FINANCIAL EXCLUSION? While low income is seen as strongly associated with exclusion:

- Anecdotal evidence is available for both causal and consequential effect between poverty and most forms of financial exclusion. It is likely that the particular pathway followed by an individual to financial exclusion influences the direction of cause and effect between financial exclusion and financial hardship for that individual or household.
- Irrespective of whether financial exclusion is a cause or effect of poverty or low income, once a person or household is financially excluded, a major outcome is thought to be that movement towards employment and social inclusion and out of financial hardship is severely hindered. This is a key rationale for developing solutions to it.

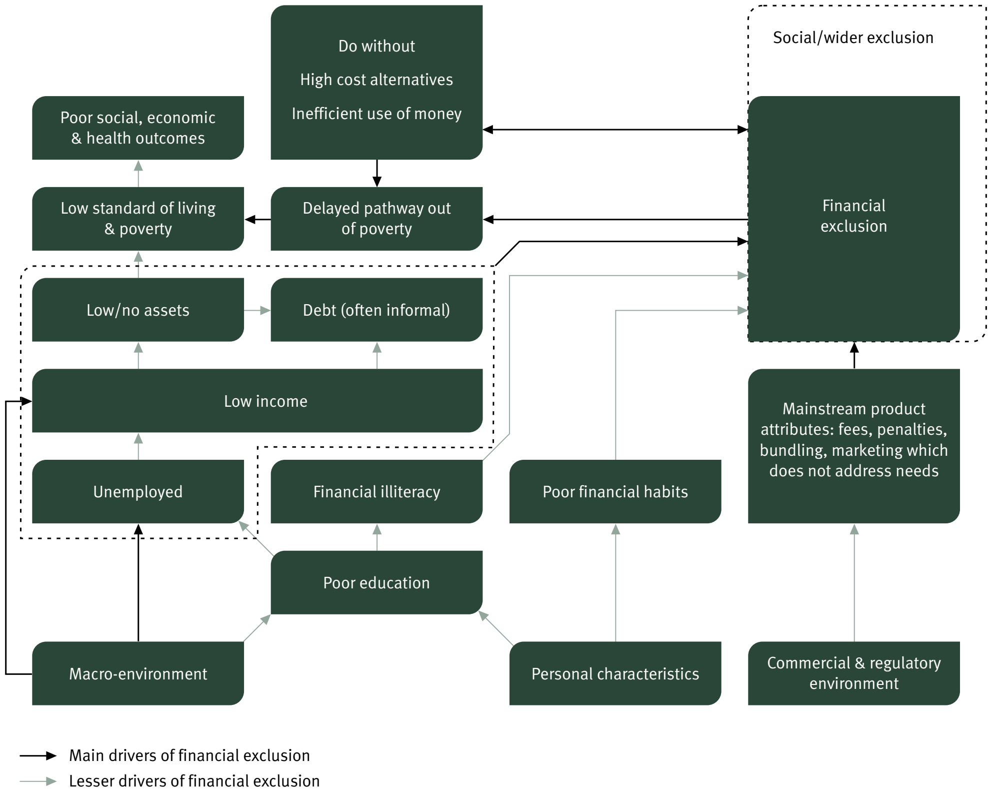
IMPACTS OF FINANCIAL EXCLUSION: The main impact of financial exclusion was thought to be:

- Economic, at various levels — individual, community, among mainstream financial providers and at a national level.

However, other impacts included:

- education, health and social impacts on households;
- safety and security compromised;
- use of inappropriate mainstream products, including knock-on effects (e.g. inability to access a small fixed-amount, fixed-term loan leading to abuse of credit cards, leading to a constrained credit history, resulting in exclusion from a home mortgage);
- exploitation/use of fringe products, amounting to inefficient use of money; and
- as reported earlier, a prolonged state of poverty and financial hardship often results, whether or not financial exclusion was a cause of poverty in the first instance.

A MODEL OF FINANCIAL EXCLUSION: The main drivers and outcomes of financial exclusion in Australia are summarised in the following MODEL OF FINANCIAL EXCLUSION.



The model depicts the primary roles of low-income/financial hardship and the attributes of mainstream financial products in driving exclusion and the main impacts of exclusion, including the inefficient use of money and a delayed pathway out of poverty.

MOST-NEEDED SERVICES: A single round of discussions with stakeholders yielded a hierarchy of the services most needed by those who are financially excluded, listed in declining order from highest importance, as follows:

- small personal (or fixed-amount, fixed term) loans;
- financial counselling (e.g. affordable credit problems);
- fairer/safer credit card;
- savings incentive account;
- (universal) basic transaction account;
- investment advice (e.g. for those with a small superannuation benefit);
- community enterprise financial support;
- home and contents insurance;
- third party property vehicle insurance; and
- home equity deposit/assisted mortgage program.

It was concluded that stakeholders needed to further consider this list, and provide their further and more considered views on the veracity of this hierarchy of needs of the financially excluded in Australia, given the totality of the findings in this report.

SUMMARY OF NON-OWNERSHIP OF FINANCIAL PRODUCTS IN AUSTRALIA

A number of tables and charts were compiled from Roy Morgan Research – *Finance Monitor* data collected from over 50 000 Australian adults in the period April 2003 to March 2004.

NUMBER OF FINANCIAL PRODUCTS OWNED: Analysis of the number (out of fifteen main products types) owned showed that:

- TOTAL "EXCLUSION": Only 0.8 per cent of the Australian adult population owned no financial products.
- MINIMUM ACCESS: six per cent owned only a transaction banking product.
- MEDIAN NUMBER OF PRODUCTS: The median number of financial products owned was six.
- BY AGE: The median number of products owned increased with age from two products at age 18 to 19, to four products by the age of 20 to 24, seven products at 40 to 44, six products at 60 to 64, and five products at age 70 years and over.
- BY SEX: There was little difference between the sexes, although females owned slightly fewer products than males on average.
- BY COUNTRY OF BIRTH: Those born in Australia were less likely to have zero products than, say, those born in Asia. However, this may have been an age and income effect caused by the number of overseas students.
- BY AGED PENSION STATUS: Those with an aged pension did not appear particularly excluded, having a median number of five products, and a similar proportion of them (compared the total population) had at least one product (five per cent versus six per cent of the population).
- BY INCOME (PERSONAL): The median number of products increased rapidly with income, from three products at annual income of $10 000, to seven products at $40 000 per annum, and eight products at annual incomes exceeding $100 000.
- BY EMPLOYMENT STATUS: Those who were employed had a median number of products of seven, versus four for those who were unemployed.
- Only 2.5 per cent of employed people had no products (0.5 per cent) or a transaction product only (two per cent), versus 18 per cent of unemployed people (three per cent of unemployed people lacked any products and 15 per cent had a transaction product only).
- BY REMOTENESS: There were no appreciable differences in number of products owned by remoteness (whether in a large city, inner regional, outer regional, remote or very remote area).
- BY HOUSING TENURE: Those paying off a home were more likely to have a larger number of products (median eight) than those who already owned their home (six products). Those renting (29 per cent of the population) had a median number of products of only three, while those who had other housing arrangements or did not state their housing tenure status, also had a median of only three products.

EXCLUSION CURVES: Using personal income level as the X-axis, exclusion curves were constructed for each of the 15 main financial products. It was clearly demonstrable that in Australia, income appears to influence the incidence of non-ownership for many financial products, most noticeably for:

- deposit accounts;
- direct investments;
- home loans;
- credit cards;
- personal loans;
- building insurance; and
- home contents insurance.

EFFECT OF LEVEL OF SAVINGS AND INVESTMENTS: Just as level of income appeared to be a key driver of lack of ownership of many financial products, the level of savings and investments was shown, at the low end of the scale, to also be a key driver of such lack of ownership. In a relative sense, very low levels of savings (less than $2000) is highly associated with lowest incidence of ownership in the population, of the following product types:

- superannuation;
- deposit/savings accounts;
- transaction accounts;
- major credit cards;
- home loans.

PERSONAL LOANS: While non-ownership of personal loans were not so closely aligned with very low levels of savings and investments, incidence of personal loan ownership, while somewhat affected by income, appeared to be quite low in all income and savings cohorts (nine per cent on average). Despite low income and low savings households not being particularly less likely to own personal loans than their wealthier cohorts, stakeholder interviews pointed to the relatively large impacts that a lack of a personal loan has on low-income households, when in need of such a loan.

FRINGE/ALTERNATIVE PRODUCT USAGE: Little data was available from the *Finance Monitor* for ownership of fringe products. Store/finance cards, however, were measured and the data showed these two forms of credit were owned by only nine per cent of adults. Ownership was highest in two income ranges: $36 000 to $45 000 per annum (at 12 per cent), and $110 000+ income range (at 14 to 16 per cent ownership). Store/finance card ownership was higher among women (11 per cent) than men (seven per cent), among the employed (10 per cent) than the unemployed (seven per cent) and among those paying off a house (13 per cent) compared to those who already own their home (nine per cent) or renting (eight per cent).

HOUSE AND CONTENTS INSURANCE: In the overall population of household decision-makers, 17 per cent of people who owned their own homes lacked building insurance, and 17 per cent lacked contents insurance, indicating a large group of consumers who potentially needed insurance, and who lacked any cover.

Similarly, 12 per cent of those with a mortgage, lacked contents insurance and a massive 66 per cent of those with rental accommodation lacked home contents insurance.

The proportion of non-ownership of home and contents insurance was shown to be much higher than these average incidences in the community, for those with very low income, especially for those with low levels of savings and investments and this effect was particularly exaggerated for those who were in tenancy, rather than owning or buying their own homes. For example, those in tenancy housing (public or private) lacked contents insurance in approximately 50 per cent of cases if savings were over $10 000, rising to 80 per cent for those with less than $2000 saved. Similarly, 28 per cent of home owners with very low savings (under $2000) lacked contents insurance.

APPENDIX C: STAKEHOLDERS PARTICIPATING IN THE CHANT LINK RESEARCH

Both Chant Link and ANZ would like to thank the following people for their participation in the research:

Peter Kell, Chief Executive Officer, Australian Consumers' Association, Marrickville, NSW

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Sarah Edmonson, Assistant Director, Consumer Protection & International, Australian Securities & Investments Commission, Melbourne, Victoria

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Dianne Carmody, General Manager, Banking and Financial Services Ombudsman, Melbourne, Victoria

Elisabeth Wentworth, General Counsel, Banking and Financial Services Ombudsman, Melbourne, Victoria

Khaldoun Hajaj, General Manager, Insurance Brokers Disputes Limited, Melbourne, Victoria

Chris Connelly, Faculty of Law, University of NSW, Sydney, NSW

Dr Ingrid Burkett, Lecturer in Community Development and International Community Development, School of Social Work & Social Policy, University of Queensland, St Lucia, Brisbane, Queensland

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Nicole Rich, Senior Solicitor, Consumer Law Centre, Melbourne, Victoria

Anoushka Bondar, Senior Solicitor, Consumer Law Centre, Melbourne, Victoria

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Sue Martin, Relationship Manager, Saver Plus, Benevolent Society, Campbelltown, NSW

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