Financial Resilience in Australia 2015

Summary

What is Financial Resilience?

The concept of 'resilience' has been developed and incorporated into many fields including health, natural disasters, education and community infrastructure. It is a dynamic process that enables individuals to bounce back after adverse events and experiences, adapt to changing circumstances, and deal with environmental stress. As such, it is best characterised by adaptability rather than stability.

Financial resilience is the ability to access and draw on internal capabilities and appropriate, acceptable and accessible external resources and supports in times of financial adversity.

This research identifies the resources that work together to enable financial resilience. These are outlined below, and include: economic resources, financial products and services, financial knowledge and behaviour, and social capital.

ECONOMIC RESOURCES

- Savings
- Debt management
- Ability to meet living expenses
- Ability to raise funds in an emergency
- Income level

FINANCIAL PRODUCTS & SERVICES

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

FINANCIAL KNOWLEDGE & BEHAVIOUR

- Knowledge of financial products & services
- Confidence using financial products & services
- Willingness to seek financial advice
- Proactive financial actions

SOCIAL CAPITAL

- Social connections
- Access to social support in times of crisis
- Access to community and government support when needed

www.csi.edu.au/financialresilience
www.nab.com.au/financialresilience

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Who's doing better? Who's faring worse?

The Best Off

University Education

Home Owner

$100k+
Earn $100k +

People who own their own homes, have a 'university-level' education and/or personal yearly income more than $100k have higher levels of financial resilience.

People living in the Australian Capital Territory (ACT), on average, have higher levels of financial resilience than people in other states or territories. Living in the ACT was also significantly associated with a higher financial security. On average, people experiencing the cumulative impact of multiple 'protective factors' are also more likely to be financially secure.

Mixed Results

Both Men & Women

Young & Old

Optimistic & Pessimistic

While overall gender was not found to have a significant impact on financial resilience, women face lower general levels of economic resources than men, and men have lower levels of social capital than women.

People aged 25 and over have higher overall financial resilience than people aged 18 to 24. There are some differences when you look at the different categories of financial resilience (as listed on the previous page), however. For example, people aged 18 to 24 have higher levels of social capital, whilst their levels of financial knowledge and behaviour are lower than that of older age groups. Notably, when controlling for other differences, young people aged 18 to 24 are likely to be more financially resileint than people 30 to 49 years of age. This suggests that differences other than age itself are driving the lower financial resilience of young adults. For example, the greater likelihood of mental health problems and unemployment for this group.

People who are optimistic have higher levels of financial resilience than people classified as neutral or pessimistic. Further, pessimism increases the probability of being in severe or high financial stress whilst optimism increases the probability of being financially secure. These findings are independent of mental health status.

The Worst Off

Living in Social Housing

<$20k
Earn less than $20k

Possible Mental Illness

People in social housing, people with a mental illness, those born overseas in a non-English speaking country, the unemployed and underemployed and those with personal income below $20,000 per year fare poorest on the financial resilience spectrum.

People born in a non-English speaking country are twice as likely to have "very low" and "low" access tofinancial products and services compared to people born in an English speaking country; although this is not the case for economic resources. Lower levels of access to financial products and services may therefore reflect differences in English language capabilities and the impact of this on ability to access financial products and services.

People with a mental illness fare worse than people with no mental illness in all components of financial resilience. The presence of a mental illness significantly increases the likelihood of a person being in severe or high financial stress and decreases their probability of being financially secure compared to a person with no mental illness.

People experiencing the cumulative impact of multiple 'risk factors' described above are predicted to be in severe or high financial stress/vulnerability depending on the combination of risk factors experienced.

From financial exclusion to financial resilience

CSI has partnered with NAB over five years to measure financial exclusion in Australia, based on access to financial products and services. The main difference between financial exclusion and financial resilience is that financial exclusion measures access to financial products and services only, whereas financial resilience combines and measures four components for coping with financial adversity and achieving financial security. This new approach provides a much more in-depth understanding of people's financial situations, the resources they have to protect themselves in times of adversity and clearer signposts of where additional support or resources are needed and for who.

Financial Exclusion:

Measures access to financial products ✓

Measures demand for financial products ✗

Identifies how to move vulnerable consumers towards greater opportunity and strength ✗

Provides a reliable comparison on interventions ✗

Financial Resilience:

Measures access to financial products ✓

Measures demand for financial products ✓

Identifies how to move vulnerable consumers towards greater opportunity and strength ✓

Provides a reliable comparison on interventions ✓

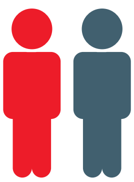
What is the financial resilience of the Australian population?

35.7%
of Australian adults are financially secure.

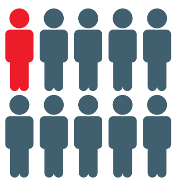
64.3%
of Australian adults are facing some level of financial stress/vulnerability.

2 million
people experience severe or high financial stress/vulnerability.

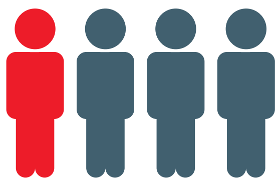
10 million
meople experience a low level of financial stress/vulnerability.



48% of people only have a 'basic understanding' of financial products and services.

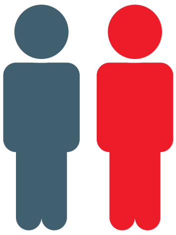


Almost 1 in 10 people have 'no understanding' of financial products and services (9%).

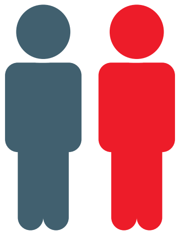


1 in 4 people report having experienced difficulties accessing financial services in the last 12 months.

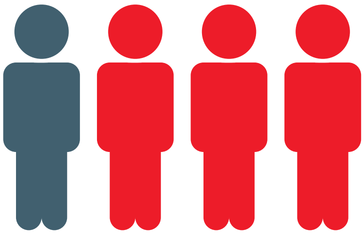
What are we doing well?



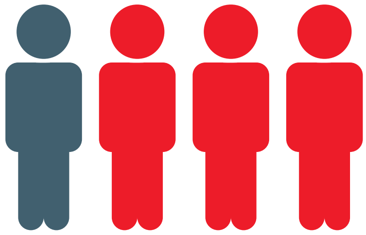
1 in 2 follow a budget (49.1%).



1 in 2 make extra repayments on personal loans (56.8%).

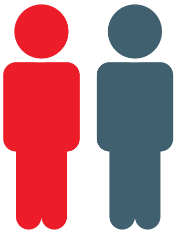


1 in 4 report seeking professional financial advice (25.8%).

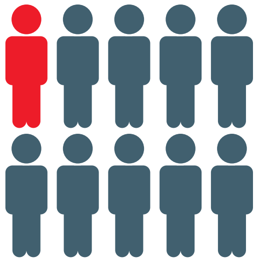


1 in 4 make extra repayments on home loans (28.5%).

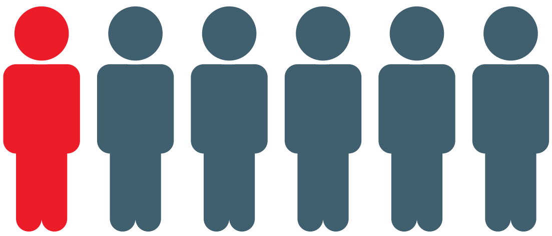
Where could we improve?



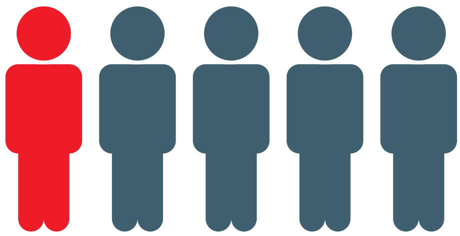
1 in 2 people have limited to no savings.



1 in 10 have no savings at all.



1 in 6 (over 17%) people report being over-indebted or just managing to meet their repayments.



More than 1 in 5 people report having minimal (18.3%) social connections or being isolated or alone (3.7%) most of the time. Isolation is recognised as a key negative factor in resilience.

On average, the Australian population is least vulnerable in accessing financial products and services. However, 1 in 5 (20.2%) had no access to any credit in the previous 12 months and 12.4% said they had an unmet need for credit.

8.7%

report having no access to any type of insurance.

9.7%

express having an unmet need for insurance.

3.2%

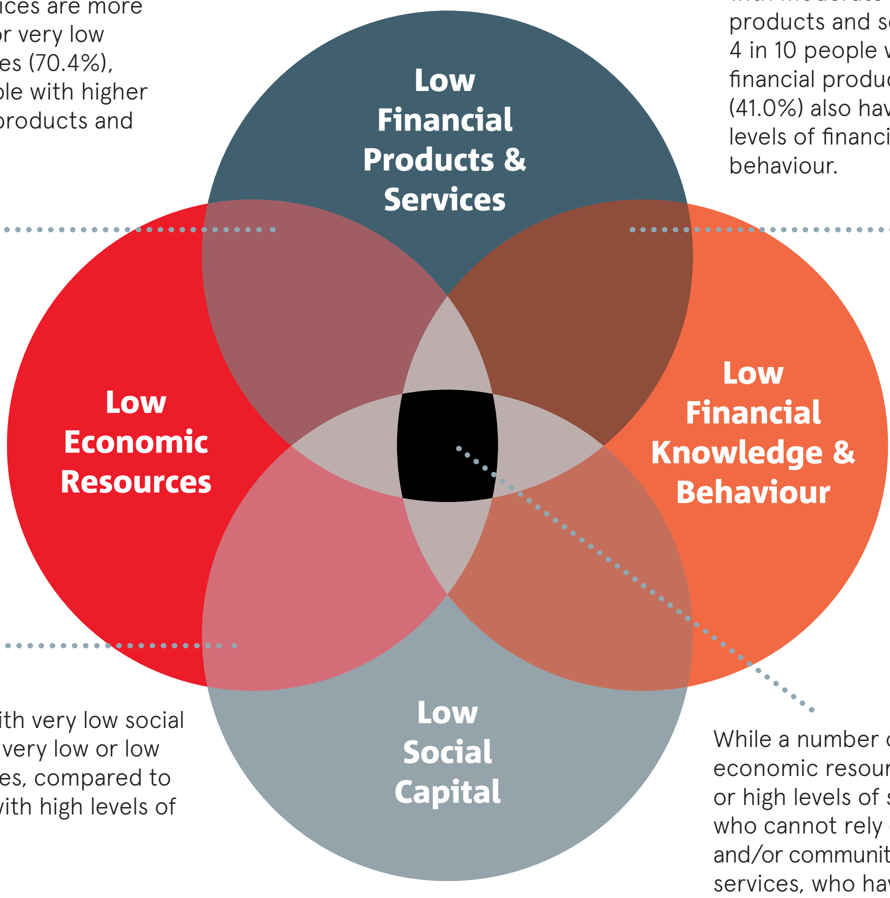
state that they need support but have no access to any form of community or government support.

A deeper understanding of financial resilience can be drawn from looking at how the different financial resilience components intersect.

Financial resilience begins to weaken when low levels of resources across the pillars start to overlap. Not accessing financial products and services will mean that your economic resources and financial knowledge and behaviours will be low:

Low levels of financial knowledge and behaviour occurs in many people regardless of their access to financial products and services. 89% of people with very low levels of financial products and services have low or very low levels of financial knowledge and behaviour. However, more than 6 in 10 people with moderate levels of financial products and services (65.5%) and 4 in 10 people with high levels of financial products and services (41.0%) also have low or very low levels of financial knowledge and behaviour.

People with low levels of financial products and services are more likely to have low or very low economic resources (70.4%), compared to people with higher levels of financial products and services (19.0%).



85.1% of people with very low social capital levels have very low or low economic resources, compared to 22.5% of people with high levels of social capital.

While a number of people with low economic resources have moderate or high levels of social capital, people who cannot rely on family / friends and/or community based supports and services, who have fewer economic resources and have lower levels of access to financial products and services, are particularly vulnerable.

Examples of individual situations and predicted financial resilience outcomes

CARLOS
Benchmark Person

A hypothetical person who has all of the baseline characteristics (the 'benchmark' person); male, aged 35 to 49, lives in NSW, is neither pessimistic nor optimistic, has no probable serious mental illness, has a personal income of $60,000 to $79,999 per annum, is employed full time, lives in rental accommodation, has a Year 12 level of education and was born in Australia.

Predicted Financial Resilience Score: (1-4)
Score = 2.87

Predicted Financial Resilience Result:
Low Financial Stress/ Vulnerability

LIN
Cumulative Protective Factors

A hypothetical woman with cumulative 'protective' factors; optimistic, an established home owner with a degree. Like Carlos, Lin is aged 35 to 49, lives in NSW, has no probable mental illness, has a personal income of $60,000 to $79,000 per annum, is employed full time and was born in Australia.

Predicted Financial Resilience Score: (1-4)
Score = 3.47

Predicted Financial Resilience Result:
Financially Secure

JOE
Cumulative Risk Factors

A hypothetical man with cumulative 'risk' factors; homeless, unemployed, personal income less than $20,000 and has a probable serious mental illness. Like Carlos, Joe is aged 35 to 49, lives in NSW, is neither pessimistic nor optimistic, has a Year 12 level of education and was born in Australia.

Predicted Financial Resilience Score: (1-4)
Score = 1.57

Predicted Financial Resilience Result:
Severe Financial Stress/ Vulnerability

JESSICA
Cumulative Mid-Level Risk Factors

A hypothetical woman with cumulative risk factors, but less severe than Joe; underemployed, earning a low income of between $20,000 and $39,999, living in short term accommodation. Like Carlos, Jessica is aged 35 to 49, lives in NSW, is neither pessimistic nor optimistic, has no probable serious mental illness, has a Year 12 level of education and was born in Australia.

Predicted Financial Resilience Score: (1-4)
Score = 2.37

Predicted Financial Resilience Result:
High Financial Stress/ Vulnerability

In Conclusion

As we have seen, people who receive low financial resilience scores are likely to be experiencing a range of challenges. They may have difficulty raising funds in an emergency; have limited access to mainstream financial services; have poor financial knowledge and sometimes display poor financial behaviour; have a greater reliance on fringe and informal products; and may experience social isolation.

Although a range of financial inclusion initiatives are available in Australia, they are unlikely to be able to respond to the scale of the group identified in the severe and high financial stress and vulnerability categories. This raises very real concerns about the financial wellbeing of 11.1% of the adult population (2,022,000 people) in severe or high financial stress and vulnerability.

Reduced financial resilience is associated with: young age (however, this is no longer the case when we control for housing and employment, suggesting that these factors explain the lower financial resilience of young people); certain types of housing; country of birth; unemployment and underemployment; low educational attainment and income levels; and poor mental health.

By highlighting differences across the four financial resilience components, we can see that focusing on only one component (such as financial literacy or financial inclusion) will be insufficient as we work to achieve financial stability among vulnerable Australians.

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