



Summary Presentation:
Research on Financial Exclusion in
Australia

November 2004

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Objectives

] Overall Program:

- ? Identify the size and nature of financial exclusion in Australia.
- ? Understand drivers of exclusion, particularly of credit related financial exclusion.
- ? Determine the level of need for microfinance initiatives & identify the groups in the community to whom these should be directed.

] This Preliminary Stage of Research:

- ? Find out what we know already.
- ? Determine if/how additional primary research should be conducted.
- ? Define financial exclusion in the Australian context.
- ? Identify the various forms of financial exclusion.
- ? Identify the most likely drivers and impacts of financial exclusion.

Methodology

-] **Review of Literature:** 26 core references and 60 other useful references.
-] **Stakeholder Interviews:** 23 stakeholders in Melbourne, Sydney and Brisbane.
-] **Analysis of “Finance Monitor” Data:** from over 55,000 individuals collected by Roy Morgan Research in the past year.
-] **Development of an Approach for Further Quantitative Research:** by analysing all of the data from the above steps and thinking through the issues.

Findings From Literature Review

Literature Search: Scope

-] **Key starting points:** Kempson (UK), Connolly & Hajaj (Aust).
-] **Focused on** “financial exclusion” (i.e. not specifically extended to CDF).
-] **Academic databases:** social sciences, marketing, consumer behaviour, finance, etc.
 - ? Starting terms: “financial exclusion”, “social exclusion”, “unbanked”.
-] **Web searches**, library catalogue searches, Government websites: Australia, UK, US.
-] **Publications:**
 - ? Specific search for publications re indigenous Australians.
 - ? Publications provided or identified by stakeholders.
-] **“Snowballing”** from all of the above sources.
-] **Results:**
 - ? 26 main sources and approximately, 60 found useful, over 100 papers accessed & analysed.
 - ? Main sources of writing on the topic were found to be stakeholders, such as government authorities, university based research & policy centres, and NFPs (eg Good Shepherd, Smith Family), rather than “independent” publishing sources.

The Context: Social Exclusion

-] **Origins:** “Social exclusion” seen as a concept that is European in origin, part of a “common currency” of social policy research and debate, also prominent in political agendas.
 - ? Being shut out of **social, economic, political** and **cultural** systems that determine social integration of an individual.
-] **Social exclusion & poverty:** Difficult to separate from “poverty”; some criticism of the term “social exclusion” in Australia.
-] **Social and financial exclusion:** Financial exclusion seen, variously and sometimes simultaneously, as both a cause and a consequence of social exclusion.
 - ? “Financial exclusion is one of the key aspects of the social exclusion of low income groups in Australian society” (McDonnell 2003).

Definitions of Financial Exclusion

-] **Broad definition:** Acknowledgment of complex interaction between financial and social exclusion and disadvantage: “Processes that prevent poor and disadvantaged social groups from gaining access to the financial system” (Leyshon & Thrift 1995).
-] **Narrow definition:** Defined by absence of ownership of, or access to, particular types of financial services or **products**, including forms of credit.
-] **“Essential” financial services/products:** generally regarded to include:
 - ? **Money transmission:** Basic transaction accounts; also seen as a service “gateway”.
 - ? **Insurance:** Home contents +/- building (home owners or buying).
 - ? Short-term consumer **credit**.
 - ? Long-term **savings** +/- retirement savings / superannuation / pension.
-] **Fairness & equity:** Underlying assumption (or ideal) of fair and equitable access.

Definition of Financial Exclusion

] **Focus of definitions:**

- ? **Households:** A common focus of definitions (basis for much socioeconomic data).
- ? **Individuals:** Also a common focus of much literature.
- ? **Communities:** Less common focus for “financial exclusion” literature; more commonly considered in the context of CDF (ethnic or regional communities).
- ? **Businesses** (including sole traders): Much less commonly a focus of literature on financial exclusion; more commonly a focus of literature on CDF.

] **Financial exclusion is relative:**

- ? Must be contrasted with “hyper-inclusion” (Kempson 2000).
- ? Unprecedented expansion in credit provision and use of credit by consumers over the past two decade (Wilson 2000).

] **Financial exclusion can be dynamic:**

- ? May be short-lived through work and life transitions.
- ? May be long-term and even inter-generational.

Types or Dimensions of Financial Exclusion

] **Two broad themes:**

- ? Geographical / physical exclusion (various types).
- ? Utility / cost / appropriateness exclusion.

] **Kempson classification** (UK) widely referred to, including in Australia:

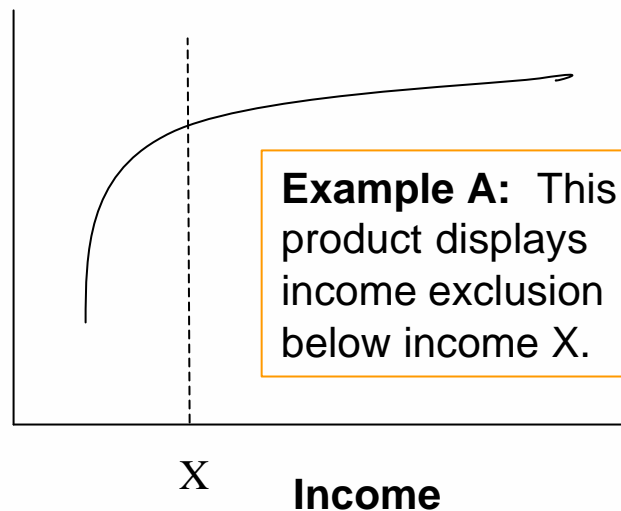
- ? Access exclusion: restriction through risk assessment.
- ? Condition exclusion: inappropriate conditions attached.
- ? Price exclusion: access only at unaffordable prices.
- ? Marketing exclusion: products not offered through segmentation and targeting by financial service providers.
- ? Self exclusion: beliefs or perceptions regarding the likelihood of refusal.
- ? Shortcomings:
 - Exclusion categories are not mutually exclusive.
 - No attention to perceived value.
 - Literacy receives little attention.

Types or Dimensions of Financial Exclusion

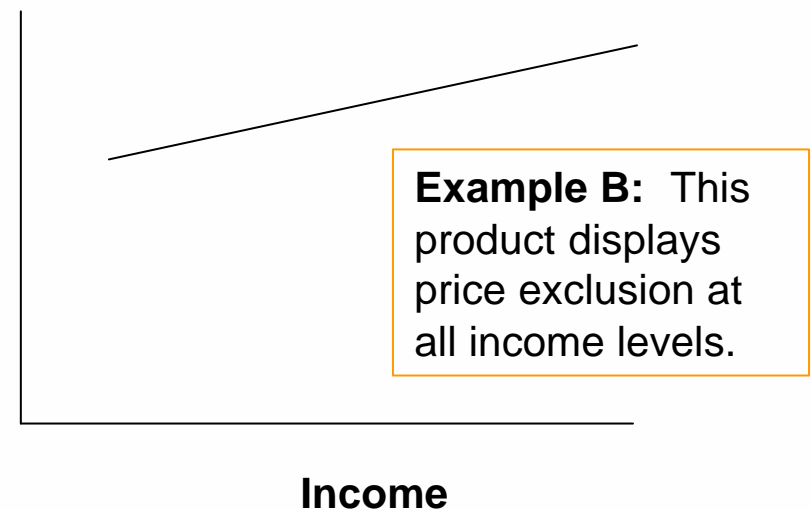
] Economic typology (**exclusion curve concept**) (UK OFT):

- ? **Income exclusion:** Insufficient income acts as a barrier, indicated by a steep rise in the “exclusion curve”. (Example A).
- ? **Price exclusion:** Market price is above individual’s **willingness to pay**, indicated by a flatter exclusion curve. (Example B).

% Ownership



% Ownership



Underlying (Macro) Causes of Financial Exclusion

-] **Global trends and policies in mainstream financial services** and consumer credit markets noted by almost all authors, such as:
 - ? Increased reliance on “market forces”.
 - ? Growing “user pays” mentality.
 - ? Removal of cross-subsidies.
 - ? Trend to full cost recovery for many products.
-] **New technologies** improving access of “average” consumers to more sophisticated financial products.
-] **Discretionary and strategic targeting**, product design and pricing by financial service providers, assumed to be intended to alter overall customer composition and behaviour
-] **Result has been higher prices:** Result is that basic banking, consumer credit and insurance products have become more expensive/too expensive for some on lower incomes.

Individual Associations With Financial Exclusion

-] **Low income:** Overwhelmingly linked to low income and long-term unemployment or insecure employment.
-] **Risk factors:** Tendency for a similar list of “risk factors” or individual associations to be reproduced in literature, sometimes without empirical evidence:
 - ? Unemployed.
 - ? Disability or long-term illness.
 - ? Low income tenancy, especially use of public housing.
 - ? Ethnicity: Language and cultural factors important, but complex.
 - ? Lone parents.
 - ? Female gender: Often inferred, especially with life changes.
 - ? Age: Complex relationship.
-] **Deprivation:** Linked to “deprived” geographic areas (UK Deprivation Index).
-] **Financial literacy** often mentioned but not explored in depth in the financial exclusion literature.

Consequences of Financial Exclusion

-] **Assumed negative:** Widely believed to have negative financial and social consequences, but few data re direct relationship to financial stress and hardship.
-] **Banking facilities:** Costs and security issues in managing cash flow and payments; lack of access to short-term credit.
-] **Credit:** Use of non-mainstream credit providers, such as “payday lenders” and pawnbrokers, with higher prices and increased exposure to unethical and “predatory” practices; inability to use leverage for business development.
-] **Insurance:** Vulnerability to a wide range of risks, with inability to replace assets or to supplement income.
-] **Savings:** Short-term cash flow “smoothing” and long-term dependence on social welfare.
-] **Educational and behavioural consequences** of exclusion:
 - ? Not explored in depth in financial exclusion literature; more commonly linked to financial literacy (Hilgert 2003).

Measurement, Empirical Evidence, Trends

-] **Measuring financial exclusion:** No clear universal agreement about product-based criteria “diagnostic” of financial exclusion.
 - ? Lack of a basic “transaction” bank account was a key focus in UK and US literature, but not felt to be a meaningful measure in Australia.
-] **UK surveys:**
 - ? Office of Fair Trading survey (3000+ households) 1999 explores ownership and usage of banking accounts, producing “exclusion curves”.
 - ? Kempson et al cite cross-tab data on a variety of demographic markers.
-] **Growing importance:** Underlying assumption that the importance of the problem of financial exclusion is growing.
-] **No clear data on incidence/prevalence:** However, no strong or clear empirical data regarding macro trends in prevalence of financial exclusion in any published sources.
-] **Wealth gap widening:** General view in the “social policy” literature that gap between rich and poor, between included and excluded, is widening.

Australian Perspectives

-] **No definition or diagnostics:** No evidence in the literature of a widely accepted definition or “diagnostic” of financial exclusion in the Australian context; less consistent “thread” of financial exclusion literature.
-] **Similarities with overseas literature:** Similar themes to overseas literature are explored; however, most papers and reports focus on specific aspects of financial exclusion or deal with it in the broader context of poverty or disadvantage.
-] **Australian geography & branch closures:** Branch closures, remoteness and IT&T are recurring themes in relation to rural and regional Australia, including among remotely located indigenous Australians.
-] **Indigenous Australians:** Unlike in other countries, indigenous people are the only ethnic group in Australia, consistently associated with financial exclusion, irrespective of their location.
-] **Quantitative data:** No published Australian data directly “on point”:
 - ? HILDA (Household income & labour dynamics).
 - ? ABS Household Expenditure Survey includes deprivation, credit-raising and cash management measures.

Stakeholder Views

Stakeholder Sample

] **Interviews:** 23 stakeholders (in 20 interviews) in Melbourne, Sydney and Brisbane, including:

- ? Australian Consumers' Association (2)
- ? Australian Securities & Investments Commission (4)
- ? Banking and Financial Services Ombudsman (3)
- ? Insurance Brokers Disputes Limited (1)
- ? Academic researchers (4)
- ? Consumer Law Centre, Melbourne (2)
- ? Australian Financial Counselling and Credit Reform Association (1)
- ? Consumer Credit Legal Service, Melbourne (1)
- ? Not for Profit agencies in 3 cities (5)

Importance of Defining Financial Exclusion

] **Financial exclusion is a key area requiring study and attention:**

- ? Large & growing number of affected consumers.
- ? Negative effects & outcomes of financial exclusion.
- ? The increasing complexity of the financial system seen as creating higher barriers to inclusion for some consumers.
- ? Increasing gap between rich & poor.

] **No accepted definition**, but one needed.

] Stakeholders observe the following **characteristics of financial exclusion:**

- ? **True exclusion:** many people were unable to access certain mainstream products (eg don't meet income/risk criteria, pink lining, disabled).
- ? **Cost exclusion:** many products are simply unaffordable to some people.
- ? **Unfair products:** eg high interest second tier credit - the only available credit to some, too few free transactions in bank accounts.
- ? **Unsafe products:** eg marketing of credit cards where a small personal loan would be safer.

.....An Australian Definition

Financial exclusion is a lack of access by certain consumers to appropriate low cost, fair and safe financial products and services from mainstream providers.

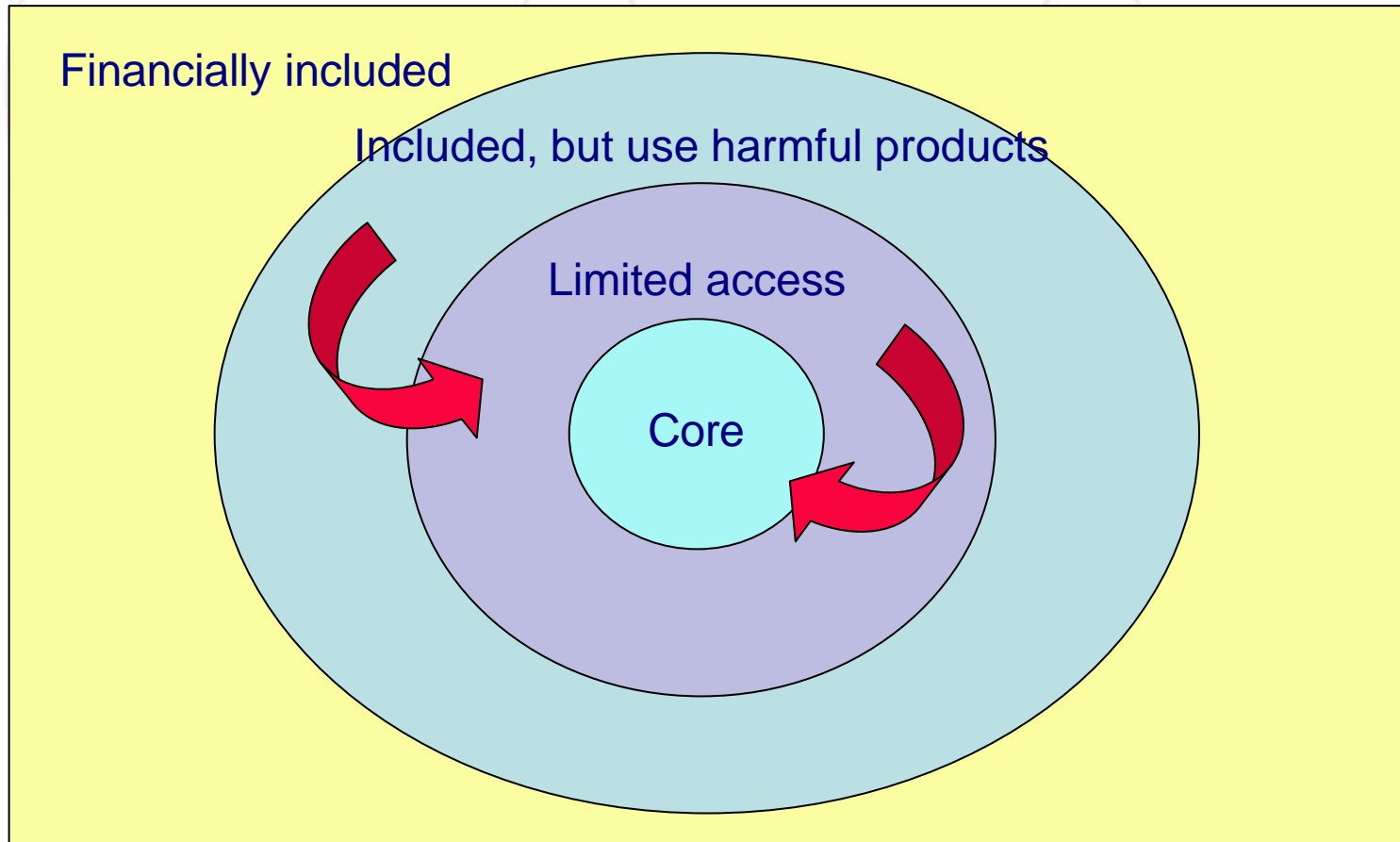
FURTHER:

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.

Gradations of Financial Exclusion



-] Consumers can be drawn deeper into exclusion.
-] Many observers confuse these levels.

Types of Financial Exclusion

-] Stakeholders spoke about the **types of financial exclusion** in various ways:
 - ? By its main **drivers**.
 - ? By the main **segments** affected by it.
 - ? By the various **products** most often “denied” or otherwise inaccessible to people. This was the most useful typology for this exercise.
-] **Main product exclusion types** were identified as:
 - ? Transaction accounts.
 - ? Savings accounts.
 - ? Financial advice (financial counselling & investment advice).
 - ? Appropriate credit (affordable fixed term loans, major credit cards).
 - ? Insurance (eg home contents and TPP vehicle insurance).
 - ? Home equity/mortgage loans.
 - ? Superannuation.
 - ? Community enterprise financial support.

Types of Financial Exclusion

] **Transaction accounts:**

- ? Some consumers in Australia still lack an account. (eg. Can't establish 100 points of ID, inability to find the right no/low cost account.) Centrelink unofficially provides alternative payment methods for them.
- ? Unaffordability/can't use. (eg. Basic accounts still cost money for transactions and account balance inquiries, CBA only offers basic account via Ezybanking.)
- ? Lack of universal basic banking account (ABA's authorisation application denied).

] **Savings accounts:**

- ? Low income consumers need an incentive to save.
- ? Many such people lack an interest bearing savings account, some because they lack a bank relationship, others because they are unaware of reward/other saver accounts.
- ? Some save by informal means (teapot, family savings/loan plans, sporting clubs).

Types of Financial Exclusion

] **Financial counselling:**

- ? Typical agencies are facing increasing demand.
- ? Many consumers do not seek/receive financial counselling at all, even when needed.
- ? Consumers using such services like the polite and considered treatment they receive there.

] **Investment advice:**

- ? Stakeholders have observed those with <\$50,000 in super are not receiving financial planning advice when they need it.
- ? Often results in them receiving bad advice/purchasing a single product.
- ? Choice of fund will exacerbate this form of exclusion.

] **Appropriate credit – the most important financial exclusion issue in Australia:**

- ? Major credit card exclusion.
- ? Credit card inclusion & abuse.
- ? Affordable fixed term loans.

Exclusion from Appropriate Credit

1. Major credit card exclusion: (no credit card, cannot pay some bills)

-] Low income and constrained credit history often meant denial of a credit card.
-] Belief that one third of credit reference agency records contain errors.

2. Credit card inclusion & abuse:

-] Abuse of credit cards represents more of an “inclusion” problem.
-] Credit card marketing practices seem to target high revolving balances.
-] “Credit limit surfing” is now an established & dangerous pattern.

3. Affordable fixed term loans:

-] Exclusion often occurs where only a small amount of credit was needed (<\$3K).
-] Low income people often good money managers, needing credit for basic items.
-] Major banks will not loan less than \$4,000 nowadays.
-] Banks market credit cards where a personal loan would better suit the need.
-] Results in higher costs, greater spending, or lower standard of living than necessary (doing without).
-] Key virtues of loans (as opposed to credit cards) are their behavioural impacts.

More Types of Financial Exclusion

-] **Insurance exclusion:** Seen as increasingly unaffordable for many. Where low premiums are offered, high excesses still place low income consumers at significant risk.
 - ? **Home & contents:**
 - Widespread exclusion & under-insurance (property & especially contents).
 - Beliefs that pink-lining is occurring in Australia, and possibly red-lining.
 - ? **Third party property (vehicle):** most frequent issue presented by young males to financial counsellors.
 - ? **Other insurance:** income protection, consumer credit and unemployment insurance were seen as “out of range” or bad value for money by stakeholders.
-] **Home equity/mortgage loan:**
 - ? Belief that home equity is now beyond the grasp of many Australians.
 - ? Views were polarised about whether this is a legitimate financial exclusion issue.
-] **Superannuation:** women, older generation & long term unemployed.
-] **Community enterprises:** NFP commercial activities lack access to loans and financial expertise. Addressing this issue may provide leveraged assistance to FE individuals.

Temporary/Permanent Exclusion

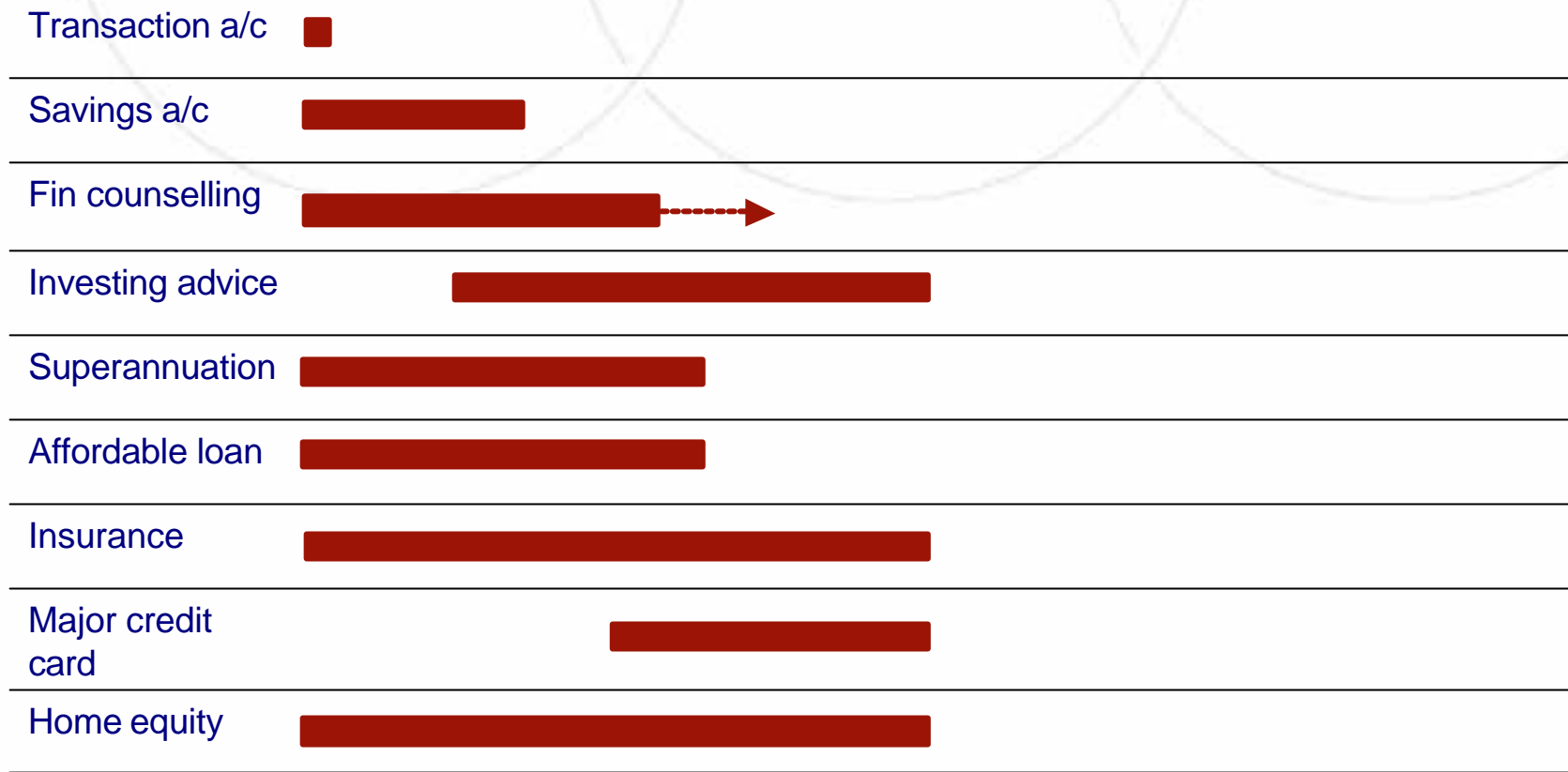
-] **Temporary (acute) financial exclusion:** occurs when a state of low income is temporary:
 - ? Illness.
 - ? Family break-up/recently separated women with young children.
 - ? Temporary visa holders.
 - ? Recent low income immigrants.
-] **Permanent (chronic) financial exclusion:** occurs due to:
 - ? Financial illiteracy.
 - ? Learned dysfunctional credit or savings behaviour.
 - ? Long term unemployment.
 - ? Intergenerational exclusion.
-] **Intervention effects:** if early enough, intervention can break the spiralling movement towards core or long term financial exclusion (and hardship).
-] **Temporary financial hardship:** Financial exclusion, where present, has a delaying effect on those attempting to pull out of financial hardship – seen as a key negative impact of financial exclusion – at both the household and national economy levels.

Who Are Financially Excluded?

-] **Segments** were known to exhibit higher than average financial exclusion:
 - ? **Indigenous people.**
 - ? **Certain other ethnic groups.**
 - ? **Disabled people.**
 - ? **Those in poverty/on low incomes.**
 - ? **Those on social security benefits.**
 - ? **Sole parents, especially single mothers if not working.**
 - ? **Early school leavers.**
-] However, whilst this may be a convenient starting point to quantify financial exclusion, since these segments have known sizes, stakeholders could not necessarily:
 - ? Provide proportions of these segments suffering/affected by financial exclusion.
 - ? Be sure about causation or association between membership of these groups and being financially excluded.
-] A common factor (and maybe a driver in many instances) was **low income/assets** – often reflected in low savings (eg less than \$2,000 was often cited as an indicator of hardship and exclusion).

Who Are Financially Excluded?

Exclusion Type	Unemployed	Working poor	Mid income	Double income	Affluent
	1 st quintile	2 nd quintile	3 rd quintile	4 th quintile	5 th quintile



Main Drivers of Financial Exclusion

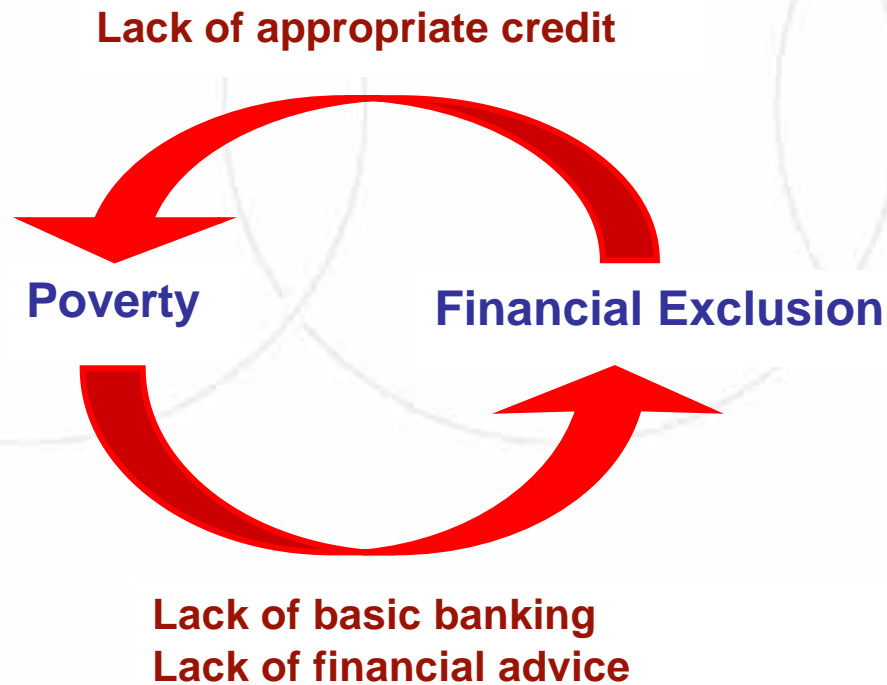
In declining order of importance:

-] **Low income** and the consequent problems of:
 - ? **Nil or low savings** that would insulate a low income household from financial shocks
 - ? **Lack of assets** and of security for acquiring a normal (low cost) loan.
-] **Unemployment**, discontinuous and **casual work history** (which leads to low income, and poor qualification for credit) .
-] **Product and promotion policies of mainstream providers**, which have resulted in either lack of access or use of inappropriate products by people on a low income (product withdrawal, fee increases, bundling, inappropriate products marketing, branch closures & in the case of credit products - risk management policies).
-] **Financial illiteracy** and lack of understanding of products owned, or products available.
-] **Poor financial habits.**

Other Drivers of Financial Exclusion

-] Less frequently mentioned, but also seen as important drivers were the following, although some/most were seen as consequences of/associated with the main drivers mentioned above:
 - ? **Psychological, and disability** related issues.
 - ? **Feeling of being excluded.**
-] Other (possibly less important) drivers:
 - ? **Membership of indigenous and other ethnic communities** (sometimes involving cultural and language related issues).
 - ? **Geographic remoteness.**
 - ? **Lack of time** (eg the working poor).
 - ? **Lack of PC/internet access.**
 - ? **Availability of alternative products** and suppliers.
 - ? **Youth.**

Poverty/Low Income: Cause or Effect?



-] Lack of “good” credit may often be a cause of poverty/delay move out of financial hardship.
-] Lack of basic banking or financial advice may often be the result of poverty, rather than vice versa.
-] Anecdotal evidence is available for both cause & effect between poverty and most forms of financial exclusion.

Main Impacts of Financial Exclusion

] **Economic impacts:**

- ? **Individual and household level:** lowers standard of living, delays process of rising above hardship & social exclusion.
- ? **Community level:** failure to foster community enterprises in Australia may have significant economic effects there.
- ? **Mainstream service providers:** lost business opportunities are significant at all levels.
- ? **National level:** adverse impact on the economy.

] **Education, health and social** impacts on households.

] **Safety & security.**

] **Use of inappropriate mainstream products**, including “knock-on” effects.

] **Exploitation/use of fringe products:** loan sharks, payday lenders, cheque encashment services, debt consolidation, store debt, second tier card credit, “low doc” loans, high cost car loans/high cost cars, “wrap” loans – high cost home loans/high cost low end homes, solicitors’ “interest only” loans.

Other Impacts of Financial Exclusion

] **Use of Community Based Financial Services:**

? **Major NFP initiatives:**

- NIS loans and Step Up loans.
- SaverPlus savings incentives.

? **Informal grassroots programs** (eg savings schemes at sporting and social clubs).

] **Reactions to such schemes:**

? **Seen as very beneficial** according to most stakeholders.

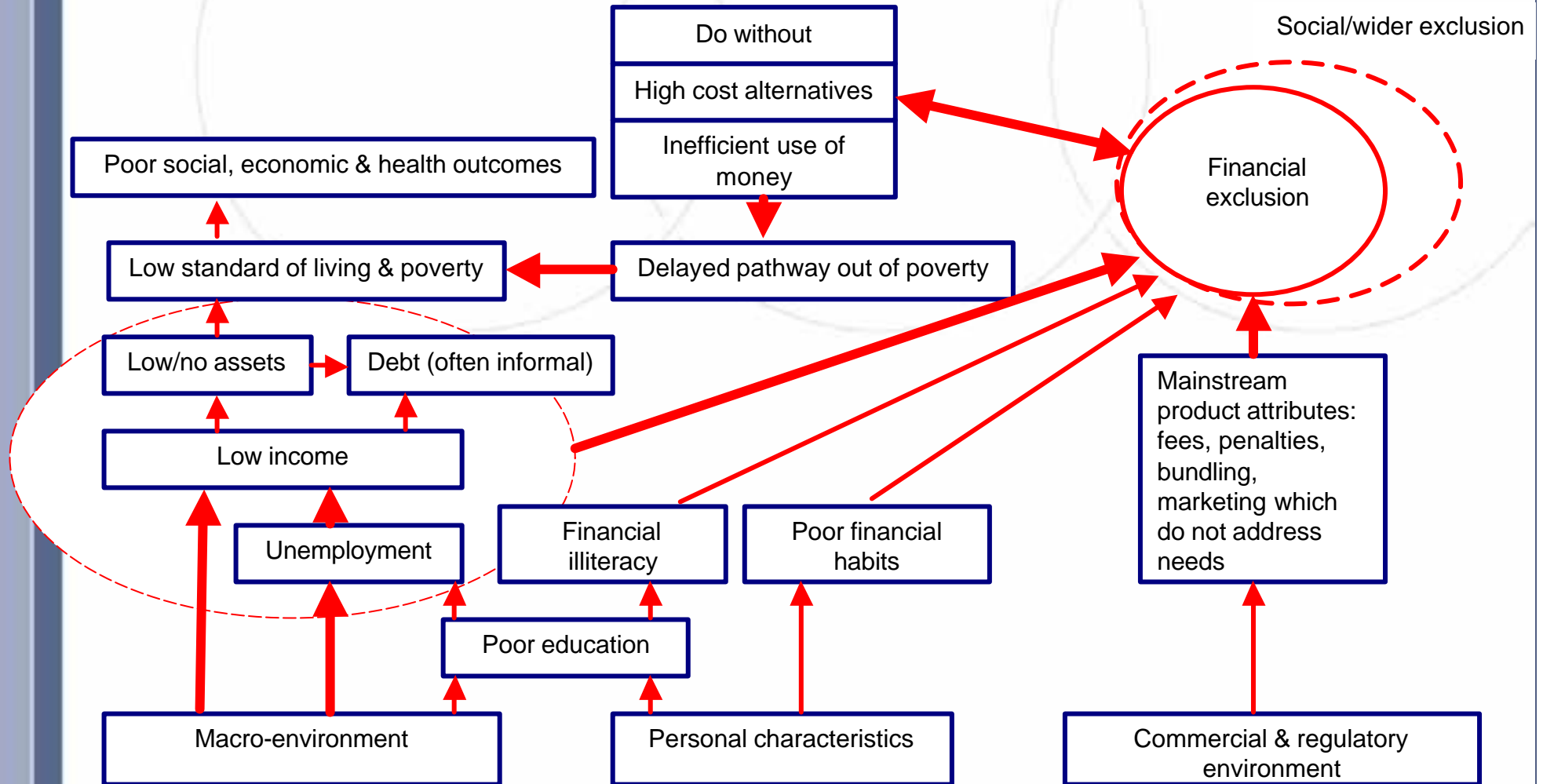
? **Key advantages:**

- Access: many financially excluded people avoid main channels.
- The support and counselling that comes with such services – facilitating behaviour change.

? **A few reservations:**

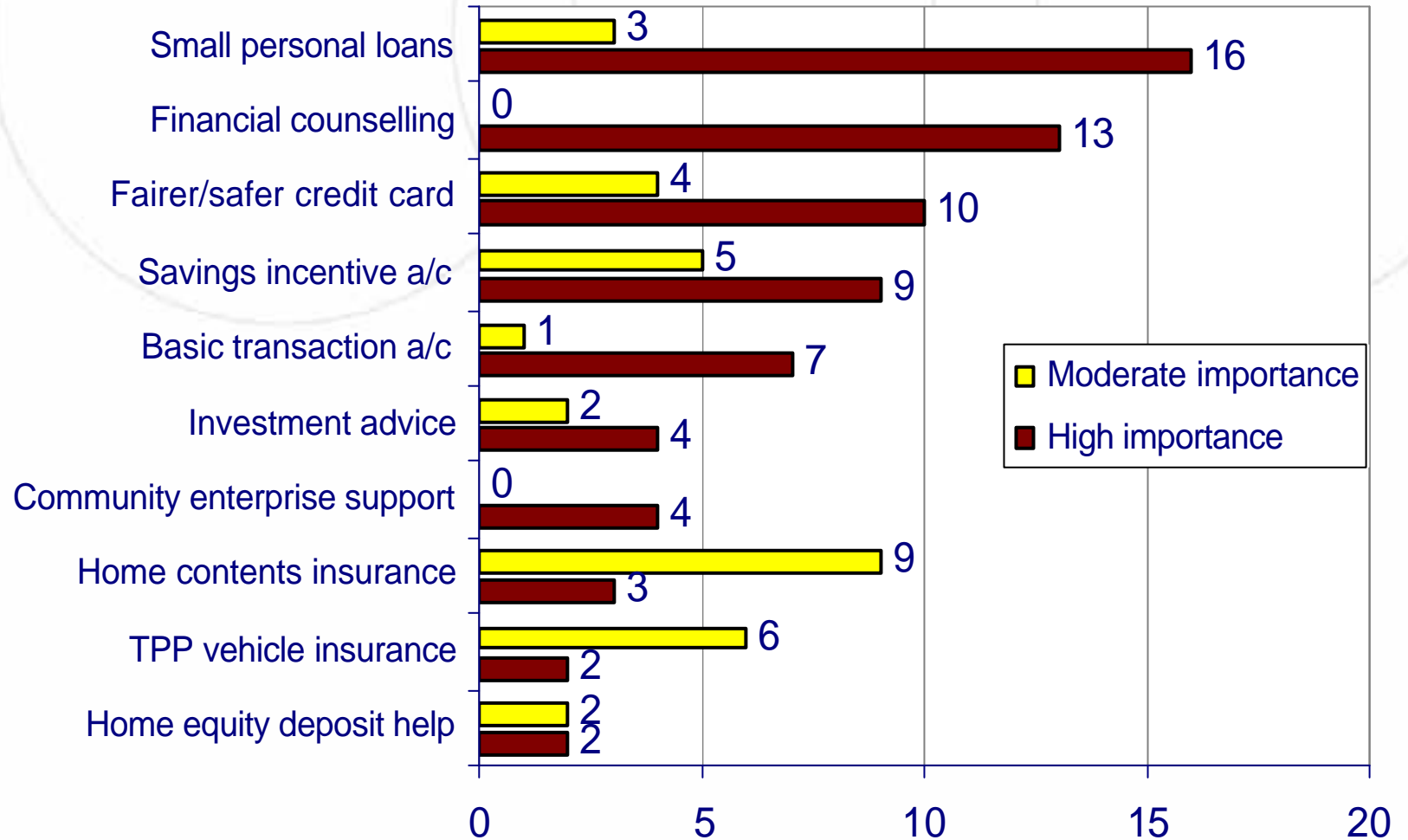
- Need to be balanced by providing **more mainstream focus** to encourage inclusion (which ultimately gives access to a wider range of services).
- NFP initiatives, despite mainstream support, **still lacked sufficient capital.**

A Model of Financial Exclusion



Most Needed Services

] Number of “high importance” and “medium importance: mentions from 20 interviews:



Findings From Analysis of “Financial Monitor” Data

Main Findings

-] **Total “exclusion”:** Only 0.8% of the Australian adult population (and 0.7% of decision makers in the home) owned no financial products (compared with 7% in the UK).
-] **Minimum access:** 6% owned only a transaction product.
-] **Median number of products:**
 - ? **The median number** of financial products owned in Australia was six.
 - ? **By age:** The median number of products owned increased with age from 1 product at age 14-15, to 4 products by the age of 20 to 24, 7 products at 40-44, 6 products at 60 to 64, and 5 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.
 - ? **By 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 (5% versus 6% of the population).

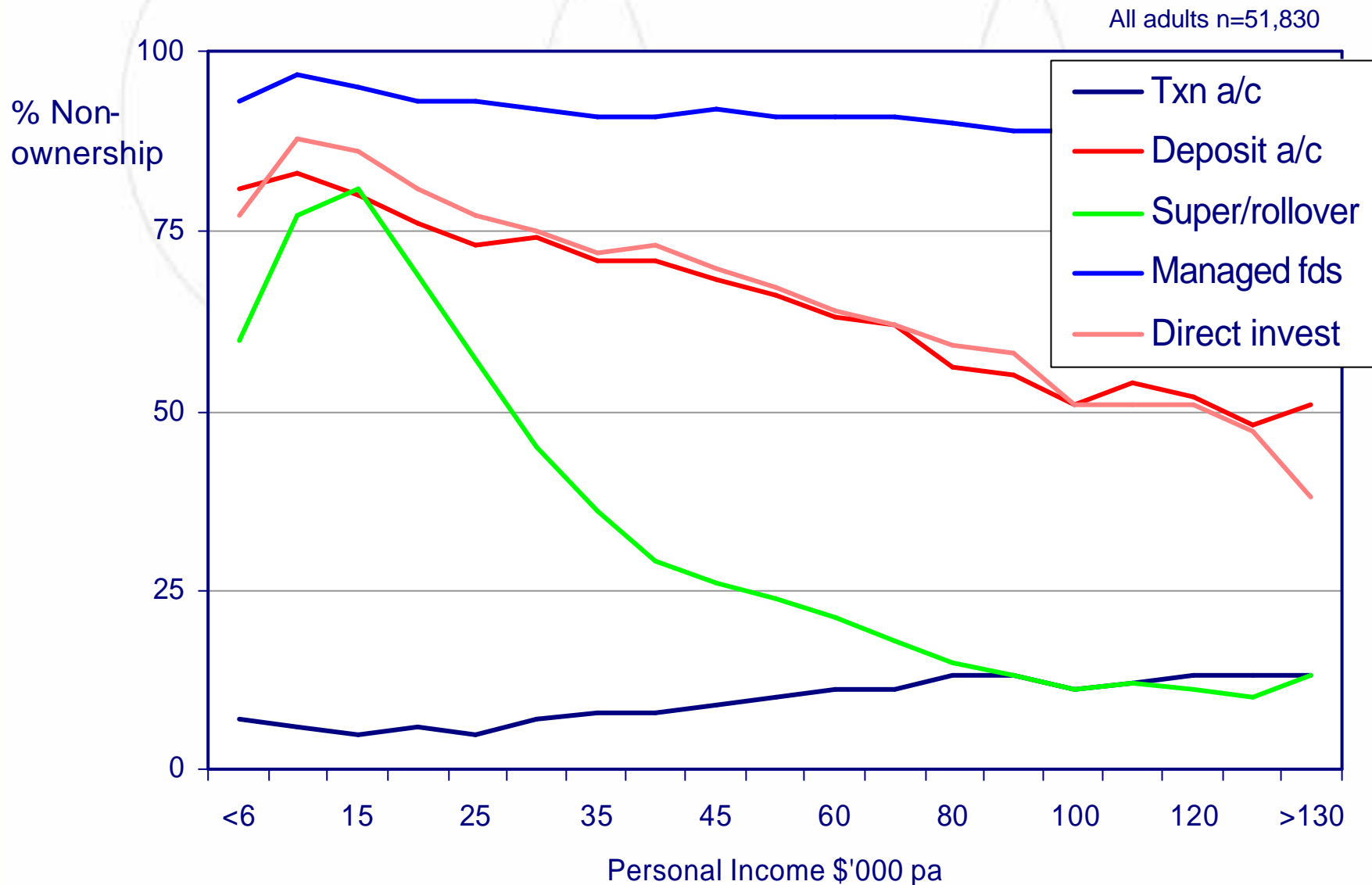
Main Findings

- ? **By income (personal):** A large effect: 3 products at annual income of \$10,000, to 8 products at annual incomes exceeding \$100,000.
- ? **By employment status:** A large effect. eg Only 2.5% of employed people had no products versus 18% of unemployed people.
- ? **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).
- ? **By housing tenure:** Those paying off a home were more likely to have a larger number of products (median 8) than those who already owned their home (6 products) or those renting (median 3 products).

Specific Product Ownership/Exclusion

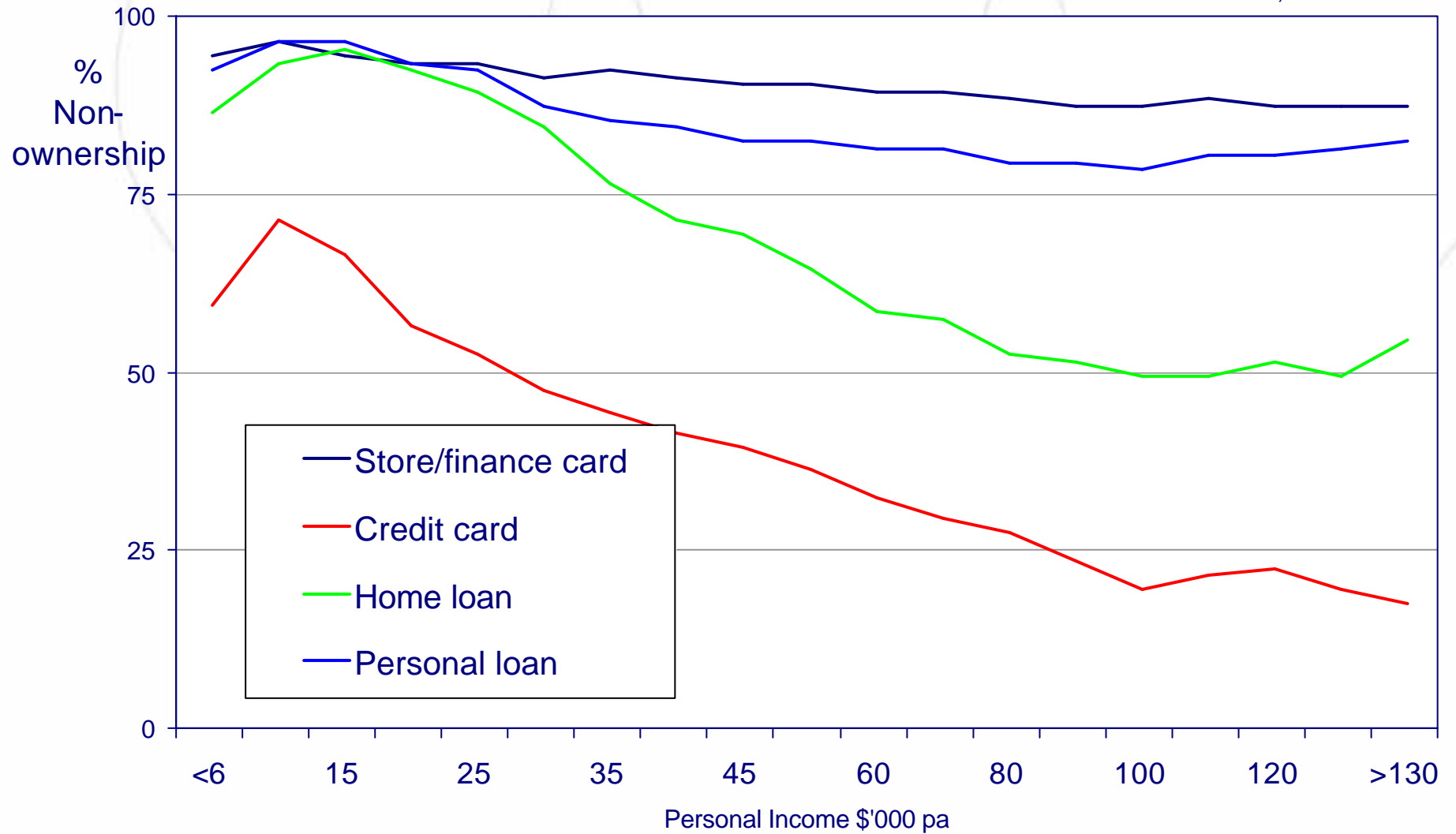
-] **Income:** There were some major effects on specific product ownership with variations in income.
-] **Level of savings and investments:** Also had a major effect, especially at the low end of savings & investments (under \$10,000).
-] **Home ownership** (or buying) versus renting: Also had a big effect in some product classes (especially insurance).
-] **The Charts:** Some of these effects are shown in the following charts

Exclusion Curves – Txn/Savings



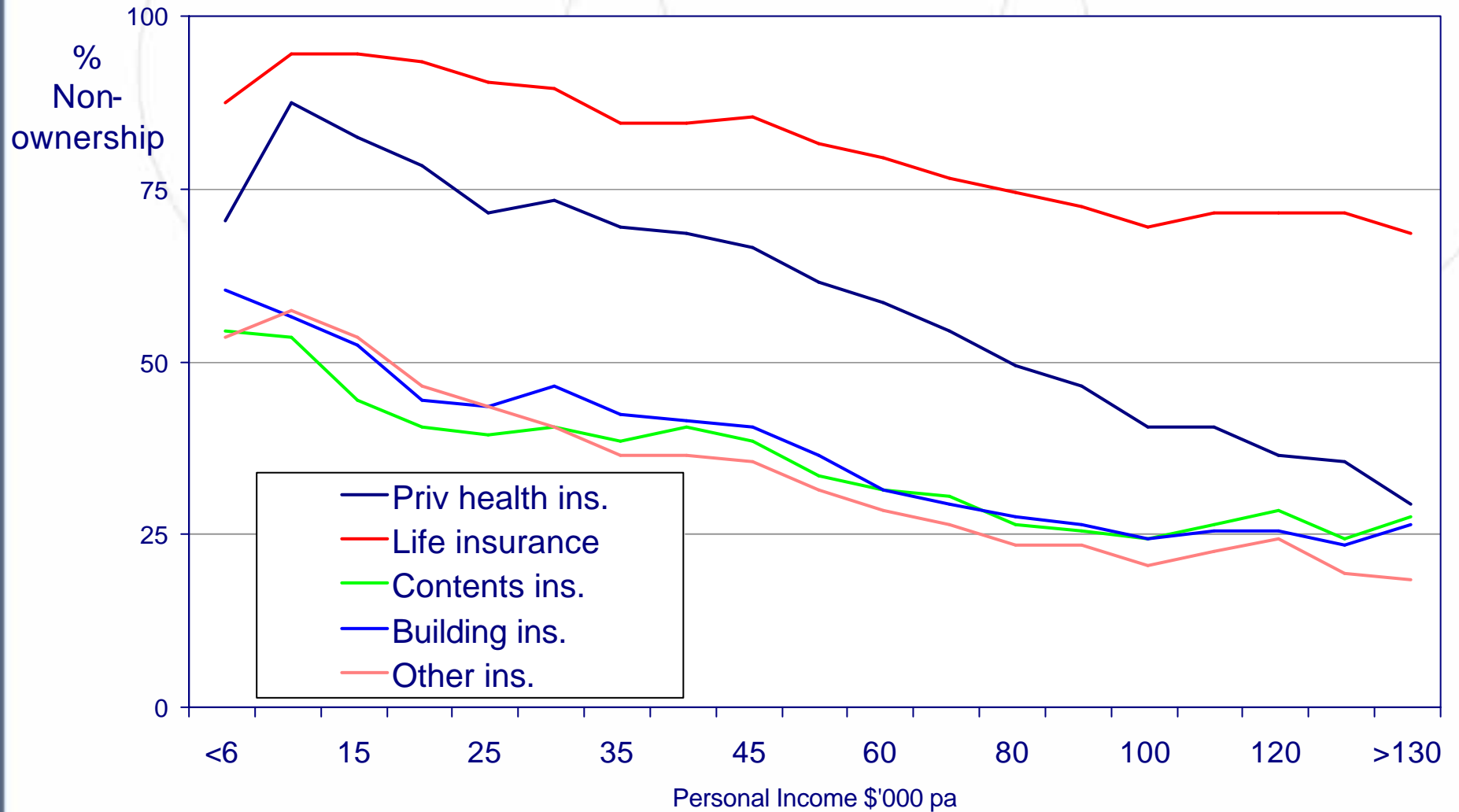
Exclusion Curves – Credit/Loans

All adults n=51,830



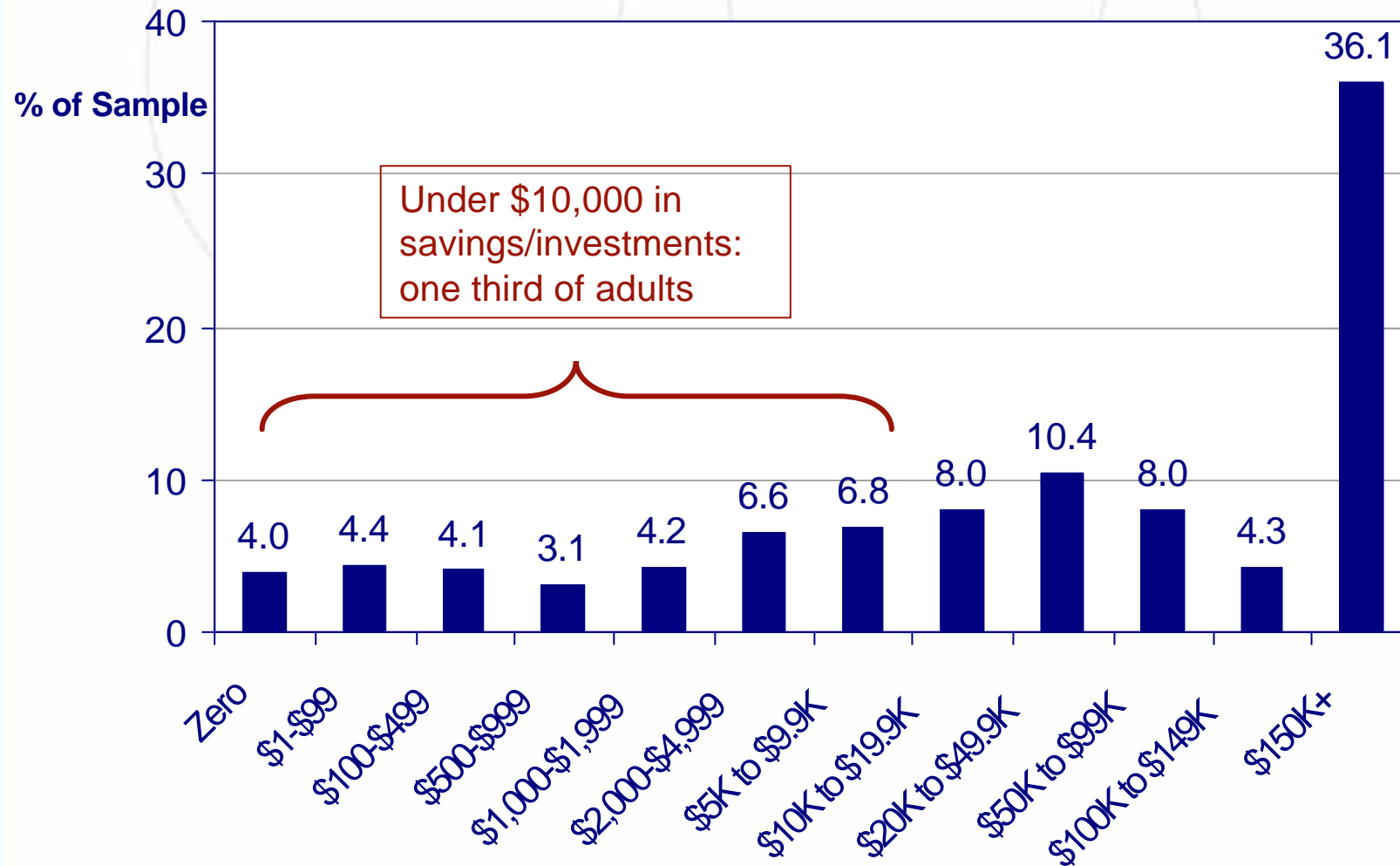
Exclusion Curves – Insurance

All adults n=51,830



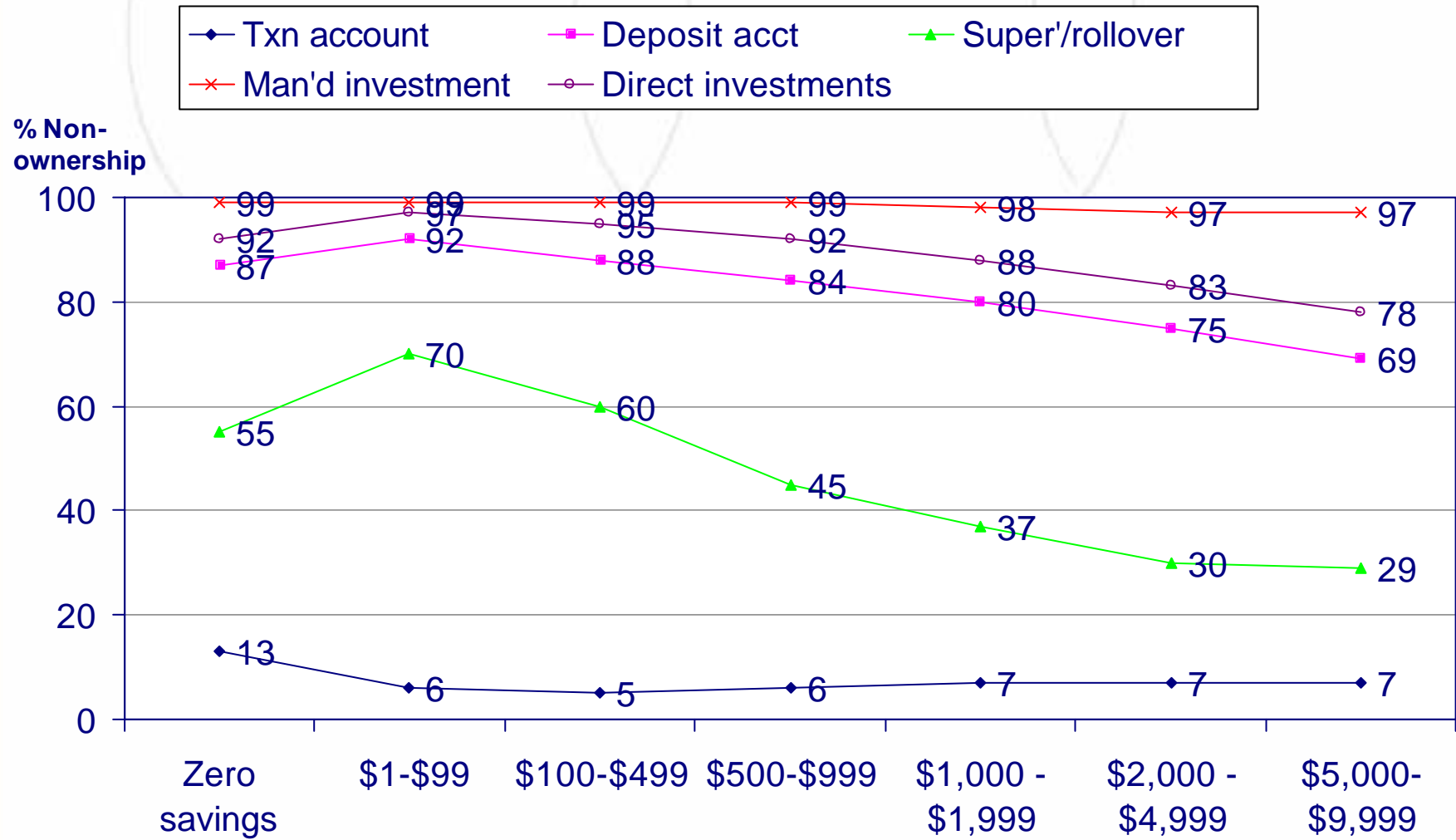
Level of Savings & Investments

All adults n=51,830



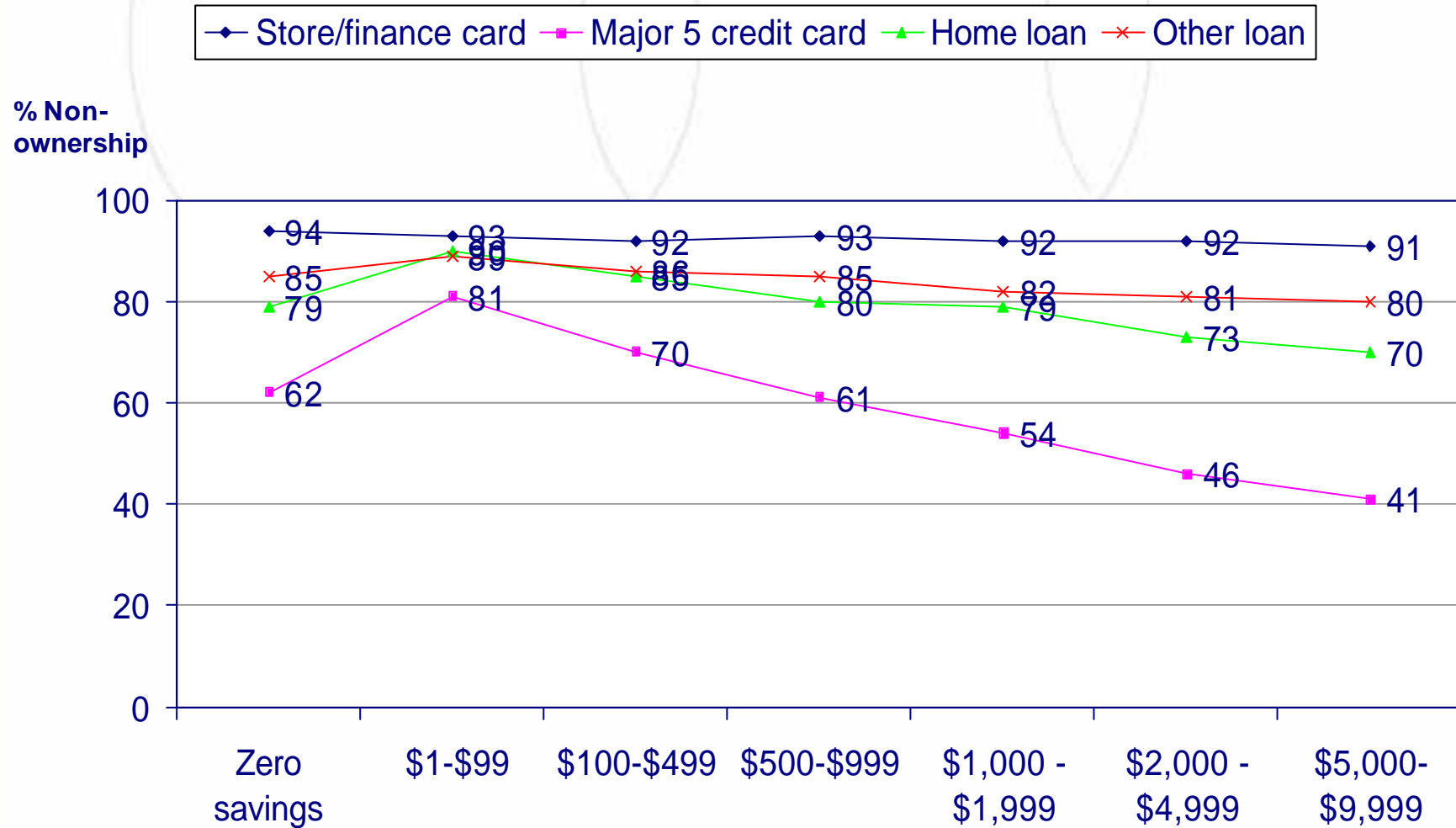
Effects of Level of Savings & Investments

All adults n=51,830



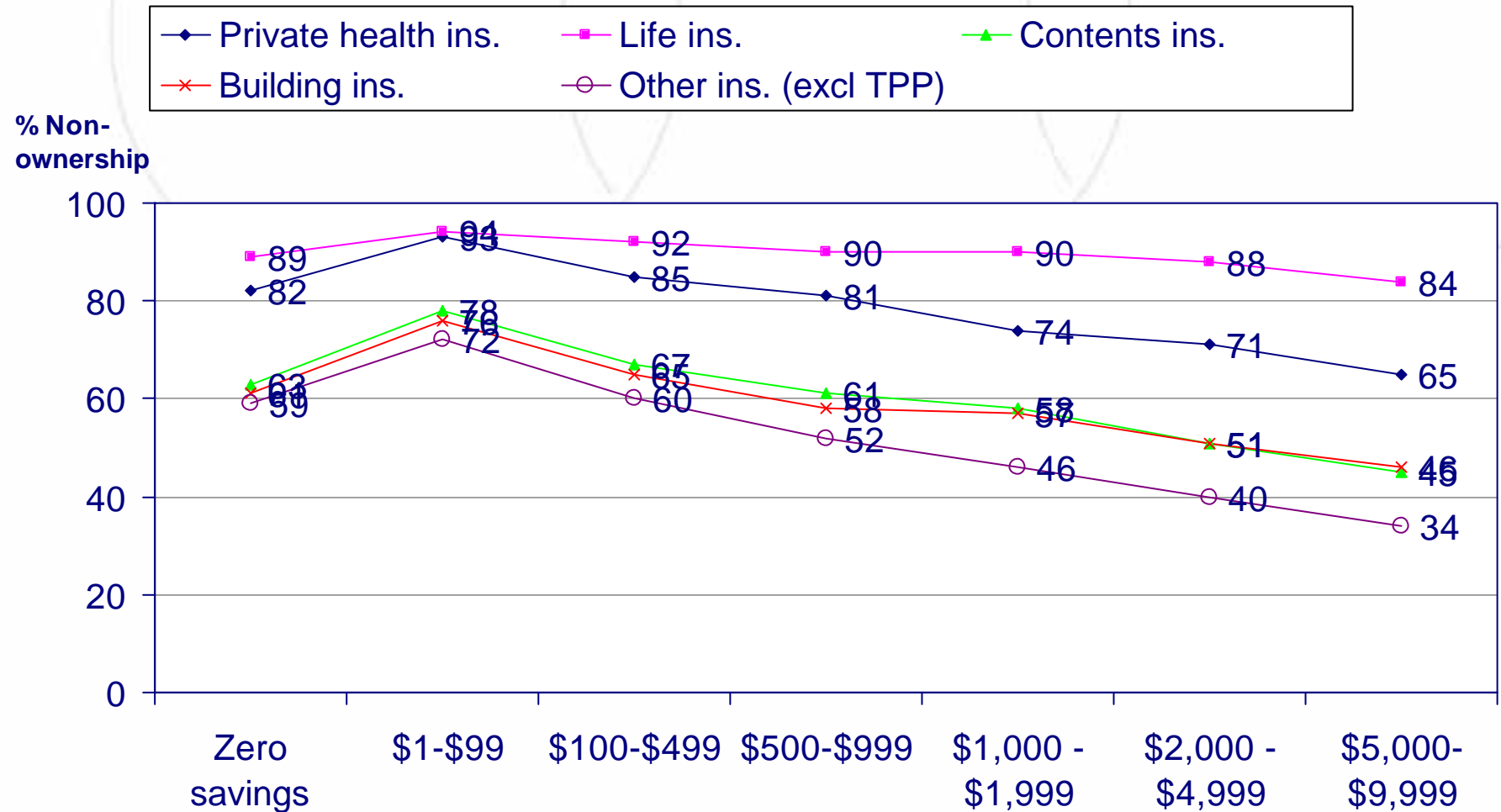
Effects of Level of Savings & Investments

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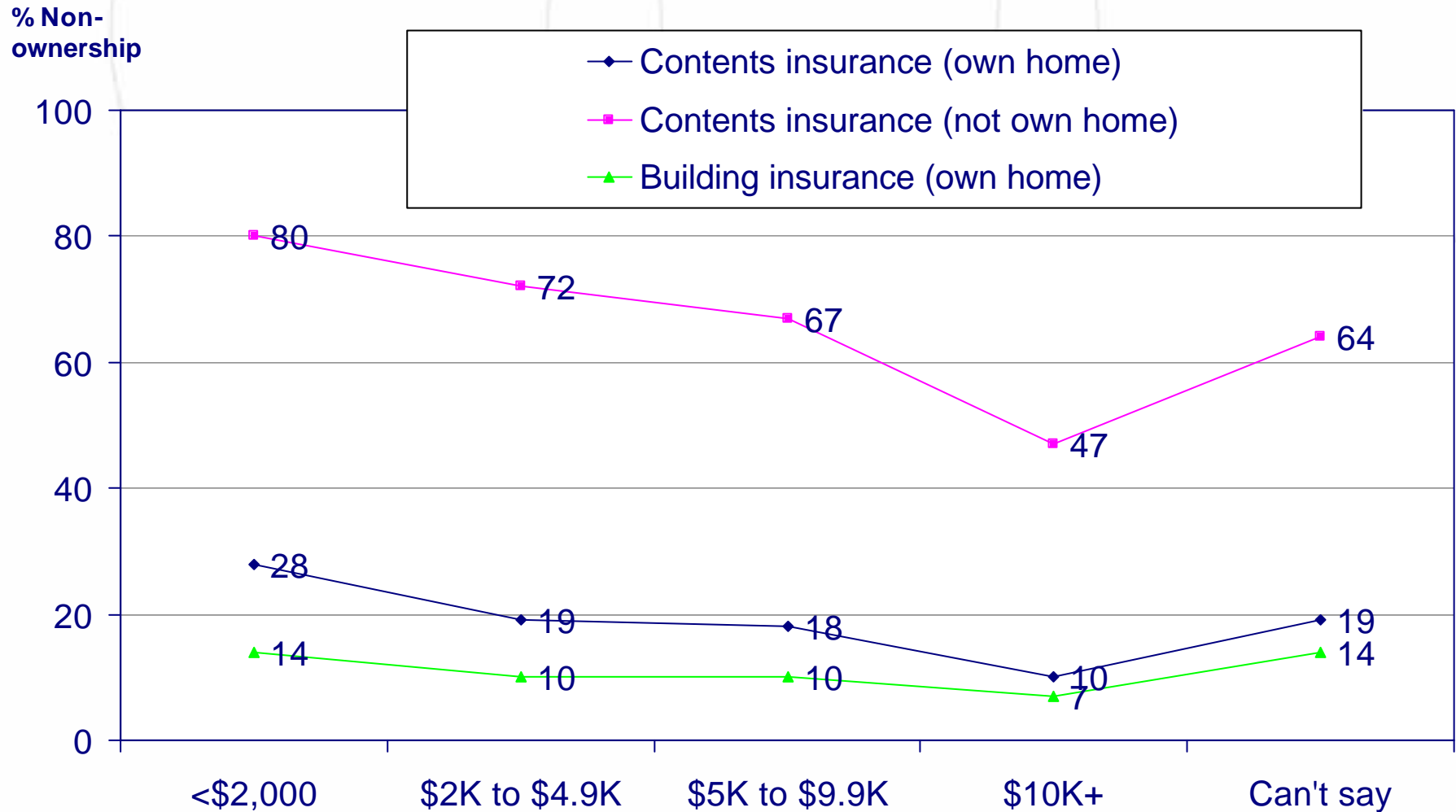
Effects of Level of Savings & Investments

All adults n=51,830



Effects of Home Ownership & Savings Level

Decision makers n=48,396



Next Steps - Primary Research on Financial Exclusion

Next Research Steps

-] **Next phase:** will focus on informing the development of some new ANZ programs:
 - ? **A small loans program** for people on low-incomes who may otherwise use payday lenders and other fringe credit providers.
 - ? **A microfinance program** to facilitate the development of Indigenous businesses.
-] **Core objective** of next research phase:
 - ? To determine the **target markets** for these programs and **what they need** from these programs.
-] **Key research issues** to be addressed as part of this research:
 - ? **Barriers** facing financially excluded consumers **in accessing mainstream financial services** (eg cost, not meeting lending criteria, lengthy process, anticipated rejection).
 - ? Does the **experience of mainstream banking** contribute to self exclusion?
 - ? **Perceived value of small loans program** vis-à-vis savings programs like Saver Plus.
 - ? **Optimum form** of products offered (eg a fixed interest/fixed term loan or other).
 - ? **Likely sensitivity of uptake/access** of the program to interest rate.
 - ? What role should **financial literacy training, personal support & small business mentoring** play?



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