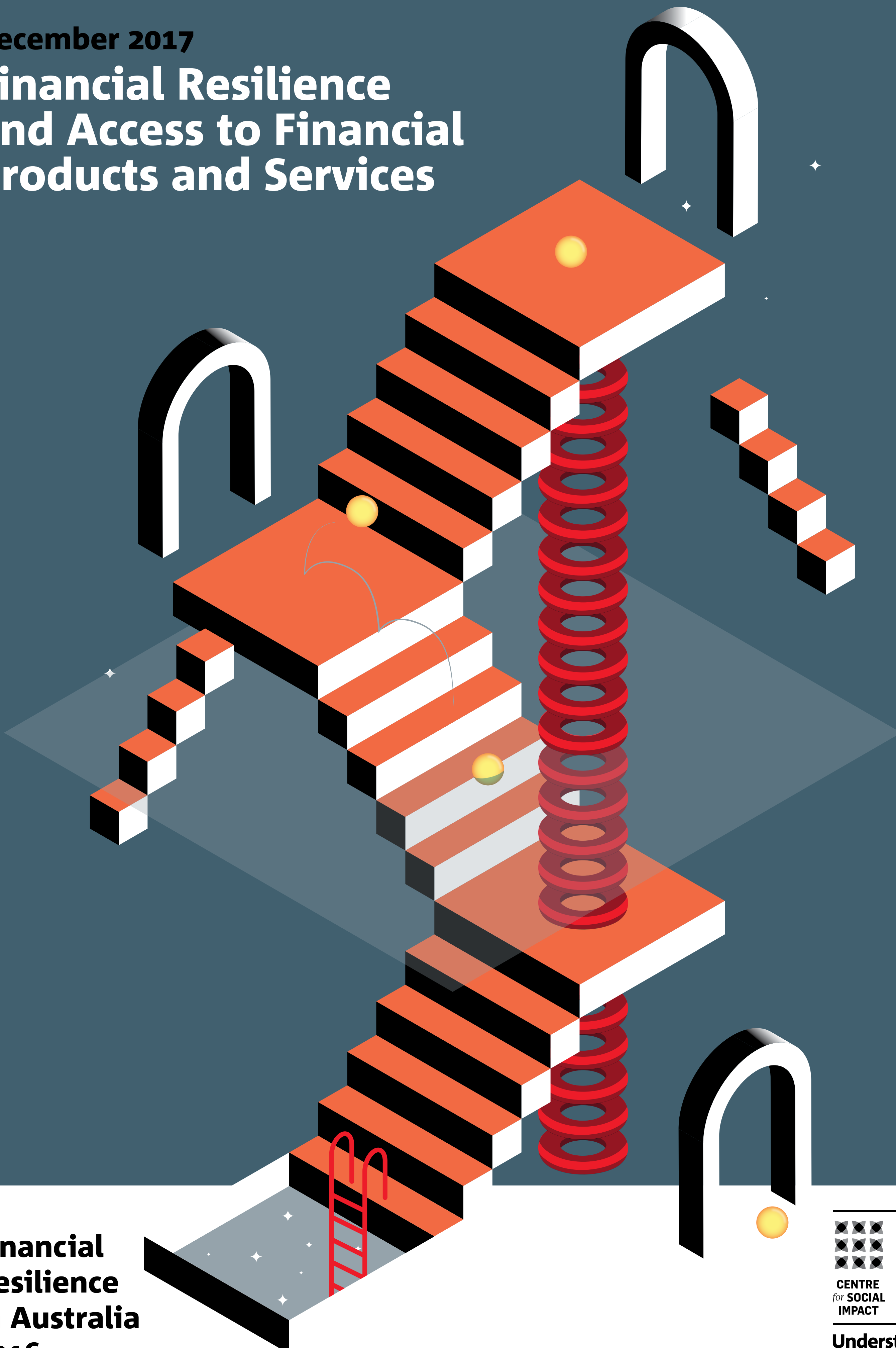
December 2017

Financial Resilience and Access to Financial Products and Services



Financial Resilience in Australia 2016

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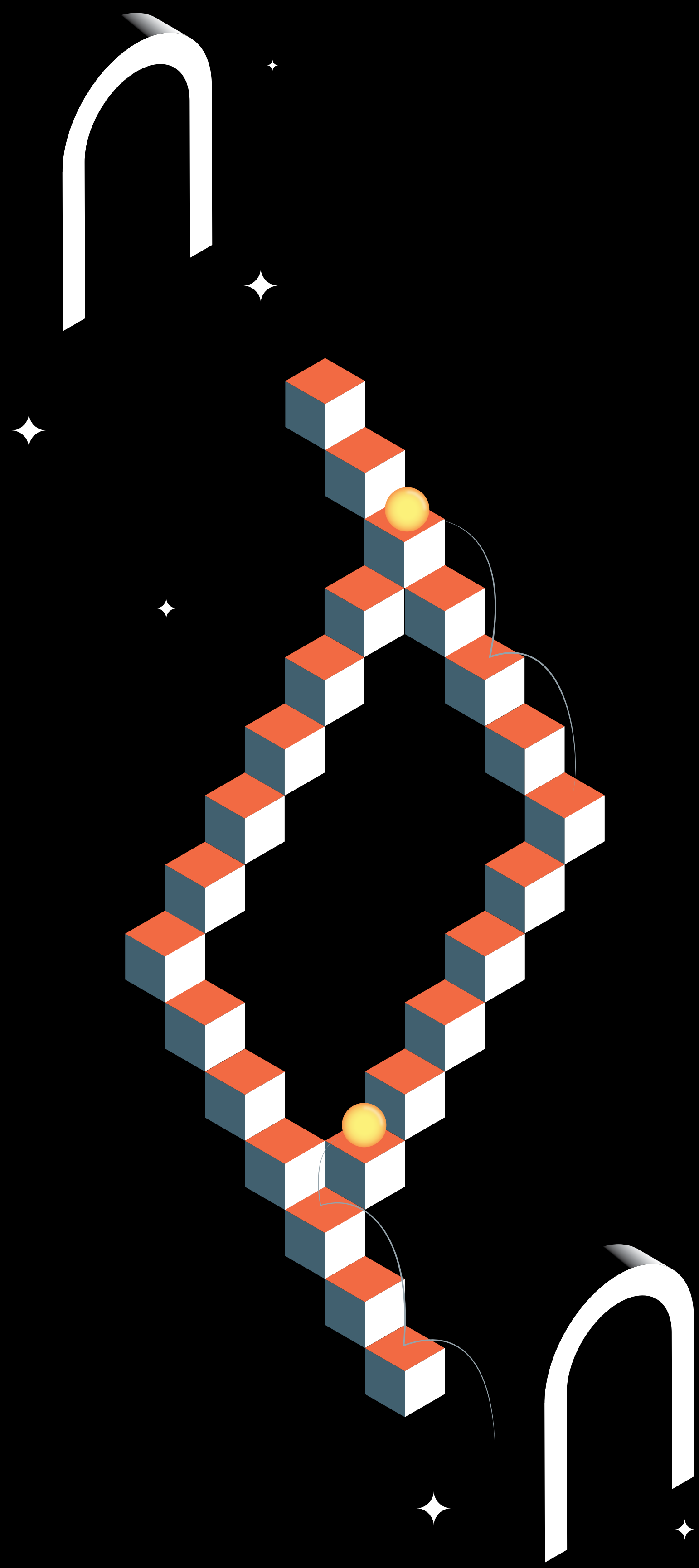
Understanding Financial Resilience



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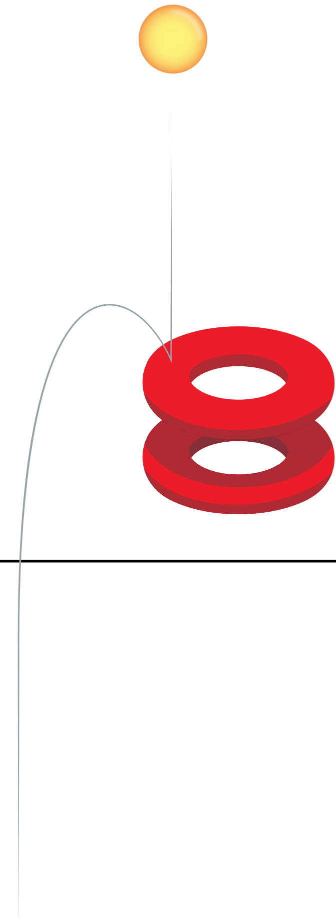
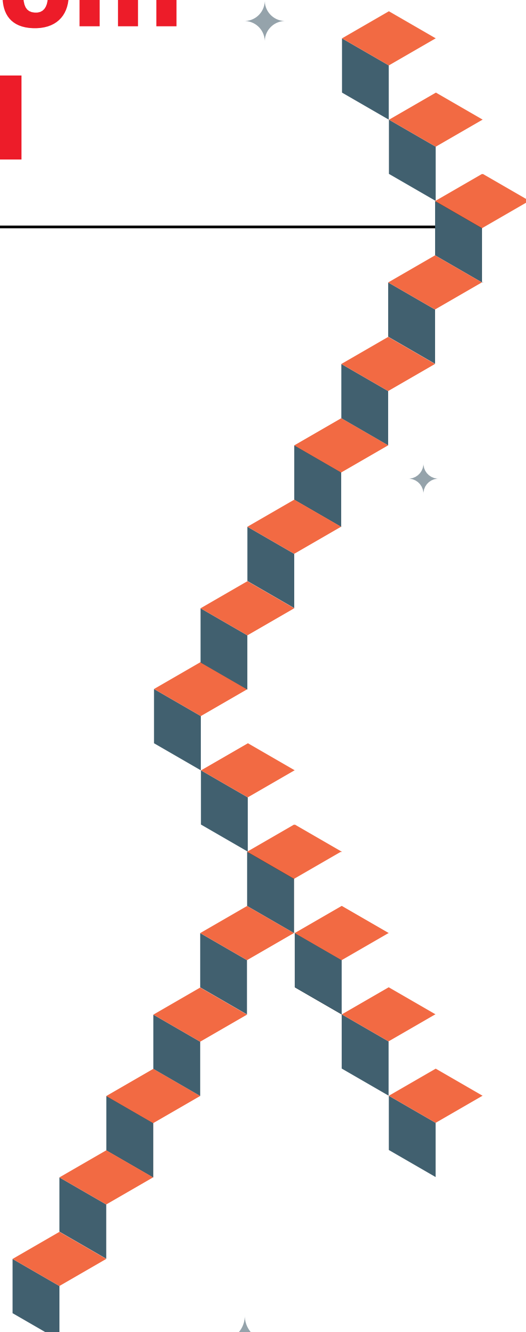


Foreword from NAB and CSI



Since 2011, we have worked to explore the complex reasons behind why many Australians are financially excluded. In 2015, we broadened our research to understand the level of financial resilience of adults in Australia.

This research report forms part two of the Financial Resilience in Australia report released in 2017.

It reveals the importance of access to appropriate, affordable, and accessible financial products and services for Australians. In particular, it highlights the gaps where Australians are struggling to access appropriate and affordable insurance and credit and that much of the unmet demand for credit is to help people meet important needs like education and health, and manage the rising cost of living.

Research is critical to provide a voice to people who are at risk of being unable to manage through a financial shock. With this research report, we hope to shift the focus to be on helping organisations and individuals understand ways that they can take action to further strengthen financial resilience so that all Australians are equipped to recover from financial shocks, regardless of income.

Elliot Anderson
Head of Financial Inclusion, NAB

Professor Kristy Muir
CEO, Centre for Social Impact

The Financial Resilience in Australia reports can be found online at:
www.nab.com.au/financialresilience

and
www.csi.edu.au/financialresilience

About the Research

Research Team

The project research team consists of Axelle Marjolin, Professor Kristy Muir, Dr Ioana Ramia, Julian Trofimovs, and Dr Abigail Powell.

Report Citation

Marjolin, A., Muir, K., and Ramia, I. (2017) Access to financial products and services: Financial Resilience and Access to Financial Products and Services – Part 2, Centre for Social Impact (CSI) at UNSW Sydney, for National Australia Bank.

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The UNSW Human Research Ethics Committee granted ethical approval of this research project on 14/07/2015.

Acknowledgements

The following organisations and individuals have provided valuable contributions to this research.

Centre for Social Impact
www.csi.edu.au

The Centre for Social Impact (CSI) is a national research and education centre dedicated to catalysing social change for a better world. CSI is built on the foundation of three of Australia's leading universities: UNSW Sydney, The University of Western Australia, and Swinburne University of Technology. Our research develops and brings together knowledge to understand current social challenges and opportunities; our postgraduate and undergraduate education develops social impact leaders; and we aim to catalyse change by drawing on these foundations and translating knowledge, creating leaders, developing usable resources, and reaching across traditional divides to facilitate collaborations.

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At NAB, we take our role in society seriously and we're proudly passionate about being responsible, inclusive and socially innovative. We know that the role we play in the lives of our customers is about more than money. We can help people to build their resilience to withstand life's big and little "shock" and help them get back on track as quickly as possible. We can help our customers with new insights, and use our skills, resources and networks to build their capabilities. And we set out to challenge the norm, to look for opportunities to and take strong leadership on the big issues facing our customers and communities, and to lead social change through new ways of doing business.

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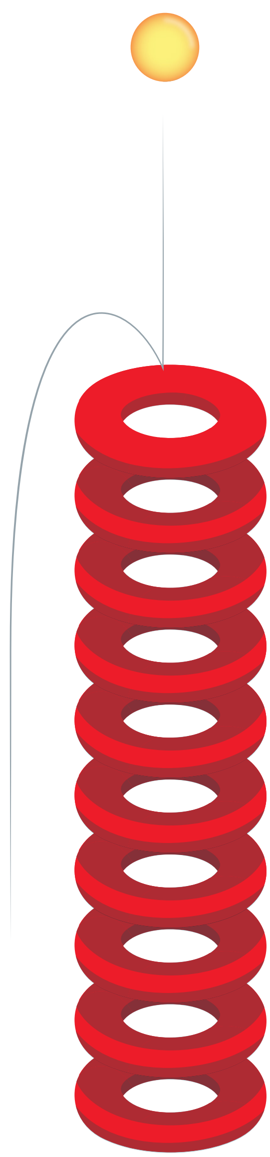
The authors would also like to acknowledge

Eliza Anderson, Elliot Anderson, Amanda McMahon, Nicola Hannigan, Julian Trofimovs, and the team at Roy Morgan Research for their advice, contributions, and support. The authors would also like to thank all the participants in the Financial Resilience in Australia survey.



Executive Summary

Affordable, accessible and appropriate financial products and services play an important role in enabling individuals to maintain a stable living standard, receive income, make transactions, access credit when they need it and to protect their assets. However, many adults in Australia – particularly from vulnerable groups – are struggling to access appropriate and affordable options, leaving them at risk of not being able to recover in the event of a financial shock.

In 2016, over 1 in 10 (12.1%) adults in Australia experienced very low or low levels of financial products and services in 2016, compared to 1 in 16 in 2015 (5.6%). People with low levels of financial products and services do not have adequate access to a bank account, credit and insurance, leaving them more at risk of not being able to recover from a financial shock. Particularly:

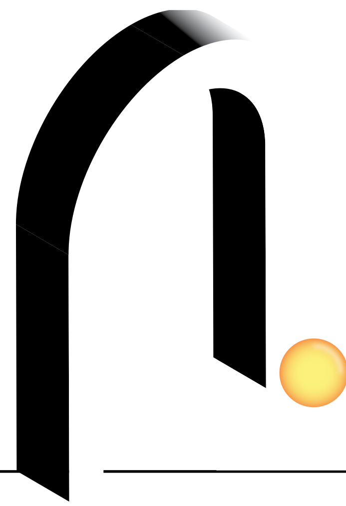
- **Banking accounts:** People with low levels of financial products and resources had lower direct access to bank accounts. They also tend to hold fewer accounts than the population, particularly savings accounts.
- **Credit:** People with low or very low levels of financial products and services were more likely to have used fringe credit and report needing additional credit to pay back other debts and cover the basic expenses to meet the cost of living.
- **Insurance:** People with low or very low levels of financial products and services reported higher unmet needs for insurance, particularly home contents and health insurance.

People with low levels of financial products and services were also more likely to experience difficulties accessing financial products and services than their counterparts who had high levels of resources in this component of financial resilience 40.2% compared to 12.1% respectively, or the general population (25.7%).

- The most commonly reported difficulty for the low or very low group was the cost (16.1%), followed by a lack of trust (10.2%), in contrast to poor customer service (7.5%) and cost (7.3%) for the high group.
- 'Language difficulties', 'discrimination because of ethnic or cultural background' and 'disability makes it hard to access service' were 3.5 to 39.5 times more prevalent amongst people with low or very low levels of financial products and services, than people with a high level of financial resources.
- The proportion of people in the low or very low group reporting no service in their area or transport/distance as barriers to accessing financial products and services was over twice as high, compared to people with a high level of financial resources.

In a context of rising financial stress, increased insurance premiums, limited wage growth, higher costs of living and more people reporting using of high-cost fringe credit [1, 2, 3, 4, 5], these results highlight a need for appropriate, accessible and affordable financial products, particularly for low-income households. With a growing number of adults in Australia experiencing some level of financial stress, it is important to find ways to increase access to affordable and appropriate financial products and services and to ensure that adequate safety nets, responsible lending and financial guidance and counselling are in place.

Introduction



This report explores the level of financial products and services of adults in Australia and unpacks which products and services adults with low or very low levels of resources in this component are particularly missing out on, and why. The report also explores how the level of access to and demand for a bank account, credit and insurance differs across different population groups, compared to the general population.

Access

Providing access to financial products and services, particularly those considered essential – a bank account, credit, and insurance – is a priority for Australia [6] and others around the globe [7]. Financial products and services play an important role in enabling individuals to maintain a stable living standard, receive income and make transactions. Financial products and services can also act as a protective mechanism (e.g. a line of credit in an emergency) and can help people to recover from financial shocks (e.g. insurance in an accident or natural disaster). In addition, they can enable individuals to participate socially or invest in education or employment, thus having broader social and economic consequences [8, 9]. Yet, access to financial products and services is unequal across the population, with vulnerable groups being more likely to miss out [10, 11].

Affordability

Affordability is one of the main barriers affecting people's access and use of financial products and services [12], meaning that low-income households are particularly at risk. Home and motor insurance premiums have grown annually, on average, approximately 8% and 2% respectively since 2001 [3]. In contrast, annual wage growth averaged 3.3% over the same period [4]. It is therefore not surprising that a recent report established that the incomes received by most low-paid households[A] falls short by $9 to $89 dollars a week of "an acceptable but minimum and healthy standard of living", which includes home contents and comprehensive car insurance [13; 106].

[A] Individuals in single households and sole-parents in part time work had a small but positive difference between their estimated weekly safety net income and grossed-up budget standard ($61.91 and $44.86 respectively). The authors however note that "In light of the fact that the budget standards are designed to be conservative, the fact that existing provisions only just exceed them suggests that many low-paid workers are only just able to achieve the MIHL [Minimum Income for Healthy Living] standard and are very vulnerable to even the slightest rise in their cost of living."

Appropriateness

In addition, the products and services available are often not appropriate or suitable for the needs of low-income consumers – especially when considering credit and insurance. In the case of insurance, this often means going without. In the credit market the shortage of appropriate alternatives from formal financial institutions has contributed to a twenty-fold increase in the demand for short-term, high cost loans over the last decade [1]. In the 2015/16 financial year, over 619,000 Small Amount Credit Contracts (SACCs) worth $476.8 million were given by the 'payday' lending industry [2]. With an increasing number of financially stressed households taking out SACCs, primarily to access emergency cash for household expenses [14], there is growing concern regarding the impact of payday lending nationally [1], including on the financial resilience of adults in Australia.

Understanding people's access and use of financial products and services is critical to unpacking some of these issues further. In particular, it is important to understand and identify which population groups have lower levels of financial products and services and where they are missing out, so that they can be better supported.

Report series

This report is part of a series produced by the Centre for Social Impact for NAB. The main report in this series is "Why is financial stress increasing? Financial Resilience in Australia 2016 – Part 1,", which presents a headline measure of financial resilience in Australia in 2016. It also provides information on the population's level of resources across all four components of financial resilience, and discusses changes between 2015 and 2016. The other report in the series focuses on financial resilience and employment.

Methodology[B]

The findings in this report are based on 2,006 survey responses, weighted to be representative of the Australian adult population across age, gender and geographic location. All respondents were aged 18+ and completed the survey online in December 2016[C].

The survey was administered by Roy Morgan Research using OzPanel, a robust online consumer panel. OzPanel is unique in that the panel is primarily recruited via random, representative, address-based sampling from the Roy Morgan Single Source survey, which incorporates approximately 50,000 interviews predominantly face-to-face in both city and country areas each year with people aged 14+.

The statistical analysis was undertaken in Stata 14.0. The differences between demographic groups and the population overall were analysed and tested for statistical significance using independent sample t-tests on unweighed data.

Assessing the level of financial products and services

For each scoring question, respondents are allocated a score from 1 to 4 depending on their selected answers. To assess their overall level of financial products and services, an average total score is calculated. Based on their average total score, each respondent is allocated to one of four possible categories: very low, low, moderate and high (Figure 1).

Figure 1:
Level of financial products and services

Figure 1 Source: Muir, Reeve et al. [11]

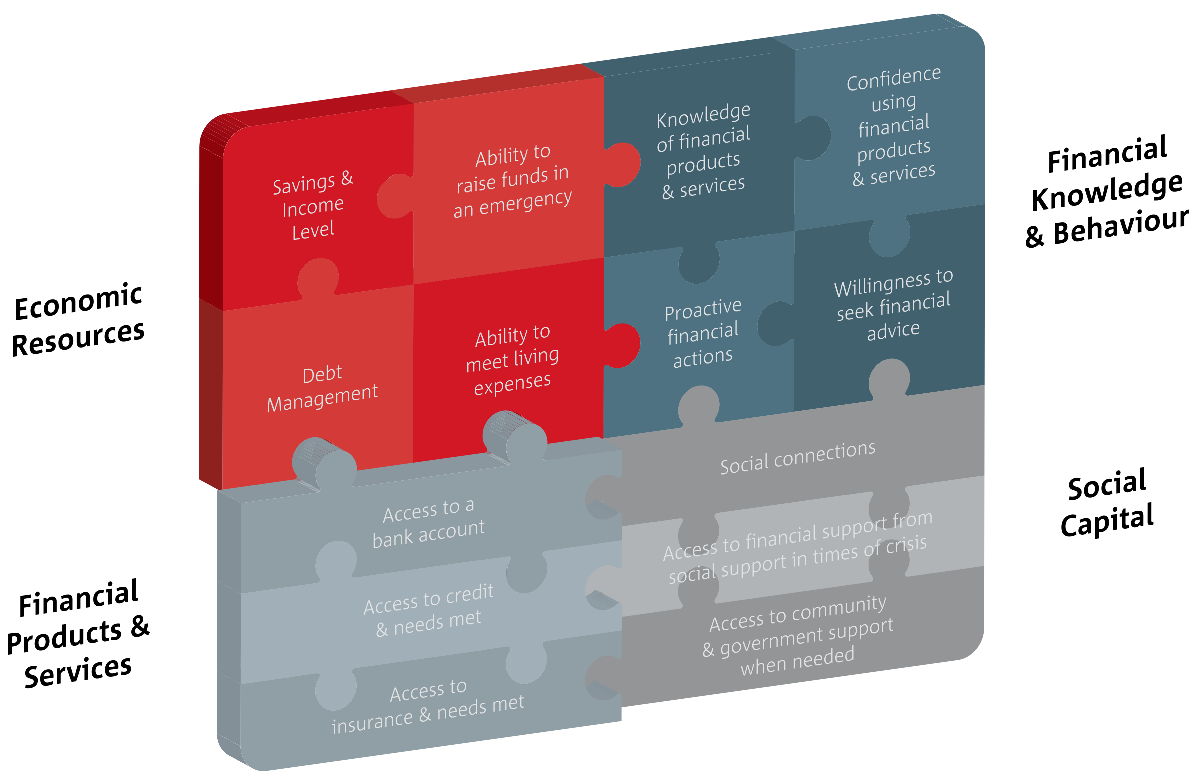
[B] See Marjolin, Muir et al. [1] for more information on the methodology
[C] See Appendix 1 in Marjolin, Muir et al. [1] for further details on the sample

In particular, it is important to understand and identify which population groups have lower levels of financial products and services and where they are missing out, so that they can be better supported.

Overview of Financial Products and Services

Financial products and services are one of the four types of resources necessary to be financially resilient, along with economic resources, financial knowledge and behaviour and social capital (Figure 2)[11].

Figure 2:
Financial products and services – components of financial resilience



The average level of financial products and services has decreased between 2015 and 2016 [15]. In 2016, approximately half (50.8%) of adults in Australia had a high level of financial products and services. A further 37.2% of the adult population had a moderate level of financial products and services, leaving approximately 1 in 10 (12.1%) with very low or low levels of resources in this component. This is compared to 65.8%, 28.6% and 5.6% respectively in 2015 (Figure 3).

Figure 3:
Level of financial products and services

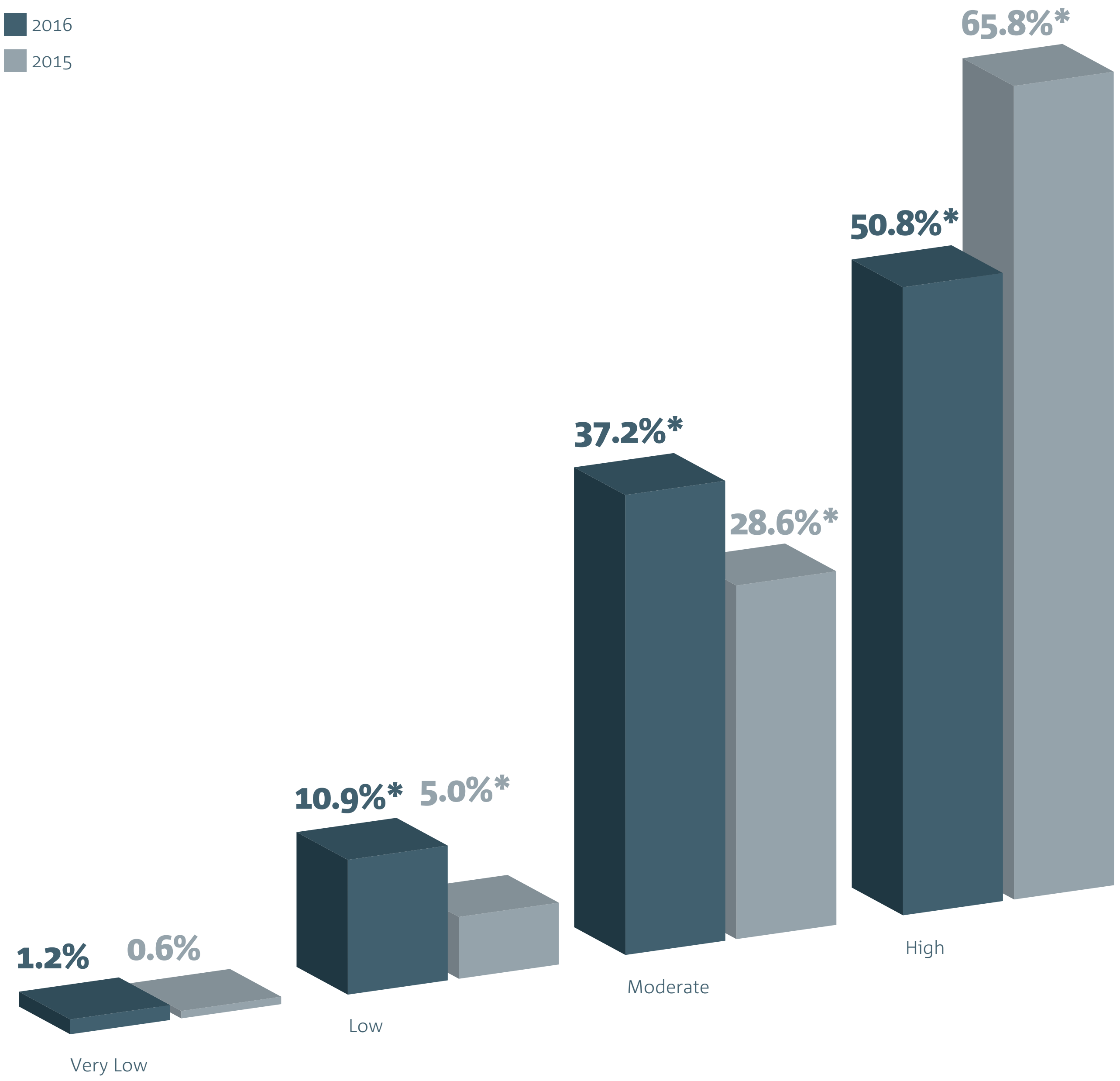


Figure 3: Source: Roy Morgan Research 2015, 2016
Notes:Sample size 2015 = 1496, sample size 2016 = 2004 weighted to be representative of the adult population in Australia aged 18+. * statistically significant ($p < 0.05$)

An individual's level of financial products and services is assessed on 5 scoring questions across the following dimensions:

- Access to a bank account
- Access to credit and needs met
- Access to insurance and needs met

There were significant differences in people's access to a bank account, credit and insurance between 2015 and 2016. Indeed, in 2016, a higher proportion of the adult population reported indirect access to a bank account (2.7% compared to 1.2% in 2015); no access to any form of credit (25.6% compared to 20.2% in 2015), and no insurance (11.8% compared to 8.7% in 2015). Further, while unmet credit need stayed the same between the two years, the proportion of people reporting not having an unmet need for insurance decreased in 2016 (78.4% compared to 84.0% in 2015) [15].

How does the level of access to a bank account, credit and insurance differ by population groups?

This section explores how different population groups fare in their level of access to a bank account, credit and insurance. It does so by comparing the mean scores by population groups in each of the three dimensions of the financial products and services component – that is, bank account, credit and insurance – to the mean population score. The results are presented in Figure 4. For each demographic group:

- Categories that are significantly different from and better than the population average
- Categories that are significantly different from and worse than the population average
- Categories that do not differ significantly from the population average

As all demographic groups are included in the population average, these results need to be interpreted with caution. They nevertheless help to demonstrate which groups in society are likely to be doing well in terms of their access to financial products and services, and who is missing out.

Who is doing better? Who is doing worse?

Gender

There were no significant differences by gender in any of the three financial products and services.

Age

There were no significant differences in the level of access to a bank account across all age groups. However, younger people's level of credit and insurance were significantly lower than the population average. On the other hand, older age groups had levels of insurance significantly higher than the national average. This is consistent with previous financial inclusion research findings [16].

Non-English-speaking background (NESB)

People born in a non-English speaking country had lower levels of access to a bank account and insurance than the general population. This is consistent with findings from financial exclusion research, where people born outside Australia have lower levels of financial products, particularly insurance, due to "high levels of difficulties with the complexity of products and the complexity of insurance documentation" [16; 22].

Personal income

The level of credit and insurance appears to be positively correlated to personal income. People with a personal income of $60,000 or more per year had significantly higher levels of credit and insurance than the population, while people earning less than $40,000 had a significantly lower level. This is not surprising as cost is a common barrier to accessing financial products and services[11, 16].

Employment

Relatedly, people unemployed or underemployed had significantly lower levels of access to all three financial products and services than the population. In addition to cost, eligibility requirements might also be affecting their capacity to access such products.

Education

Higher educational attainment is associated with higher levels of financial products and services. Individuals with a Bachelor degree or higher had significantly higher levels of access to a bank account, credit and insurance than the population. On the other hand, people with Year 12 and below were significantly worse off in all three dimensions.

Housing

Housing type also seems to be an indicator of vulnerability in the financial products and services component. People living in social housing had significantly lower level of financial products and services, compared to the population overall. Interestingly, people privately renting and people living at home with their parents also had significantly lower levels of credit and insurance. This could be related to the fact that people living under such arrangements are likely to be younger adults.

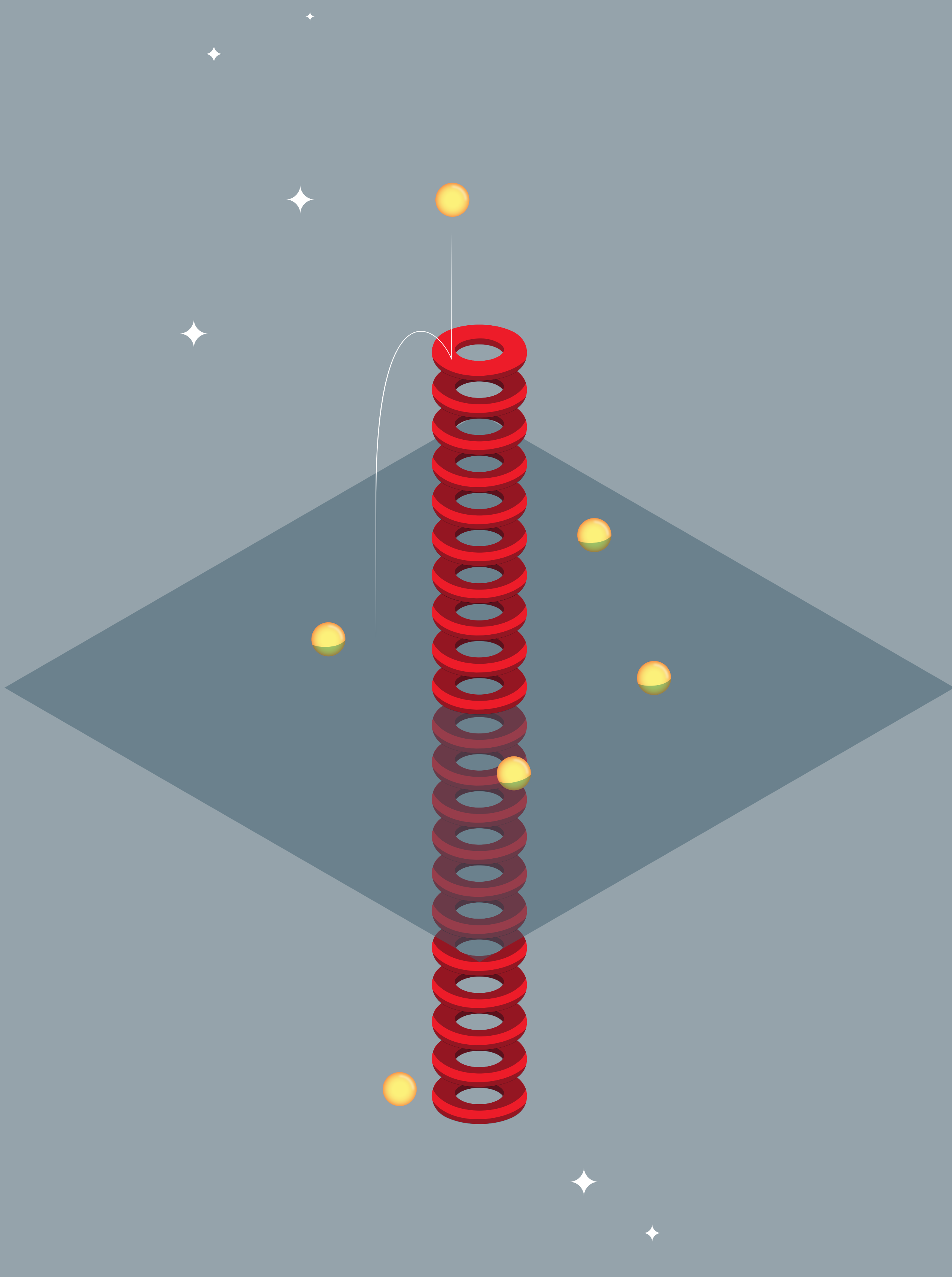
Mental health

Finally, having a probable mental health issue is also correlated with lower levels of financial products and services, although the relationship could be bi-directional. That is, mental health issues could restrict people's access to financial products and services, or lack of access could lead to psychological distress.

Figure 4:
Mean scores by financial products and services

DEMOGRAPHIC GROUPS		BANK	CREDIT	INSURANCE
Population		3.55	2.82	3.33
Gender	Male	3.55	2.84	3.32
	Female	3.55	2.80	3.34
Age	18-24	3.48	2.18	2.87
	25-34	3.60	2.85	3.19
	35-49	3.51	3.15	3.42
	50-64	3.56	2.95	3.45
	65+	3.59	2.52	3.43
Country of birth	English-speaking country	3.56	2.82	3.34
	Non-English-speaking country	3.45	2.79	3.17
Personal income	Under $20,000	3.45	2.36	3.07
	$20,000 - $39,999	3.57	2.53	3.19
	$40,000 - $59,999	3.67	2.85	3.32
	$60,000 - $79,999	3.62	3.17	3.44
	$80,000 - $99,999	3.54	3.14	3.51
	$100,000+	3.59	3.34	3.62
Labour force status	Employed full time	3.58	3.18	3.41
	Employed part time	3.58	2.73	3.40
	Underemployed	3.40	2.42	3.03
	Unemployed	3.41	2.41	2.84
	Not in labour force	3.57	2.57	3.36
Educational attainment	Year 12 and below	3.43	2.49	3.21
	Certificate or Diploma	3.54	2.78	3.34
	Bachelor's degree or higher	3.62	2.99	3.37
Housing status	Social housing	3.11	2.38	2.86
	Living in a very short term rental	3.49	2.46	2.88
	Living in a rental property with a private lease of 6+ months	3.56	2.68	3.03
	Living at home with my parents	3.55	2.20	2.94
	Own with 50% or less of mortgage repaid	3.55	3.31	3.46
	Own with more than 50% of mortgage repaid	3.59	2.97	3.55
	Home owner (unspec)	3.60	2.25	3.52
	Other	3.60	2.75	3.14
Mental health status	No probable mental illness	3.58	2.85	3.37
	Probable mental illness	3.41	2.45	2.90

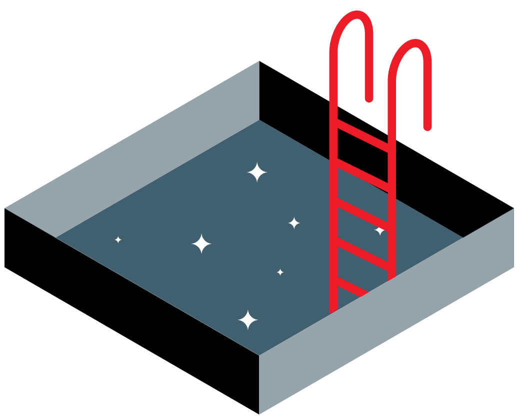
Figure 3: Source: Roy Morgan Research 2016
Notes: Sample size = 2004. Significance = $p < 0.05$

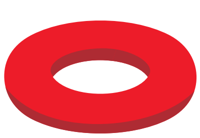


Where are people with low levels of financial products and services missing out?

People with low or very low levels of financial products and services are at risk of not being able to draw on external financial resources in times of financial adversity. In addition, with low levels of financial products and services found to be associated with low levels of resources across the other components of financial resilience[11], they are also at risk of not being able to bounce back from a financial shock.

This section highlights where people with low or very low levels of financial products and services are missing out, compared to the population. This will help identify areas where further investment might be necessary to help improve the level of financial products and services in Australia. For analysis purposes, the low and very low groups were aggregated due to small sample sizes.





Bank account

People with low levels of financial products and resources tend to hold fewer accounts than the population, particularly savings accounts

Lack of access to a bank account in Australia can leave people without the means to receive an income and it makes bill paying and other day-to-day financial transactions difficult by forcing people to use only cash [12]. 85.2% of people with low or very low levels of financial products and services reported having their own bank account, 8.2% reported indirect access through a friend or family and 4.6% had no access at all (compared to 98.3%, 1.4% and 0% of the group with a high level of resources; Figure 5).

Figure 5:
Access to a bank account

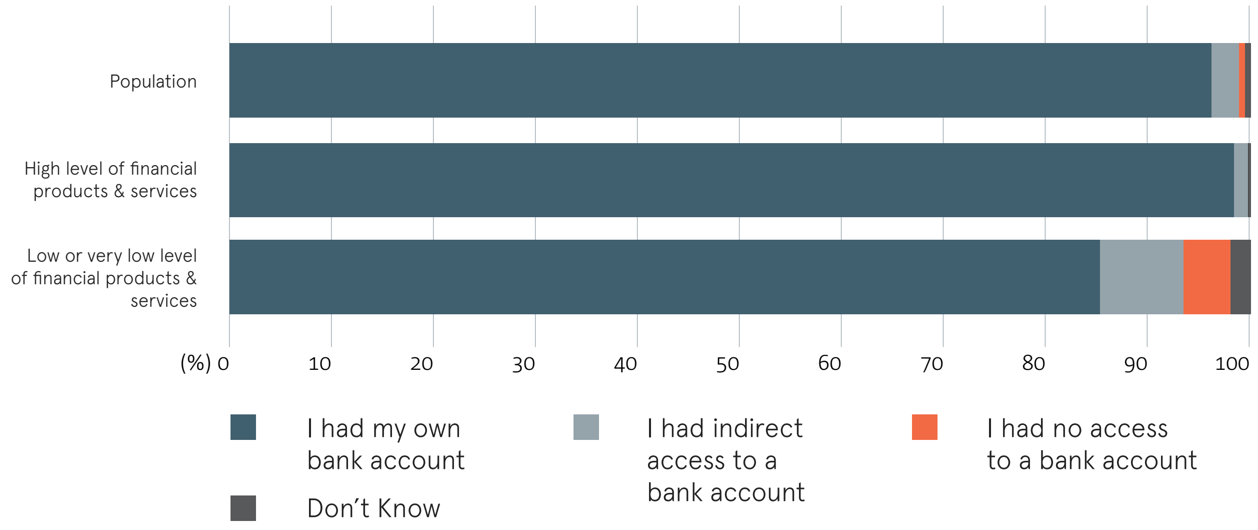


Figure 5: Source: Roy Morgan Research 2016
Notes: Sample size population = 2006, sample size low or very low level of financial products & services = 231, sample size high level of financial products & services = 1030

Expectedly, the most commonly held – directly or indirectly – account type across all groups, was an everyday or transaction account (Figure 6). For all other types of accounts, the proportion of people with low, or very low levels of financial products and services was approximately half that of the population and a third of the group with a high level of resources. This is in line with the much lower proportion of people with low or very low levels of financial products and services with access to more than 1 account (30.2%) compared to the high group (73.7%).

However, these results also highlight that people with low levels of financial products and services engage less with other types of savings accounts. Given the overrepresentation of people with a personal yearly income under $20,000 in this group, it is likely these accounts are inaccessible and/or inappropriate [D]. Further, the cost of maintaining a minimum but healthy standard of living was found to exceed the income received by most low-paid households [13], making it almost impossible to save unless they were supported by others – for example a young person living at home with their parents who could financially support their living costs.

[D] Some term deposit, bonus or high interest accounts require a minimum amount to be invested and/or conditions around withdrawing money from the account [17, 18]

Figure 6:

Type of accounts held - proportion of people who had direct or indirect access to a bank account

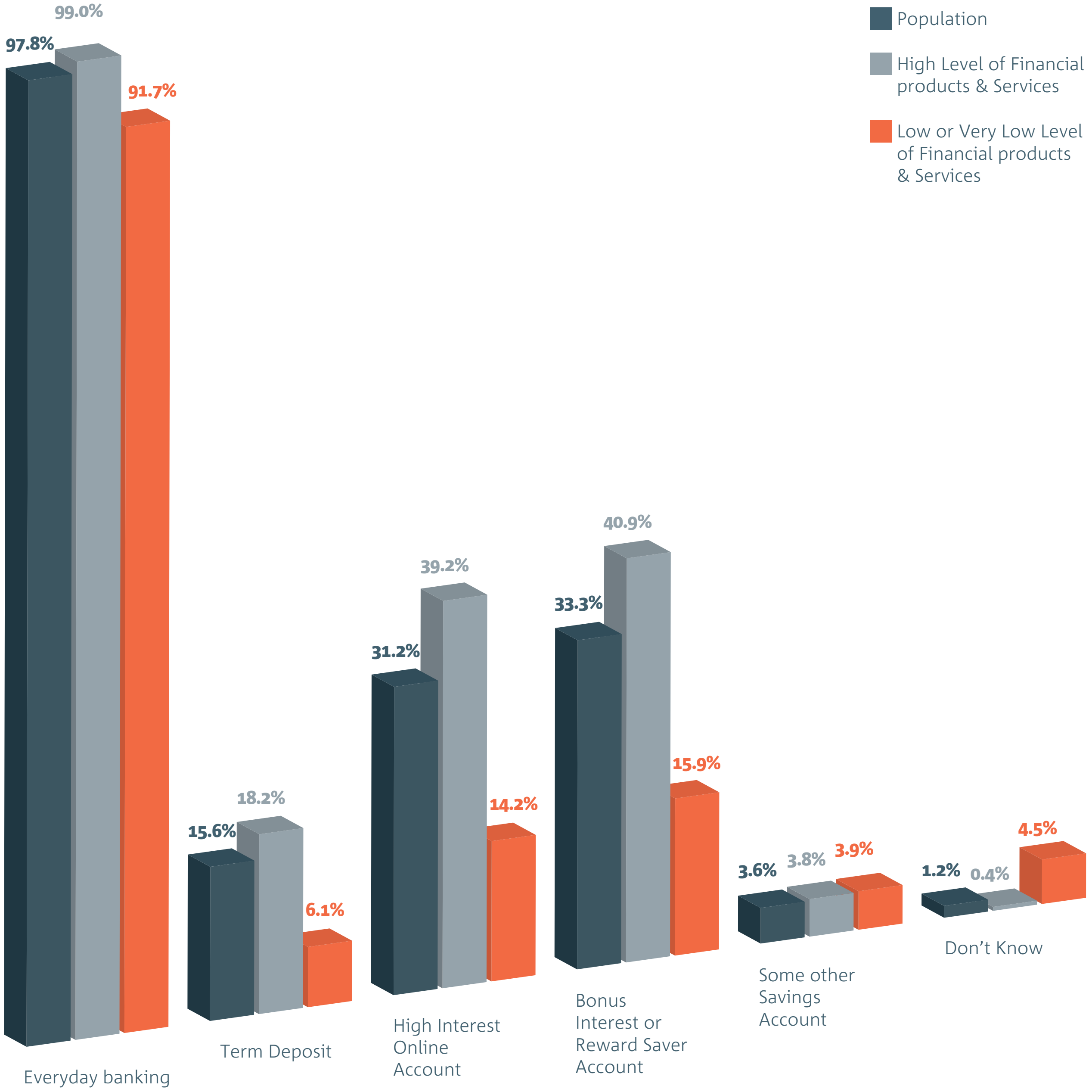


Figure 6: Source: Roy Morgan Research 2016

Notes: Sample size population = 1984, sample size low or very low level of financial products & services = 217, sample size high level of financial products & services = 1027. Multiple answers were allowed so total is greater than 100%

Credit

People with low or very low levels of financial products and services were more likely to have used fringe credit and report needing additional credit to pay back other debts and cover cost of living expenses.

62.3% of people with low or very low levels of financial products and services reported no access to any form of credit, compared to 2.3% of the group with a high level of resources and 25.6% of the overall population (Figure 7). They also reported lower access to formal sources of credit (12.4%) and credit from friends or family (18.2%). This group was also more likely than people with high levels of financial products and services and the overall population to report access to fringe credit (8.4%, 5.3% and 5.4% respectively).

Figure 7:
Access to credit

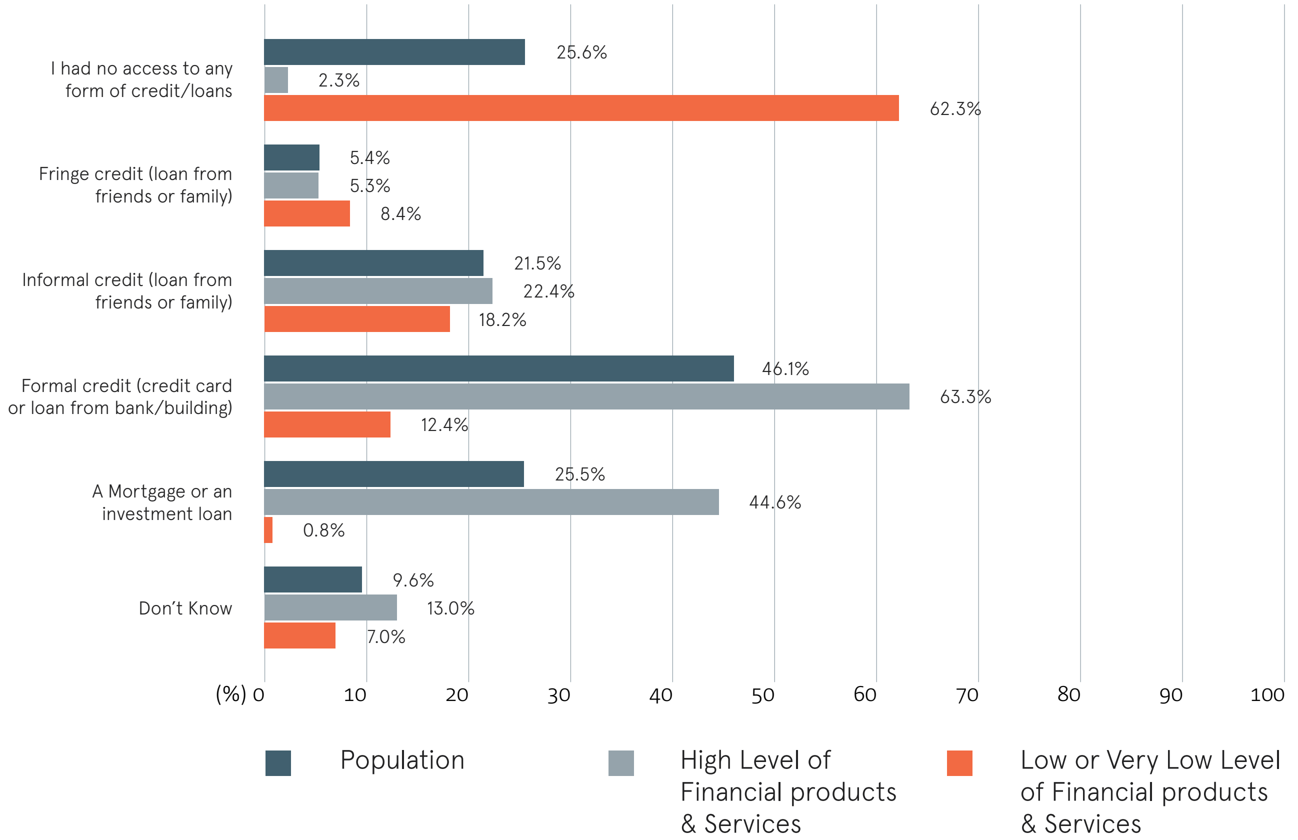


Figure 7: Source: Roy Morgan Research 2016
Notes: Sample size population = 2006, sample size low or very low level of financial products & services = 231, sample size high level of financial products & services = 1030. Multiple answers were allowed so total is greater than 100%

Although a higher proportion of people with a high level of financial products and services reported being able to access credit from friends or family, people in this group were less likely to report having used a loan from these informal sources in the 12 months prior to the survey (1.6% and 9.2% respectively) compared to people in the low or very low group (6.0% and 15.4% respectively; Figure 8). In fact, a loan from family was the most commonly used form of credit in the low or very low group, compared to a credit card for people with a high level of financial products and services. This suggests that when possible, family and friends are providing affordable support, which means avoiding the fees and charges associated with formal credit. However, it is important to note the high proportion of people who thought it was unlikely they would be able to receive financial support from family or friends [15].

A higher proportion of people with low or very low levels of financial products and services, than people with high levels or the population, also made use of more affordable alternate schemes such as Centrelink Advance Payments and the No Interest Loan Scheme (NILS). 4.4% and 1.2% of people in the low or very low group reported using a Centrelink Advance and community finance respectively. This is compared to 1.2% and 0.1% of people with high resources, and 3.5% and 0.2% of the population[E] (Figure 8). These figures show that the proportion of people accessing no interest schemes remains low, which is in part to do with eligibility but also to do with the need to scale the number and reach of no interest loans.

In line with their higher reported access to fringe sources of credit, people in the low or very low group were more likely to have used consumer leases (0.8%) and small (2.8%) or medium (0.4%) amount loans from non-bank credit providers[F], than their counterparts with a high level of financial products and services (0.5%, 0.6% and 0.2% respectively; Figure 8). This is concerning given the high costs associated with both fringe credit and consumer leases, where "[t]here are no statutory limits on the maximum amount that consumers can be charged" [20]. With low levels of financial products and services associated with low levels of economic resources [11], high cost finance is particularly inappropriate and unaffordable for this group.

Figure 8:
Source of credit used in the last 12 months

	POPULATION	HIGH LEVEL – FINANCIAL PRODUCTS & SERVICES	LOW OR VERY LOW LEVEL – FINANCIAL PRODUCTS & SERVICES
A loan from family	11.9%	9.2%	15.4%
A loan from friends	2.8%	1.6%	6.0%
Credit card	43.0%	63.0%	13.0%
Personal loan	7.5%	9.3%	5.5%
Mortgage	23.6%	38.2%	4.0%
Other mainstream credit (i.e. from a bank)	3.1%	5.2%	0.8%
A Centrelink advance	3.5%	1.2%	4.4%
A community finance loan (e.g. NILS, StepUP)	0.2%	0.1%	1.2%
A small cash loan from a non-bank credit provider (SACC)	1.0%	0.6%	2.8%
A medium amount loan from a non-bank credit provider (MACC)	0.3%	0.2%	0.4%
Consumer lease or rent-to-own contract	0.6%	0.5%	0.8%
Other type of loan or credit facility	1.2%	1.9%	0.0%
Don't know	0.4%	0.3%	0.0%
None of the above	7.3%	9.2%	3.8%
No access to any form of credit	25.6%	2.3%	62.3%

Figure 8 Source: Roy Morgan Research 2016

Notes: Sample size population = 2006, sample size low or very low level of financial products & services = 231, sample size high level of financial products & services = 1030. Multiple answers were allowed so total is greater than 100%

[E] This would likely be due to eligibility rather than people on higher incomes choosing not to apply for these options.

[F] A Small Amount Credit Contract (SACC) loan is a loan of up to $2,000 to be repaid over a period of 16 days to 1 year. A Medium Amount Credit Contract (MACC) loan is a loan of $2,001 - $5,000 to be repaid over a period of 16 days to 2 years [19]

Cost of a SACC loan compared to a credit card and unsecured personal loan

A $770 Small Amount Credit Contract (SACC) loan repaid over 4.4 months (or 134 days) – the average size and length of a SACC in the 2015/16 financial year [2] – would cost $1,078 to repay in full [G]. In contrast, accessing the same amount using an average credit card with a 19.75% interest rate [H] or an unsecured personal loan with a 13.9% interest rate [I] would cost $789 and $790 respectively, to repay over approximately the same period [J].

The proportion of people with low or very low levels of financial products and services who reported using a SACCs loan (2.8%) was higher than the proportion who reported accessing a community finance loan through initiatives such as the No Interest Loan Scheme (NILS) (1.2%). With no-one reporting having used both, these results point to a potential gap in the number of loans available to meet demand. For example, while 22, 396 NILS loan were written in 2016 [25], there were 619,549 new SACCs loan issued over a similar period [2].

Further, while schemes like NILS and Centrelink Advance Payments provide affordable credit, the eligibility requirements, limitations on the use of the loan and the slower approval process compared to SACCs loan [1] may, in some instances, limit the appropriateness and accessibility of these types of credit.

In addition to differences in the type of credit used, there were differences in the number of credit sources used between people with low or very low levels and people with high levels of financial products and services (Figure 9). 7.8% of people in the low or very low group who had access to credit reported using 4 or more sources of credit in the 12 months prior to the survey, compared to 1.9% of people in the high group. This high usage of different credit sources is of concern and raises questions about responsible lending across different credit providers and the adequacy and accessibility of safety nets, savings and appropriate and affordable credit.

Figure 9:

Number of credit sources used in the last 12 months – proportion of people who could access credit

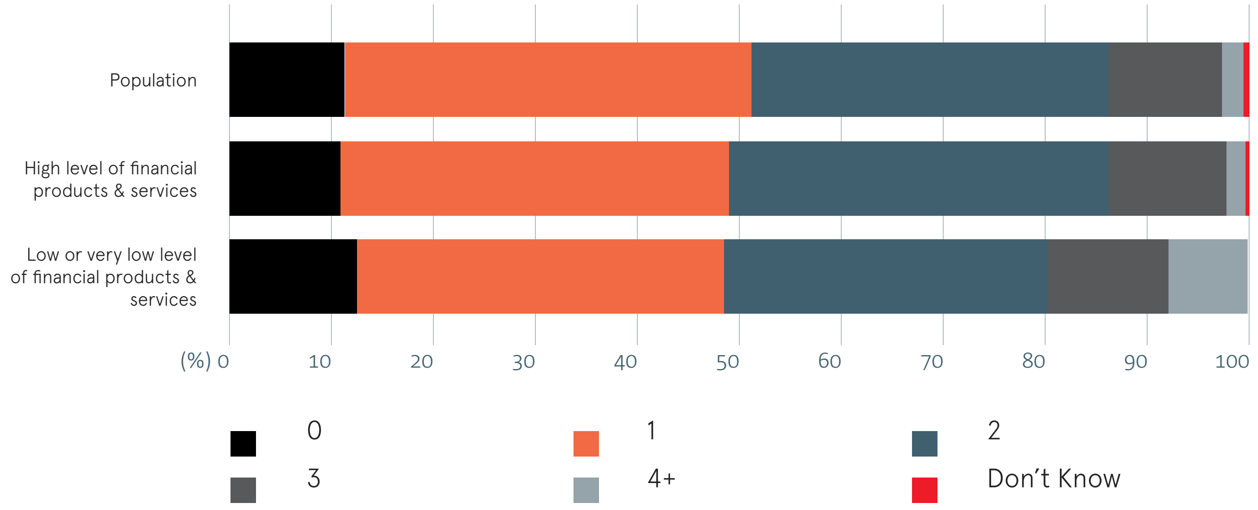


Figure 8: Source: Roy Morgan Research 2016
Notes: Sample size population = 1310, sample size low or very low level of financial products & services = 70, sample size high level of financial products & services = 875

[G] Calculations were done using ASIC's MoneySmart payday loan calculator [21]
[H] Average lending rate (Personal loans; Revolving credit; Credit cards; Standard) in 2016 [22]
[I] Average lending rate (Personal loans; Term loans (unsecured); Fixed) in 2016 [22]
[J] Calculations were done using ASIC's MoneySmart credit card calculator [23] and personal loan calculator [24]. Amount repaid over 5 months; assumes no fees charged

People with low or very low levels of financial products and services also reported a higher unmet need for credit (13.2%) than the population's average (3.7%), and their counterparts with high level of financial resources (0.5%; Figure 10). 70.9% of people with low or very low levels of financial products and services reported no unmet credit need because they did not want to use credit/loans (compared to 49.0% of the overall population). Interestingly, the majority of people who reported this also had no access to any credit/loans (71.4%) and no difficulties accessing financial products and services (70.1%). This suggests that some people with low or very low levels of financial products and services are voluntarily and (although more research is needed to understand this trend) probably appropriately not engaging with credit.

Figure 10:
Unmet need for credit

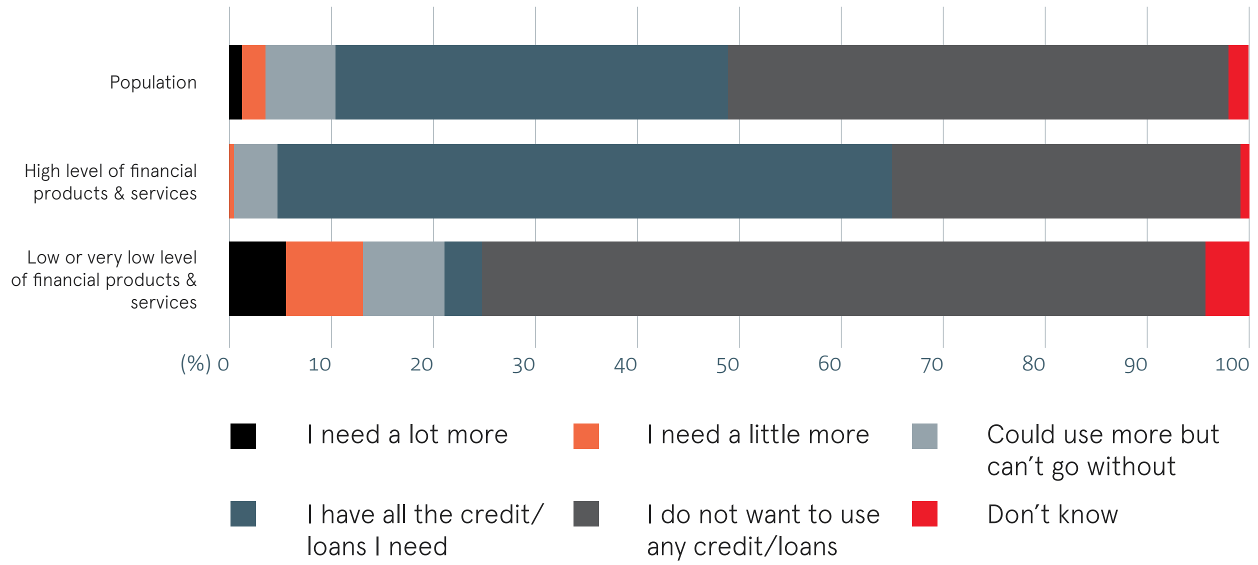


Figure 10: Source: Roy Morgan Research 2016
Notes:Sample size population = 2006, sample size low or very low level of financial products & services = 231, sample size high level of financial products & services = 1030

Of those who needed more credit, 48.6% of people in the high group reported it would be for big household expenses, making it the most commonly reported reason by this group (Figure 11). This is in contrast to only 11.4% of people with a low or very low level of financial products and services who reported an unmet credit need.

In fact, people with very low or low levels of financial products and services reported more frequently needing additional credit to cover cost of living expenses like education (24.0%), health (24.6%), small household expense (16.9%), and utilities (22.5%). This is compared to 15.5%, 22.1%, 13.7% and 13.9% of the population respectively. The fact that people need credit to cover their cost of living is concerning, especially when considering that the price of housing (including utilities [4]), health, and education all increased by more than CPI[K][5]. It points to the need for adequate and appropriate income levels and safety nets to meet the basic costs of living.

Further, 33.9% of people in the low or very low group reported needing more credit to cover other debts, compared to 26.4% of the overall population and 19.9% of people with a high level of financial products and services. This again raises concern regarding the affordability and appropriateness of the credit sources they use and have access to.

Figure 11:

Nature of unmet need for credit – proportion of people who indicated an unmet credit need

	POPULATION	HIGH LEVEL - FINANCIAL PRODUCTS & SERVICES	LOW OR VERY LOW LEVEL - FINANCIAL PRODUCTS & SERVICES
Car-related expense	37.3%	34.2%	36.1%
Education-related expense	15.5%	4.1%	24.0%
Health and medical related expenses	22.1%	18.2%	24.6%
Rent / accommodation	10.5%	6.1%	7.6%
Big household expense (e.g. repairs, furniture, electrical equipment)	25.6%	48.6%	11.4%
Small household expense (e.g. food, clothing)	13.7%	6.1%	16.9%
Water, gas, electricity or telephone bills	13.9%	7.9%	22.5%
Paying back other debts	26.4%	19.9%	33.9%
Emergency or "just in case"	26.2%	28.1%	22.9%
Other (please specify)	7.6%	11.0%	5.6%
Don't know	5.1%	4.0%	7.7%

Figure 11: Source: Roy Morgan Research 2016

Notes: Sample size population = 214, sample size low or very low level of financial products & services = 51, sample size high level of financial products & services = 48. Multiple answers were allowed so total is greater than 100%

[K] Calculations were based on original data and expressed as an average of annual percentage change from corresponding quarter last year [5]

Insurance

People with low or very low levels of financial products and services reported higher unmet needs for insurance, particularly home contents and health insurance.

Over half (53.5%) of the people with low levels of financial products and services reported having no form of insurance, compared to 11.8% of the overall population, and 0.4% of people in the high group. Further, only 0.8% reported having a lot of insurance. This is in contrast to 56.2% and 36.5% of people with a high level of financial products and services and the population respectively (Figure 12).

Figure 12:
Access to insurance

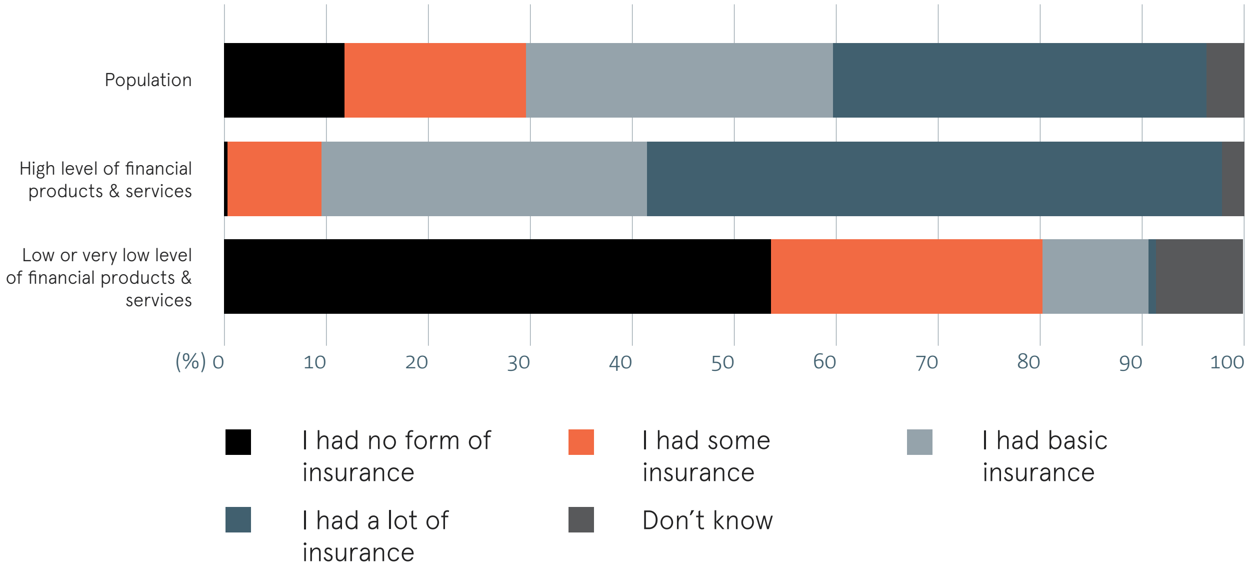
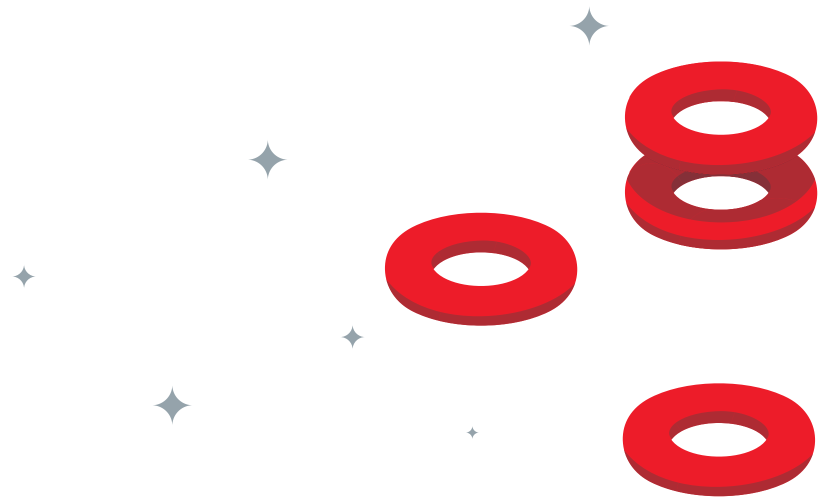


Figure 12: Source: Roy Morgan Research 2016

Notes: Sample size population = 2006, sample size low or very low level of financial products & services = 231 sample size high level of financial products & services = 1030



Motor vehicle insurance was the most common type of insurance held across all groups. As Compulsory Third Party Insurance (CTP) is mandatory in all Australian states and territories [26], this is not unexpected. However, while people in the low or very low group who reported having insurance mostly had one insurance product (51.3%), the majority of people with a high level of financial products and services reported having 3 or more types of insurance (78.7%; Figure 13).

Figure 13:

Number of insurance products held – proportion of people who indicated access to insurance

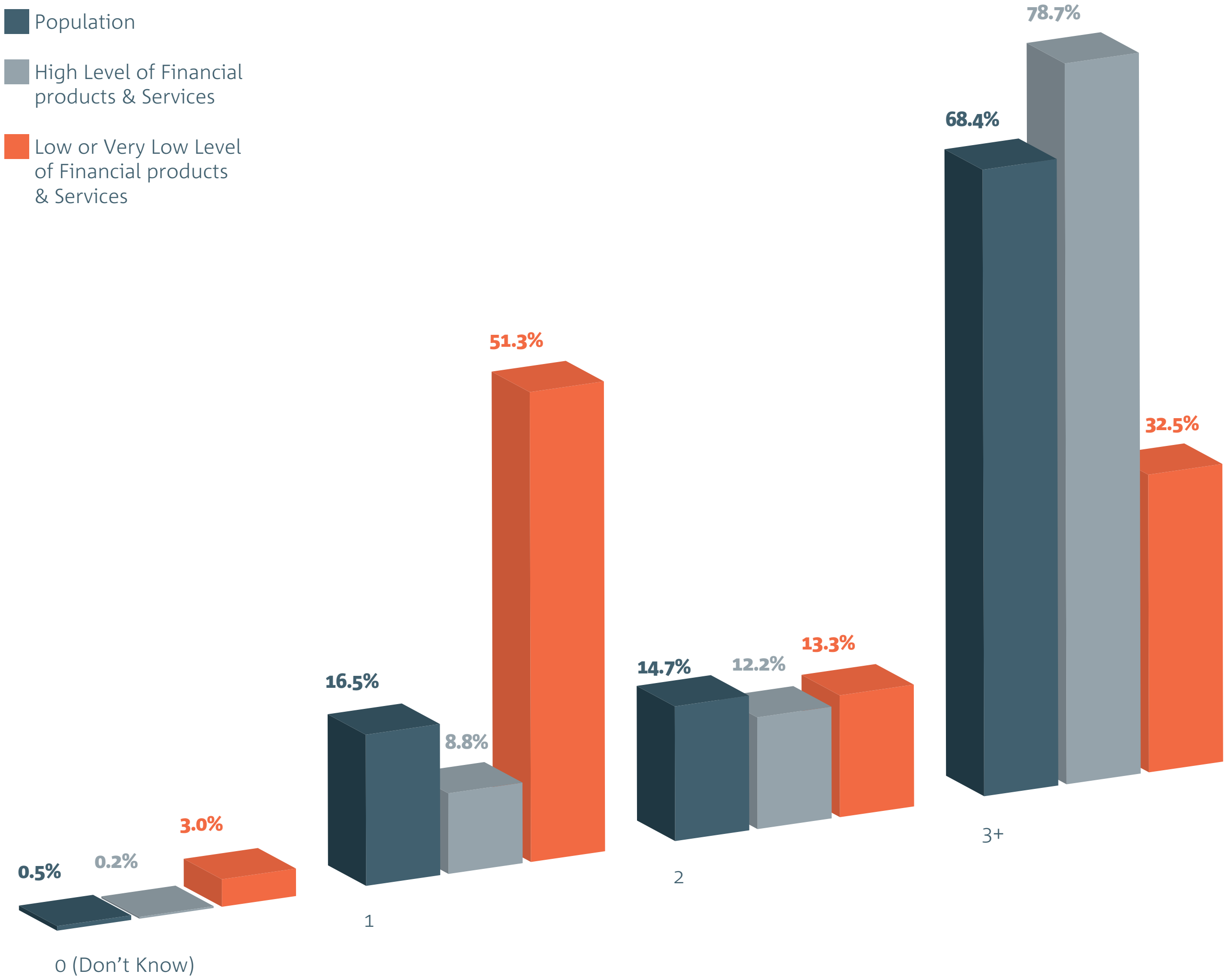


Figure 13: Source: Roy Morgan Research 2016

Notes: Sample size population = 1707, sample size low or very low level of financial products & services = 89, sample size high level of financial products & services = 1003

30.9% of people in the low or very low group reported needing more insurance (compared to 3.6% of people from the high group; Figure 14). A further 31.5% indicated they did not know (compared to 6.5% of the high group), leaving just over 1 in 3 (37.6%) with no unmet insurance needs (compared to 89.9% of people with a high level of financial products). Rising premiums and increasing mistrust in the value – relative to cost – of insurance packages [27, 28] are some of the drivers leading people to be under-insured. This, combined with a lack of insurance products targeted to people on low income [29], raises concern for this group's ability to access and draw on affordable and appropriate insurance to deal with external shocks.

Figure 14:
Unmet need for insurance

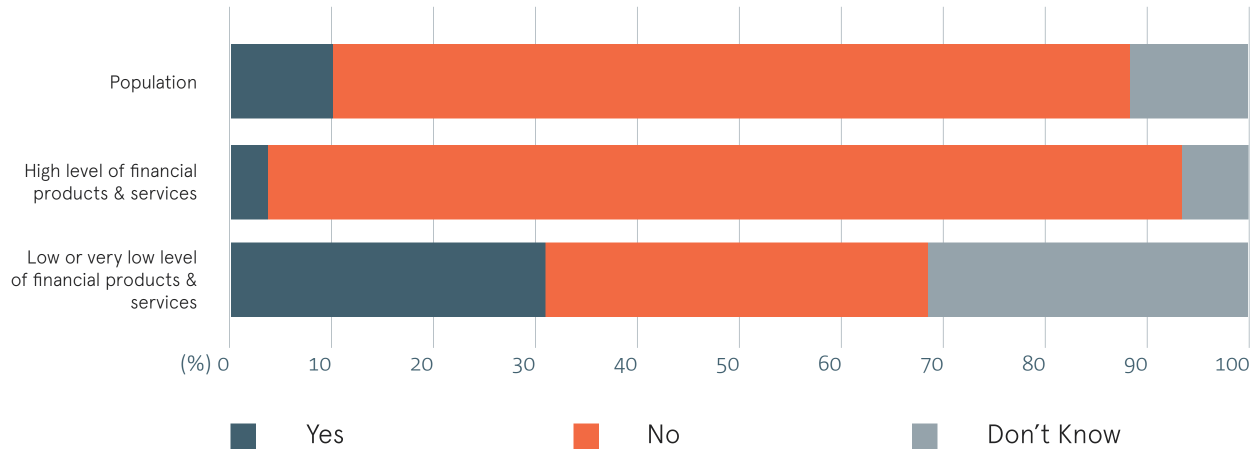


Figure 14: Source: Roy Morgan Research 2016
Notes: Sample size population = 2006, sample size low or very low level of financial products & services = 231, sample size high level of financial products & services = 1030

Of those with low or very low levels of financial products and services who needed more insurance, 63% indicated needing more home contents insurance, followed by health insurance (59.0%) and motor-vehicle insurance (31.3%; Figure 15). The same trends can be observed in the general population. On the other hand, 47.3% of people with a high level of financial products and services who had an unmet insurance need reported a need for other types of insurance than motor, health or home building and contents[L].

Figure 15:

Type of extra insurance needed – proportion of people with an unmet insurance need

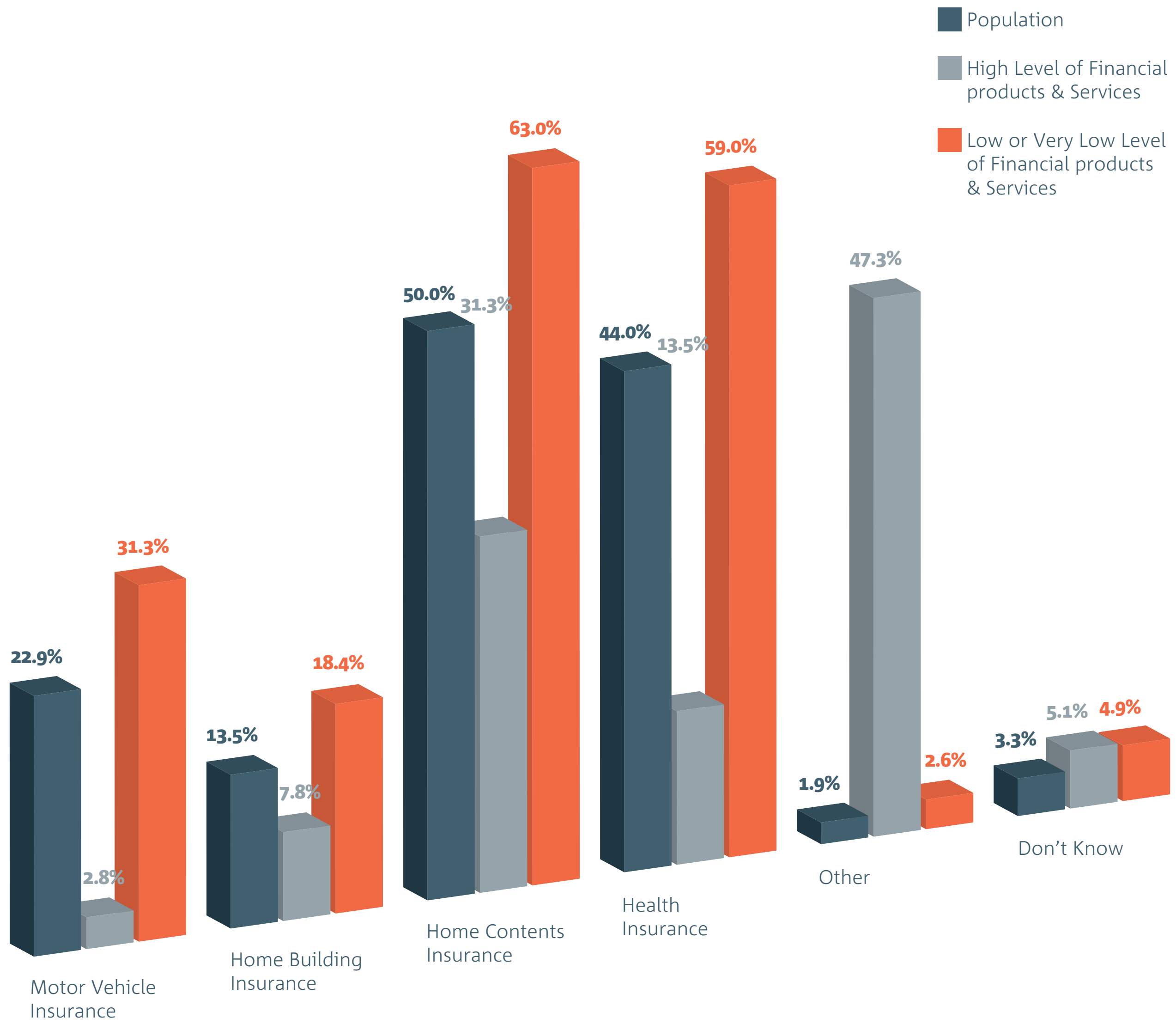
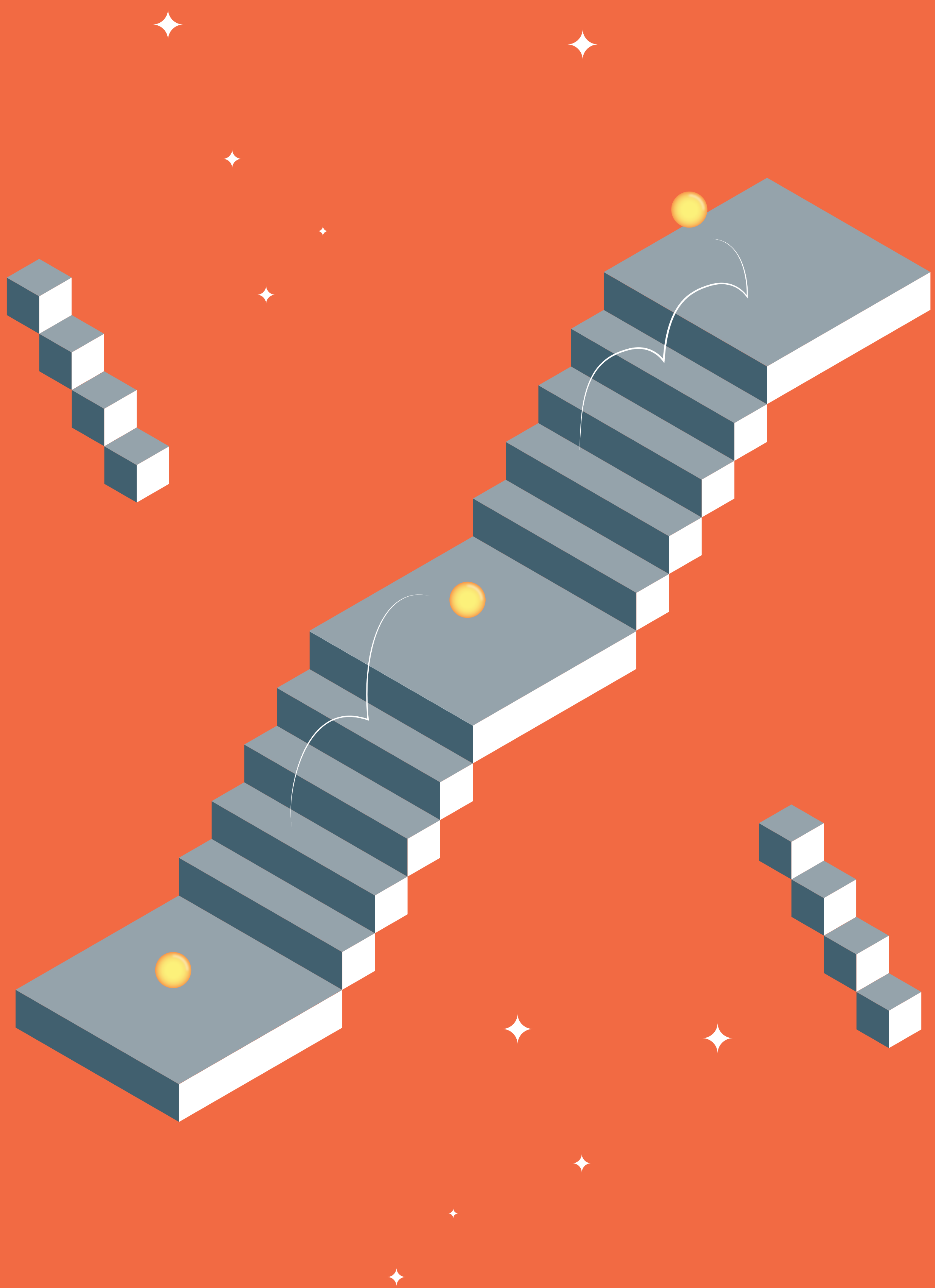


Figure 15: Source: Roy Morgan Research 2016

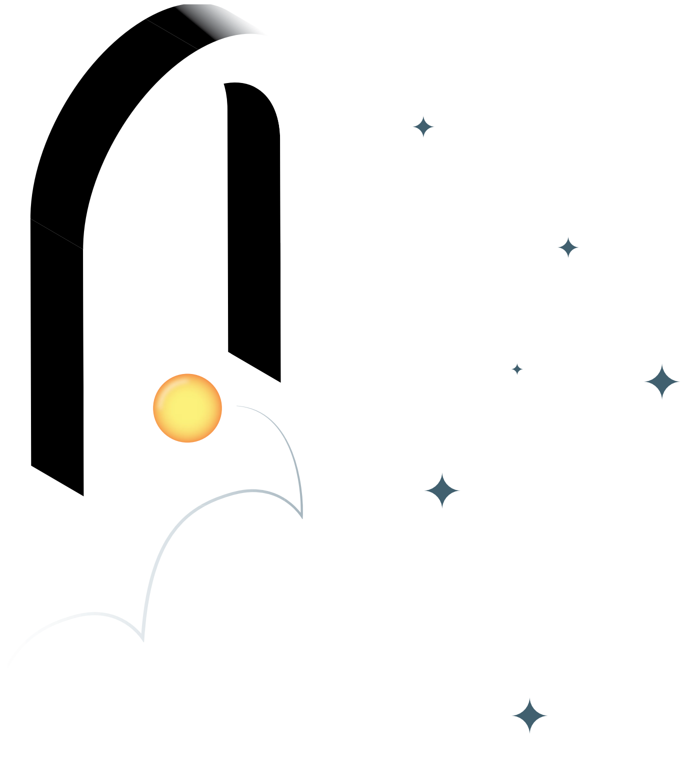
Notes: Sample size population = 200, sample size low or very low level of financial products & services = 74, sample size high level of financial products & services = 38

[L] Other types of insurance reported included life insurance, income protection insurance and pet insurance.



Why are people with low levels of financial products and services missing out?

People with low and very low levels of financial products and services were more likely to experience difficulties accessing financial products and services than their counterparts with high level of resources, or the general population. While close to 4 in 5 people with a high level of resources reported no difficulties accessing financial products and services, this figure dropped to approximately 3 in 5 for the group with low or very low levels of financial products and services (Figure 16).



The most commonly reported difficulty in accessing financial products and services for the low or very low group was the cost (16.1%), followed by a lack of trust (10.2%) – in contrast to poor customer service (7.5%) and cost (7.3%) for the high group. The three largest discrepancies in reported difficulties between the very low and low group and the high group were in their experiences of 'language difficulties', 'discrimination because of ethnic or cultural background' and 'disability makes it hard to access service'. These were 3.5 to 39.5 times more prevalent amongst people with low or very low levels of financial products and services, than people with a high level of financial resources.

In addition, the proportion of people in the low or very low group reporting no service in their area or transport/distance as barriers to accessing financial products and services was over twice as high, compared to people with a high level of financial resources. As customers' use of electronic banking outstrips branch visits [30], banks, as well as building societies and credit unions, are closing down branches [31]. With low-income households, people not in paid employment and people who did not finish secondary school amongst both the least digitally included [32] and people with low or very low financial resources, this trend raises concern for their capacity to access financial products and services.

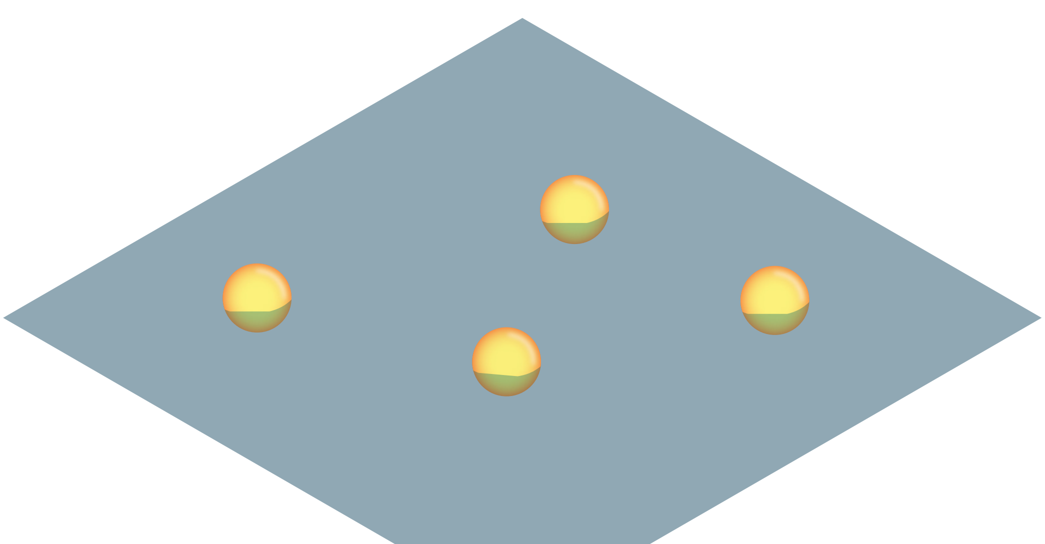
These are telling statistics about the work to be done by financial institutions to make financial products and services accessible for different groups of people.

Figure 16:
Difficulties accessing financial products and services

	POPULATION	HIGH LEVEL - FINANCIAL PRODUCTS & SERVICES	LOW OR VERY LOW LEVEL - FINANCIAL PRODUCTS & SERVICES
Cannot trust them	5.9%	4.4%	10.2%
Cost of service	9.4%	7.3%	16.1%
Disability makes it hard to access service	1.5%	0.8%	2.8%
Waiting too long/Appointment not available at the right time	5.1%	4.9%	8.3%
Language difficulties	0.9%	0.1%	3.6%
No service in your area	3.1%	1.8%	5.1%
Transport/distance	3.6%	2.6%	5.8%
Poor customer service	7.1%	7.5%	6.8%
Discrimination because of ethnic or cultural background	0.5%	0.3%	1.6%
Not the right services in your area	2.2%	2.1%	3.7%
Other reason	1.3%	1.4%	0.8%
No difficulties accessing financial services	74.3%	78.9%	59.8%

Figure 16: Source: Roy Morgan Research 2016

Notes: Sample size population = 2006, sample size low or very low level of financial products & services = 231, sample size high level of financial products & services = 1030. Multiple answers were allowed so total is greater than 100%



It is critical to find ways to strengthen the availability of affordable, accessible and appropriate financial products and services

Conclusion

People with low or very low levels of financial products and services are at risk of not being able to draw on external financial resources in times of financial adversity. In addition, with low levels of financial products and services found to be associated with low levels of resources across the other components of financial resilience [11], they are also at risk of not being able to bounce back from a financial shock.

In a context of stagnant wage growth, increased financial stress, rising insurance premiums, higher costs of living for essentials like housing and utilities, and growing use of high-cost fringe credit [1, 2, 3, 4, 5], the average level of financial products and services held by an adult in Australia declined between 2015 and 2016. More than 1 in 10 adults reported a low or very low level of financial products and services in 2016.

By highlighting which financial products and services adults with low or very low levels of resources in this component are particularly missing out on, the report helps identify areas where further research and/or investment might be necessary to help improve the level of access different people have to financial products and services in Australia.

The results in this report emphasise a need for appropriate, accessible and affordable financial products and services, particularly for low-income households. There are currently some alternatives in place: Essentials by AAI, and Insurance 4 That by IAG were developed with Good Shepherd Microfinance to provide better suited insurance alternatives to people on low incomes. While this is a step in the right direction, more is required in terms of simplifying insurance products to improve accessibility as well as consumer trust.

Similarly, StepUP, the No Interest Loan Scheme and Centrelink Advance Payment are some of the low-cost credit alternatives available to people on a low income. However, these schemes, while undoubtedly more affordable, do not match the scale, flexibility or speed of fringe loans [1]. Other alternatives (such as the Social Emergency Lending scheme recently put forward [1],) include appropriate safety nets, adequate incomes, savings schemes and appropriate financial guidance and counselling, need to be explored if we want to successfully divert consumers from high-cost credit options. With a growing number of adults in Australia experiencing some level of financial stress, it is critical to find ways to strengthen the availability of affordable, accessible and appropriate financial products and services.

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