



Measuring Financial Exclusion In Australia

The Centre for Social Impact
for National Australia Bank

JUNE 2013





Contents

Foreword from NAB	2
Acknowledgments	4
Executive Summary	6
Introduction	8
The extent of financial exclusion in Australia	10
Cost exclusion	14
The demographic profile of financial exclusion	18
Access to insurance in Australia	26
Mapping financial exclusion	34
Measures to promote financial inclusion	38
Conclusion	44
Appendix 1 – Bibliography	46
Appendix 2 – Methodology	48

Foreword

At NAB, our aim is to help all Australians have a healthy relationship with money, which is why we are taking action on the issue of financial exclusion.

In a country with such a strong financial system, I believe it is unacceptable that more than three million Australians are unable to access mainstream financial services.

This research is critical to informing what the industry needs to do, in order for every Australian to get access to a transaction account, a moderate amount of credit and basic insurance.

NAB is leading the way towards a more financially inclusive Australia, by making mainstream banking more accessible and through our commitment of \$130 million of capital to our microfinance program, which has now been operating for 10 years.

Yet the sheer scale of financial exclusion, impacting almost 18 percent of the adult population, means there is much more to do.

We are working to find new, innovative approaches to these crucial products, in terms of pricing and distribution, to meet the market need in a sustainable way.

However, financial exclusion is a deep, complex issue and it's something the whole industry needs to tackle, if we're going to achieve significant change.

By ensuring everyone has the opportunity to fully participate in the financial system, we can work together to build a more prosperous Australia.

Cameron Clyne, Group CEO
National Australia Bank



Acknowledgments

The Lead Researcher and Author of this report is Chris Connolly, Research Associate at the Centre for Social Impact.

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 partnership between the business schools of the University of New South Wales, the University of Melbourne, Swinburne University of Technology and The University of Western Australia. CSI provides socially responsible business management education and research in the common cause of building a stronger civil society for Australia.



NAB

www.nab.com.au

National Australia Bank (NAB) is a financial services organisation with over 43,000 people, operating more than 1800 branches and service centres and responsible to more than 480,000 shareholders. While our core franchise is Australian-based, we also have interests in New Zealand, Asia, the United Kingdom and the United States of America. Each of our brands is built with a common aim: to have fair products and services, fair fees and charges and world-class relationships built on the principles of help, guidance and advice.

At NAB, Corporate Responsibility is about how what we do in our everyday jobs impacts the lives of Australians, their communities and the environment. It's about understanding the role our business plays in society - and using our unique position to address the issue of financial exclusion and help all Australians to have a healthy relationship with money.



Roy Morgan Research

www.roymorgan.com

Roy Morgan Research is a full service independent research organisation specialising in omnibus and syndicated data. Roy Morgan Research has more than 65 years' experience in collecting objective, independent information on consumers.

Research Advisory Committee

A small Research Advisory Committee provided additional input and oversight to the research team. The members were:

- Gerard Brody, Consumer Action Law Centre
- Adam Mooney, Good Shepherd Microfinance
- Trish Van Dartel, Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA)
- Dean Pearson, Senior Economist, NAB
- Corinne Proske, Community Finance & Development, NAB
- David Tennant, FamilyCare Shepparton

This report, and related reports on financial exclusion, are available at:

www.csi.edu.au

and

**[www.nab.com.au/
microfinanceresearch](http://www.nab.com.au/microfinanceresearch)**

This report may be cited as:

Connolly C, *Measuring Financial Exclusion in Australia*,
Centre for Social Impact (CSI) – University of New South Wales, 2013, for National Australia Bank.

Executive Summary

In May 2011 the Centre for Social Impact published its first measurement of financial exclusion in Australia with the objective of improving our understanding of financial exclusion and its interaction with social and economic disadvantage in Australia. The research – commissioned by NAB - is repeated annually and is now in its third year.

This year's report shows that around 17.7% of the adult population in Australia were either fully excluded or severely excluded from financial services in 2012. This figure comprises 1.1% of adults who were fully excluded (they had no financial services products) and 16.6% of adults who were severely excluded (they only had one financial services product).

In real terms, 194,117 adults are fully excluded and 2,929,402 are severely excluded, providing a combined total of 3,123,519.

The new figures show an increase on the 2011 data, when 17.2% of the population were either fully excluded or severely excluded. In this project we are able to track multiple years of data for the headline figures on financial exclusion, and also examine the medium term trend.

Data for this report comes from our partnership with Roy Morgan Research allowing us access to over 50,000 face-to-face interviews with Australian customers each year. NAB has also provided access to its internal data on the use of financial services.

This year, for the first time, the report measures access to insurance products, with data taken from the main survey in 2012 and a separate smaller online survey of 1500 people in March and April 2013.

We use the following definition of financial exclusion:

Financial exclusion exists where individuals lack access to appropriate and affordable financial services and products – the key services and products are a transaction account, general insurance and a moderate amount of credit.

Key findings

Costs and financial exclusion – The average annual cost of basic financial services is \$1739. This is made up of \$85 for a basic bank account, \$711 for a low cost credit card, and \$943 for general insurance (basic motor vehicle and basic home contents combined). For 9.2% of the population this would represent over 15% of their annual income. For another 9.1% of the population this would represent between 10 and 15% of their annual income. These costs severely limit the ability of a large proportion of the Australian population to gain access to mainstream financial services.

Demographic profile of financial exclusion – This year's report includes a detailed demographic profile of financial exclusion. We found that some population segments have dramatically higher rates of exclusion, especially young people aged 18-24, students not in employment, people born in a non-English speaking country, and people earning between \$20,000 and \$25,000 (the working poor). Demand for credit and insurance is likely to be lower amongst 18-24 year olds and students, however their lack of access to mainstream products makes this group vulnerable to predatory lending products and to the loss of uninsured assets. Other groups have a higher demand for financial services, but face significant barriers in relation to the cost and complexity of products.

Insurance cover – For the first time we have included a detailed chapter on insurance. There is a significant unmet need for insurance products, and a range of common barriers to obtaining or keeping insurance. We found that cost, complexity of product and complexity of documentation are key issues.

Location – We also analysed insurance coverage in 58 regions of Australia. Low levels of access to insurance tend to be either inner city areas of the large capital cities, or extremely remote areas.

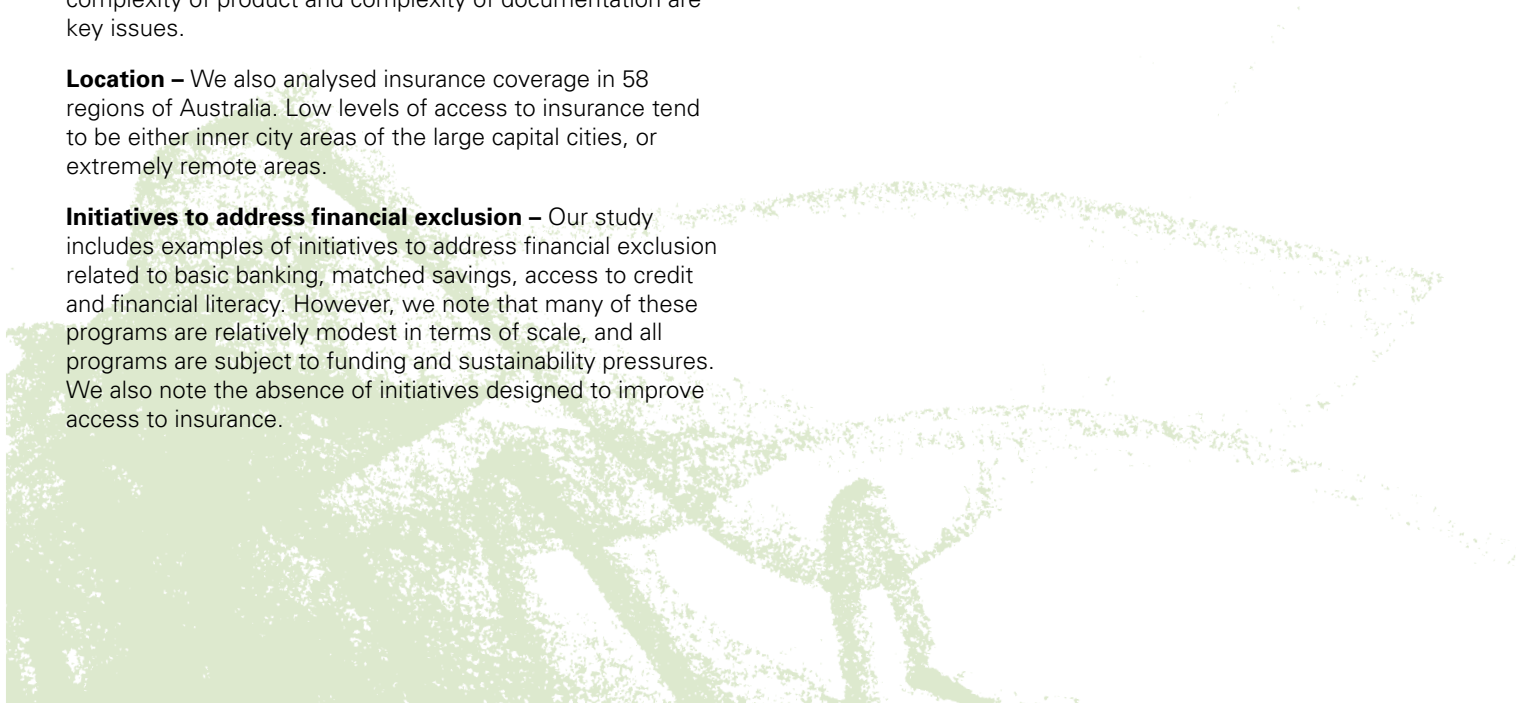
Initiatives to address financial exclusion – Our study includes examples of initiatives to address financial exclusion related to basic banking, matched savings, access to credit and financial literacy. However, we note that many of these programs are relatively modest in terms of scale, and all programs are subject to funding and sustainability pressures. We also note the absence of initiatives designed to improve access to insurance.

Conclusion

This year's report highlights the substantial and growing proportion of the Australian population who remain excluded from financial services. Combined with earlier reports in this research series, we can see that there is a large unmet need for access to affordable and appropriate products.

The report also provides a comprehensive profile of the demographic characteristics of Australians who are excluded, highlighting factors such as age, income, country of birth and location. We also provide insights into the key difficulties reported by individuals who struggle to obtain or keep financial products.

Overall, the efforts to address financial exclusion in Australia appear to be dwarfed by the scale of the problem. Alternative and innovative approaches to microfinance products, distribution and support services need to be investigated to meet the growing levels of financial exclusion in a way that is sustainable.



Introduction

The Centre for Social Impact (CSI) has been examining financial exclusion and developing a methodology for measuring the extent of financial exclusion in Australia. This research is being conducted on behalf of the National Australia Bank (NAB).

The 2013 Report examines data for the 2012 calendar year.

Research history

This research series has been running for three years. Each report includes an analysis of the headline data measuring the extent of financial exclusion in Australia. Reports also examine specific topics in detail.

The 2011 Report

The series began with the publication of Measuring Financial Exclusion in Australia, 2011. The report examined data for the 2010 calendar year based on a large survey (50,000 face to face interviews) complemented by a smaller validation survey (900 online interviews).

As this was the first report, it contained detail on the definition of financial exclusion and a summary of relevant literature. Accessibility was studied in detail in this report.

The 2012 Report

The research was repeated in 2012, measuring data for the 2011 calendar year. Again the data was based on the main large survey (50,000 face-to-face interviews) but this time we supplemented the data with a re-contact survey (661 telephone interviews) focussing only on those consumers who were either fully or severely excluded from financial services.

The 2012 Report included additional sections on the use of credit and issues affecting indigenous consumers. It also included detailed mapping of the extent of financial exclusion in 58 regions across Australia.

The 2013 Report

This report repeats the main measurement of the extent of financial exclusion using data for the 2012 calendar year. Again the data is based on the main large survey (50,000 face-to-face interviews) but this year we have supplemented the data with an additional small survey (1500 online interviews) focussing only on issues related to insurance.

The 2013 Report includes additional sections on the use of insurance, the demographic profile of financial exclusion and a summary of current initiatives aimed at addressing financial exclusion.

Defining Financial Exclusion

Financial exclusion exists where individuals lack access to appropriate and affordable financial services and products – the key services and products are a transaction account, general insurance and a moderate amount of credit.

We limit our definition to “appropriate and affordable financial services and products” – with a clear focus on simple but essential financial services and products.

We identified three essential “needs” that can be met by financial services:

The ability to manage day to day transactions and payments

In this project we use access to a transaction account to measure an individual's access to the ability to manage day to day transactions and payments.

Access to a moderate amount of credit

Credit is a major financial tool to enable access to goods or services that are beyond the monthly budget such as vehicles and furniture. It can also play a significant role in smoothing consumption and protecting against income shocks and financial stress.

Individuals unable to access credit from mainstream financial institutions are often forced to use the informal financial sector or fringe market, such as payday lenders.

It is difficult to measure access to credit in Australia and in this project we have ultimately used access to a credit card as a proxy measure for general access to credit. This should not be read as an endorsement of credit cards as an appropriate or affordable source of credit for all consumers – it is simply a tool to measure access to credit. If a consumer has a credit card they would generally qualify for other forms of mainstream credit. The rate of credit card ownership tracks the general rate of mainstream credit use in Australia very closely (see the 2012 report for a more detailed discussion about the use of credit).

The ability to protect key assets

We include access to general insurance as part of our definition of financial exclusion as it provides a way for individuals to protect their key assets and manage risk.

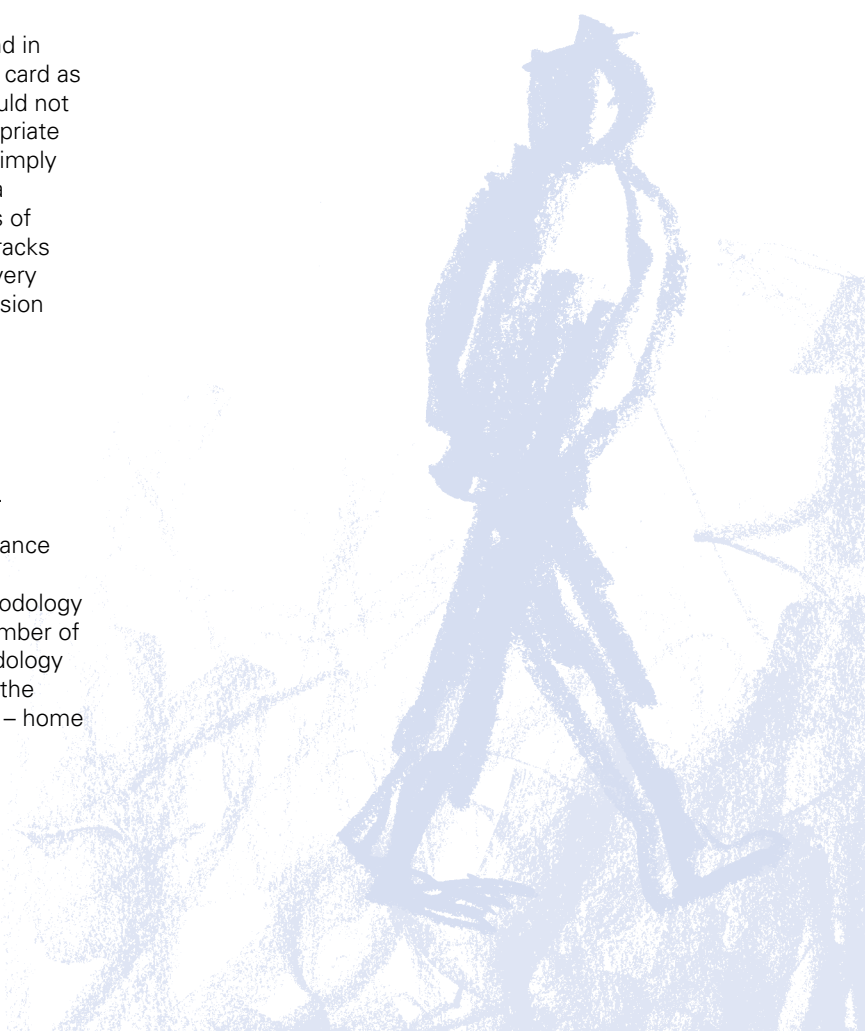
Not all individuals will have a demand for specific insurance products because they do not own a car or valuable possessions which justify insurance. The project methodology acknowledges this factor by combining access to a number of products in the calculation of the indicator. Our methodology also limits the range of insurance products included in the indicator to the most basic general insurance products – home building / home contents insurance and car insurance.

Methodology

Our core methodology is to measure access to financial services products by relying on data collected in the Roy Morgan single source survey. This is a lengthy face to face interview with around 50,000 Australians each year and includes detailed questions on all of the financial products owned and operated by each respondent as well as comprehensive demographic information. This is the largest study of financial exclusion undertaken anywhere in the world.

We have supplemented this core data set with some additional data sources including a smaller online survey of 1500 people who were asked questions about their use of insurance products.

The full methodology for this research is described in Appendix 2.



The Extent of Financial Exclusion in Australia

Around 17.7% of the adult population in Australia were either fully excluded or severely excluded from financial services in 2012. This figure comprises 1.1% of adults who were fully excluded (they had no financial services products) and 16.6% of adults who were severely excluded (they only had one financial services product).

This represents an increase from the previous report, which identified 17.2% of the population as being either fully excluded or severely excluded in the 2011 data.

Financial exclusion – 2012 data

We have measured the extent of financial exclusion in Australia, based on the definition of financial exclusion discussed in the previous chapter.

Three key financial services have been identified and their level of ownership within the population (18 and older) has been measured. Categories of exclusion have been developed based on the number of essential services that individuals have access to (e.g. a person with only one product is categorised as severely excluded).

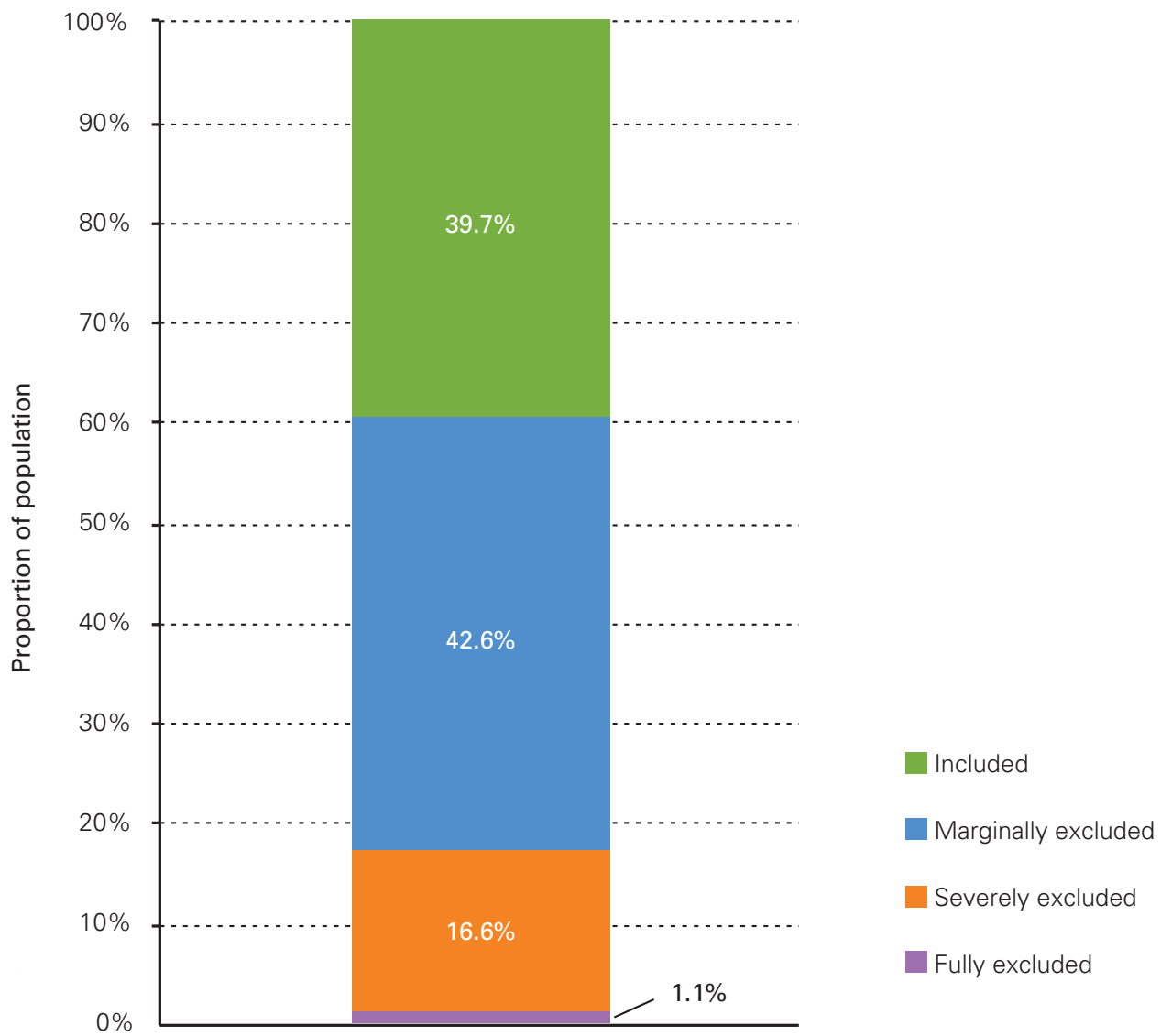
We have measured the extent of financial exclusion in Australia using the core Roy Morgan data set again (50,000 face to face surveys). The high-level results for 2012 are as shown in Table 1.

Table 1: extent of financial exclusion in Australia 2012

Transaction Account	Credit Card	General Insurance	% of population	Category
yes	yes	yes	39.7%	Included 39.7%
yes	yes	no	2.9%	Marginally excluded 42.6%
yes	no	yes	39.0%	
no	yes	yes	0.7%	Severely excluded 16.6% ¹
yes	no	no	15.3%	
no	yes	no	0.1%	
no	no	yes	1.1%	Fully excluded 1.1%
no	no	no	1.1%	

In real terms, 194,117 adults are fully excluded and 2,929,402 are severely excluded, providing a combined total of 3,123,519. We do not consider those in the marginally excluded category in our headline figure for financial exclusion.

¹The high level results include some rounding up / down.



Source: Roy Morgan Research, 2012. Base: Australian population aged 18+.

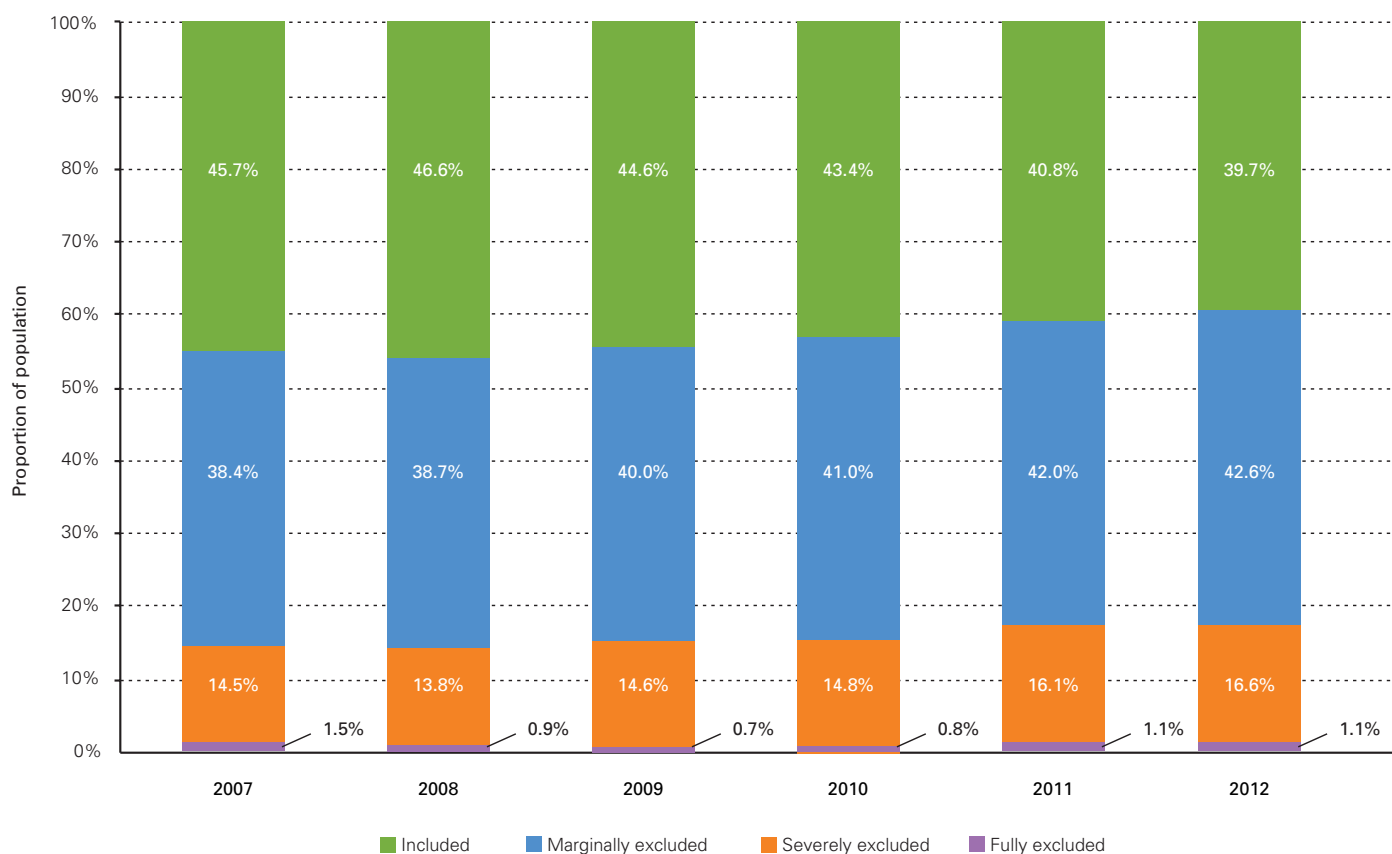
Financial exclusion – historical data

Table 2: extent of financial exclusion in Australia 2007 - 2012

Degree of Exclusion	2007	2008	2009	2010	2011	2012
Included	45.7%	46.6%	44.6%	43.4%	40.8%	39.7
Marginally excluded	38.4%	38.7%	40.0%	41.0%	42.0%	42.6
Severely excluded	14.5%	13.8%	14.6%	14.8%	16.1%	16.6
Fully excluded	1.5%	0.9%	0.7%	0.8%	1.1%	1.1

Source: Roy Morgan Research. Base: Australian population aged 18+.

Degree of financial exclusion in Australia 2007 - 2012



Source: Roy Morgan Research. Base: Australian population aged 18+.

The 2012 data shows a small increase in the proportion of people in the severely excluded category. The data also shows a clear six year downward trend in the proportion of fully included consumers.

The single product comparisons also reveal significant changes over the last two years of data:

Table 3: single product comparisons 2010 - 2012

Total product ownership	2010	2011	2012	% Change 1 year	% Change 2 years
Transaction account	97.8%	97.0%	96.9%	-0.1%	-0.9%
Credit card	46.9%	44.4%	43.4%	-2.3%	-8.1%
General insurance	82.3%	81.1%	80.5%	-0.7%	-2.2%

The table shows that there has been a substantial fall in the proportion of consumers with credit. Possible causes may include general economic conditions and recent credit regulation (including the introduction of a pro-active responsible lending requirement). A small fall in the use of credit may have positive implications for many consumers, as credit over-commitment remains a significant problem in Australia.²

The data reveals a small fall in access to insurance. In addition the level of exclusion from transaction accounts remains above 3%, which is surprisingly high.

²The use of credit was discussed in more detail in the 2012 Report.

Cost Exclusion

The average annual cost of basic financial services in Australia (a basic transaction account, a low rate credit card and some basic general insurance) is \$1739 – just to maintain a very simple level of service, with no additional features or benefits. For around 9.2% of the adult population this cost would represent more than 15% of their income.

This was a small decrease on the \$1793 cost reported in last year's report, mainly due to lower costs of maintaining a credit card.

Annual cost of a transaction account

We calculated the annual cost of maintaining a basic transaction account, by combining information on balances and transaction patterns (from NAB internal data) and information on fees and charges (from CanstarCannex).

The data is based on the basic accounts provided by the 10 largest providers of transaction accounts in Australia.

The average annual cost for running a basic transaction account is \$85. The costs of the top 10 providers ranged from \$30 to \$110. These costs are significantly lower than the typical costs of maintaining other types of transaction accounts which have more features.

This cost calculation includes all of the fees and charges that are regularly incurred by consumers using these accounts. The main costs that contribute to the average \$85 running costs are fees for accessing ATMs, although some of the top 10 institutions still charge annual account keeping fees.

Each cost was then multiplied by the number of times the average consumer incurs that particular cost in a year (based on NAB internal data on balances and transaction patterns). The calculation ignores some extremely rare and unusual fees and charges.

The strength of this methodology is that the calculation can be repeated at any stage, and will reflect changes in market share, transaction behaviour and product costs. The limitation of this methodology is that it is an "average of averages" and does not necessarily reflect the costs faced by some disadvantaged groups who make more frequent transactions for smaller amounts.

The 2012 average cost of \$85 was slightly lower than the 2011 average of \$88. This was mainly due to consumers reducing the number of withdrawals made from ATMs that charge fees (ATMs that do not belong to their own bank's network and / or independent ATMs).

Annual cost of a basic credit card

We calculated the annual cost of maintaining a basic credit card, by combining information on balances and transaction patterns (from NAB internal data) and information on fees and charges (from CanstarCannex).

The data is based on the basic credit cards provided by the 10 largest providers of credit card accounts in Australia.

The average annual cost for running a basic credit card is \$711. The costs of the top ten providers ranged from \$667 to \$846. These costs are significantly lower than the typical costs of maintaining other types of credit cards which have more features.

This cost calculation includes all of the fees and charges that are regularly incurred by consumers using these cards, and is based on a customer carrying an ongoing credit balance. Obviously many customers do not carry an ongoing balance, but we are interested in the costs of accessing credit, rather than merely using the card as a transaction mechanism.

Each cost was then multiplied by the number of times the average consumer incurs that particular cost in a year (based on NAB internal data on card balances and transaction patterns). The calculation ignores some extremely rare and unusual fees and charges.

The strength of this methodology is that the calculation can be repeated at any stage, and will reflect changes in market share, transaction behaviour and product costs. The limitation of this methodology is that many consumers will not be using the low cost / basic credit cards we have included in the study.

The 2012 average cost of \$711 was significantly lower than the 2011 average of \$808. This was mainly due to the abolition of fees for being over the credit limit – a positive result of regulatory intervention during the period. There was also a continued reduction in the average number and value of cash advances by customers.

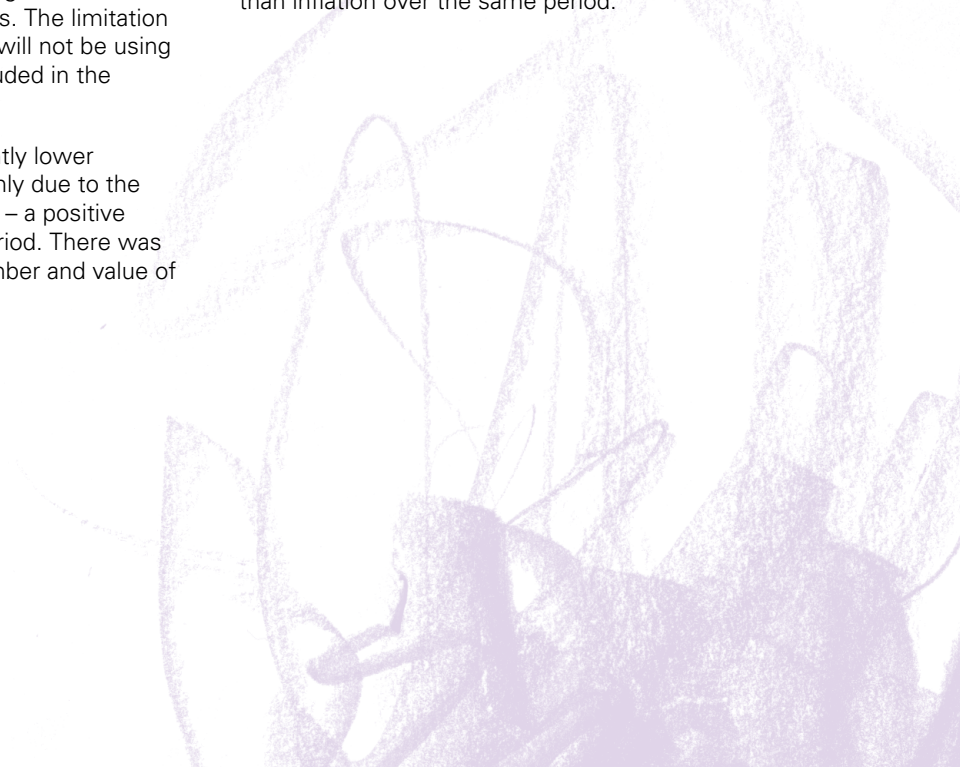
Annual cost of basic general insurance

We calculated the annual cost of maintaining some basic general insurance to protect key assets by analysing data on average insurance premiums (supplied by Insurance Statistics Australia) for the type of general insurance products held by the average consumer (from Roy Morgan Research).

The average annual premium for home contents insurance is \$316. The average annual premium for comprehensive motor vehicle insurance (excluding Compulsory Third Party cover) is \$627. This results in a combined annual average cost of \$943 to protect these important assets. These costs were the average premium at June 2012.

The strength of this methodology is that this data is updated by Insurance Statistics Australia each year, making it easy to include in annual issues of the Indicator. The limitation of this methodology is that the premium calculation is an “average of averages” and that in practice consumers pay a wide variety of premiums, based on factors such as their level of excess, their location and the value of their assets. The calculation also excludes a range of hefty costs that differ depending on the jurisdiction, such as compulsory third party insurance, taxes, fire levies and other State charges.

The 2012 average cost of \$943 was significantly higher than the 2011 average of \$898. This was mainly due to an 8.9% increase in the average cost of home insurance. Motor vehicle insurance costs increased by 5.1%. Both increases are higher than inflation over the same period.



The impact of cost on exclusion

To summarise, the average annual cost of basic financial services is \$1739. This is made up of \$85 for a basic bank account, \$711 for a low cost credit card, and \$943 for basic general insurance.

These costs have tended to vary each year, as can be seen in the following table:

Table 4: average annual cost of basic financial services 2010 - 2012

Item	2010	2011	2012
Transaction account	\$92	\$88	\$85
Credit card	\$793	\$808	\$711
General insurance	\$855	\$898	\$943
Total	\$1740	\$1794	\$1739

With these products in place, a consumer can manage basic payments, handle small emergencies and/or smooth income, and protect some key assets from basic risks. However, the data raises questions about whether all consumers can afford to maintain these three basic products.

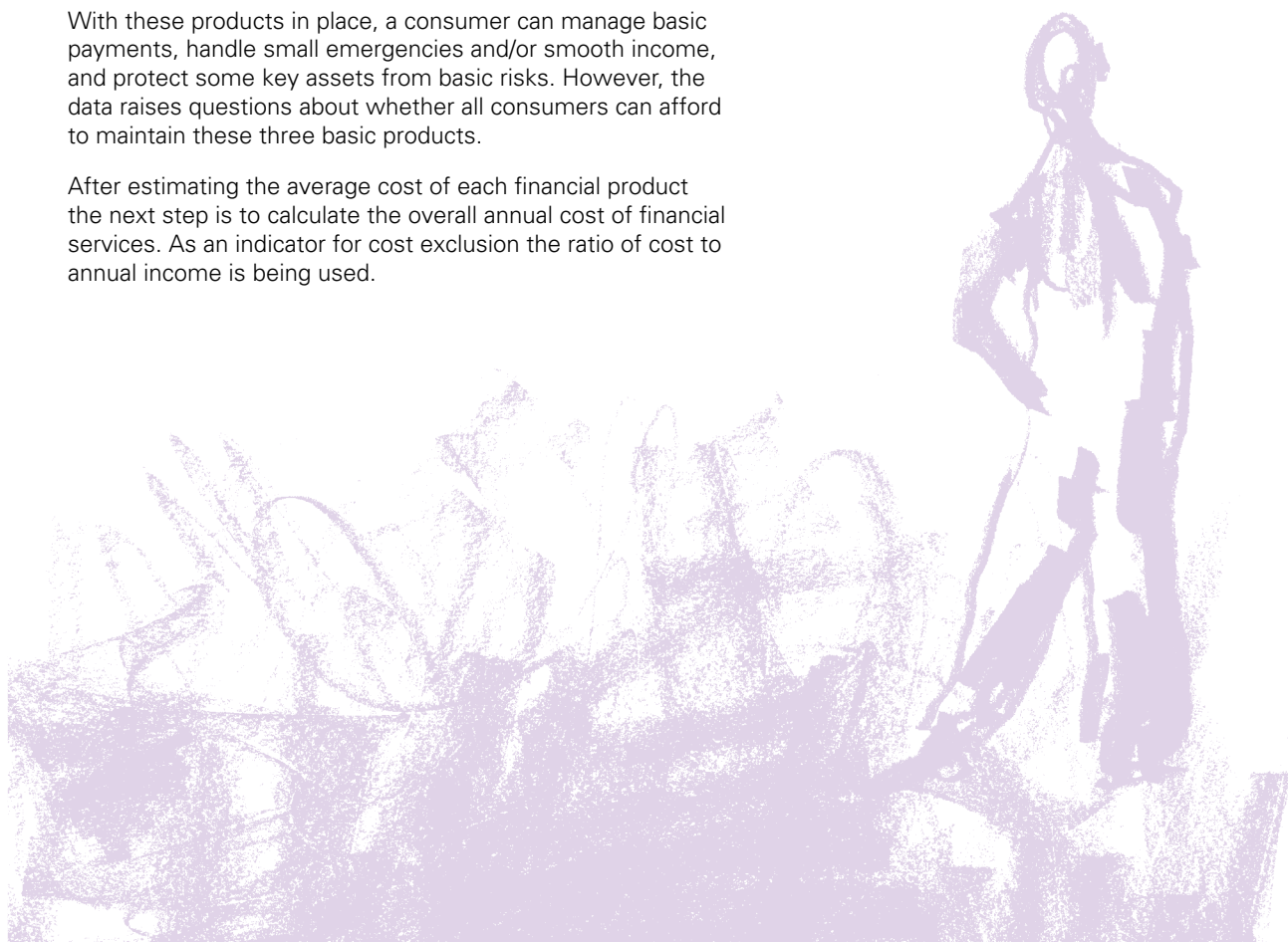
After estimating the average cost of each financial product the next step is to calculate the overall annual cost of financial services. As an indicator for cost exclusion the ratio of cost to annual income is being used.

To measure how many people fall into each category, Roy Morgan demographic data has been used.

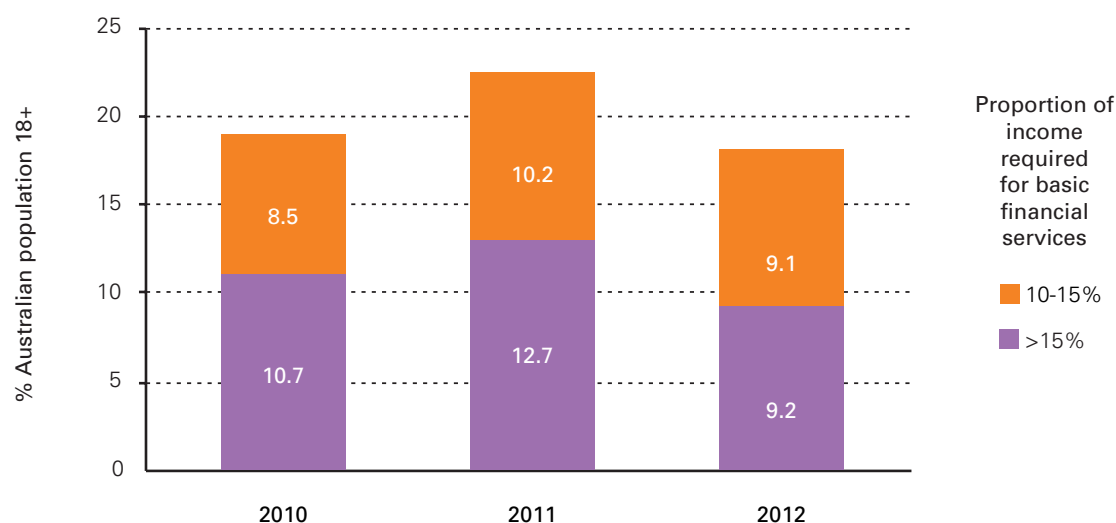
Table 5: percentage of income spent on financial services

Proportion of income required to access basic financial services	% of population 2010	% of population 2011	% of population 2012
< 5%	46.2	42.3	48.1
5-10%	22.7	24.2	23.5
10%-15%	8.5	10.2	9.1
> 15%	10.7	12.7	9.2

Source: Roy Morgan Research. Base: Australian population aged 18+.



Cost exclusion



Source: Roy Morgan Research. Base: Australian population aged 18+.

Around 18.3% of individuals would face significant challenges accessing financial services because of the current average cost of using these basic products.

This is slightly higher than the number of individuals we categorise as fully excluded or severely excluded using the product exclusion data (17.7%). This indicates that many individuals suffer some degree of financial stress in managing their access to financial services.

The proportion of adults facing these challenges related to cost is lower than the previous year's data, reflecting a slight decrease in the proportion of adults earning less than \$15,000 per year (after a significant spike in 2011), combined with a small reduction in overall costs.



The Demographic Profile of Financial Exclusion

In previous reports we have described some of the key demographic indicators of financial exclusion. This year, for the first time, we are able to display the full demographic profile of financial exclusion in Australia.

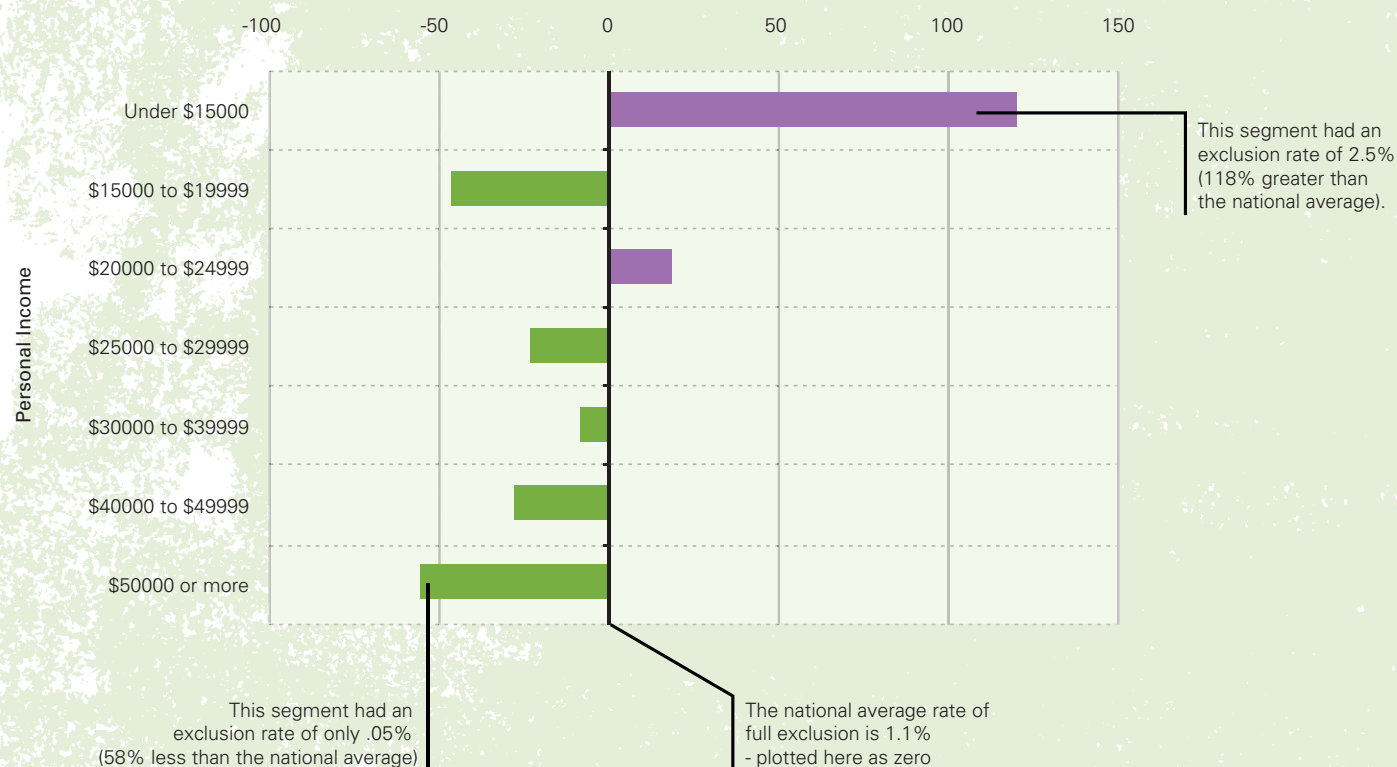
In the following graph, the central vertical axis shows the national average rate of exclusion (those people with no financial products or only one financial product). In 2012 the national average rate for full exclusion (no products) was 1.1%. The national rate for severe exclusion (one product) was 16.6%.

Then for each demographic characteristic, we can plot the divergence from the national average (which has been plotted on the graphs as zero). A score of -30 means that group's level of exclusion is 30% below the national average rate – so that is an indicator of likely financial inclusion.

A score of +30 means that particular indicator is 30% greater than the national average – an indicator of likely financial exclusion. Note: Gender is not included in our break-downs as there is no statistical difference in levels of financial exclusion by gender.

The first graph looks at the rates of full financial exclusion (no products) amongst the various income segments.

Fully Excluded - Income Segments



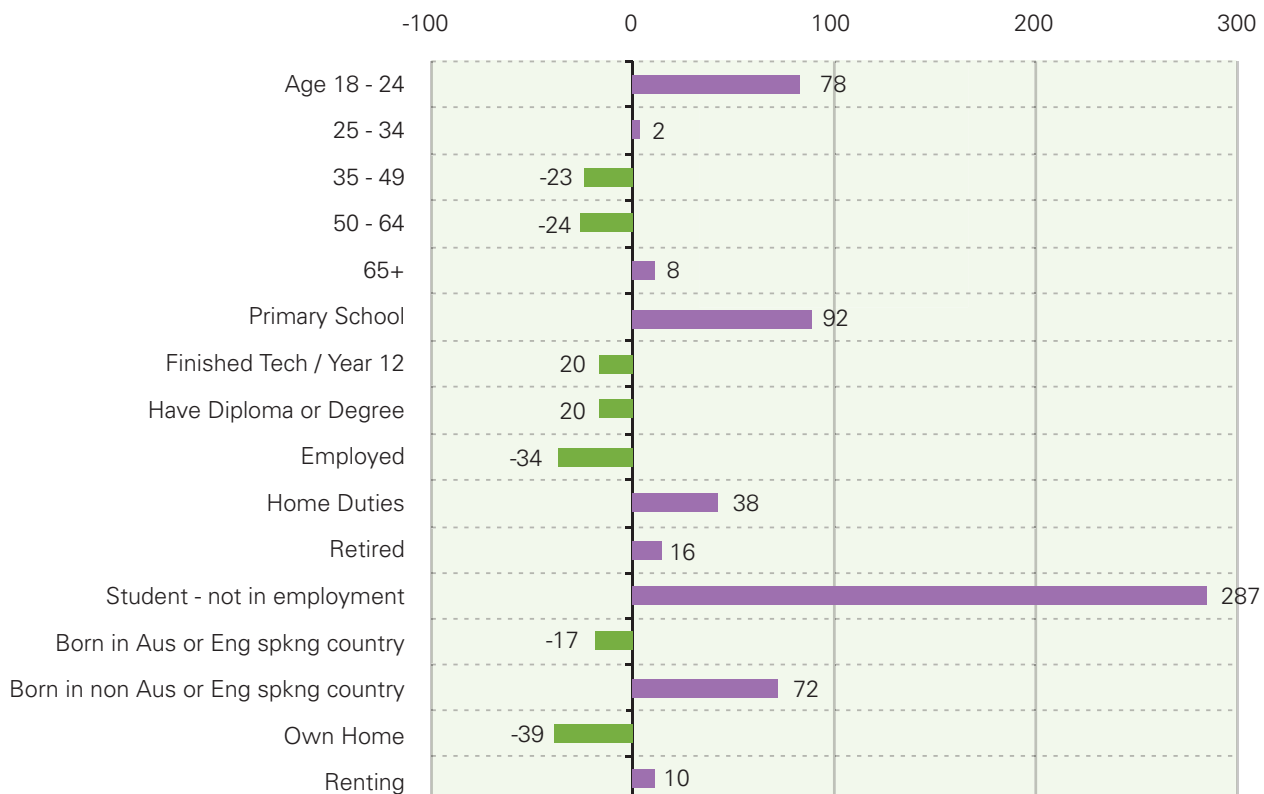
One of the key highlights of the income profile of the fully excluded group is that having an income of between \$15,000 and \$19,999 is very likely to result in you being included, rather than excluded. This is the result of the phenomenon known as the Centrelink Effect, described in detail in our 2011 Report. This income band is the typical band for people in receipt of welfare benefits, which must be paid into a bank account. Owning a bank account as a result of this requirement pushes this group into a different segment (e.g. severely excluded), despite their general low level of income.

Interestingly, the next income band (\$20,000 to \$24,999) is below the minimum wage for full time employees, but is above the cut-off point for most types of welfare. People in this band are generally categorised as 'working poor', and may be engaged in part-time, casual, itinerant or seasonal work. Their level of full financial exclusion is 19% greater than the national average. Despite earning up to \$25,000 a large proportion of this group operate outside the mainstream financial system.

The next graph looks at the rate of full exclusion (no products) in segments revealing other key demographic factors, such as age and the highest level of education attained.

People in the 18-24 age bracket, students not in employment, and people with low levels of education are all more likely to be fully excluded. The analysis also highlights people born in a non-English speaking country as a key group – their rate of full exclusion is 72% greater than the national average.

Fully Excluded - Other demographic segments

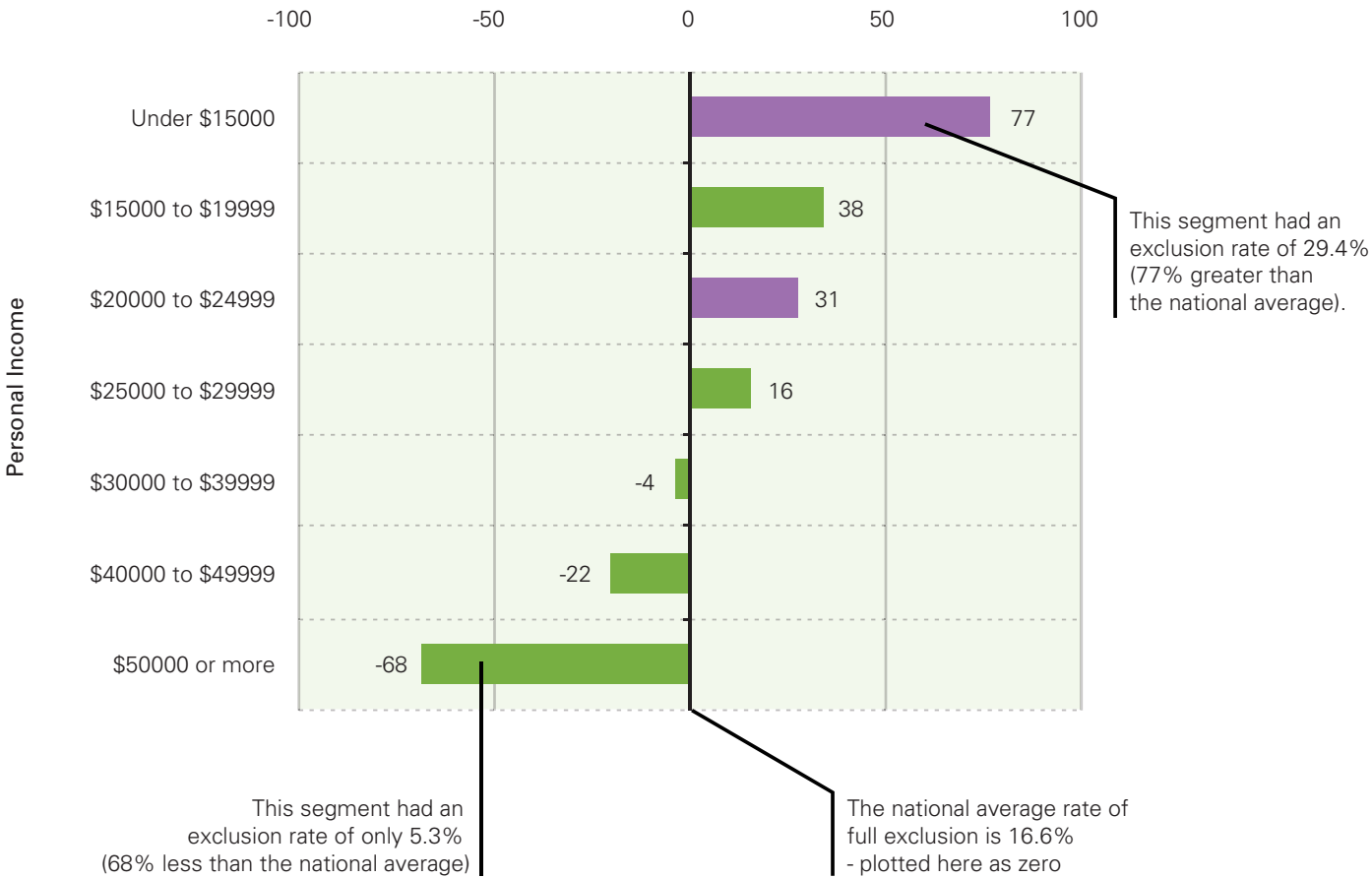


The national average rate of insurance exclusion is 18.5% - plotted here as zero

The next graph shows the rate of severe exclusion (having just one product) amongst the different income segments.

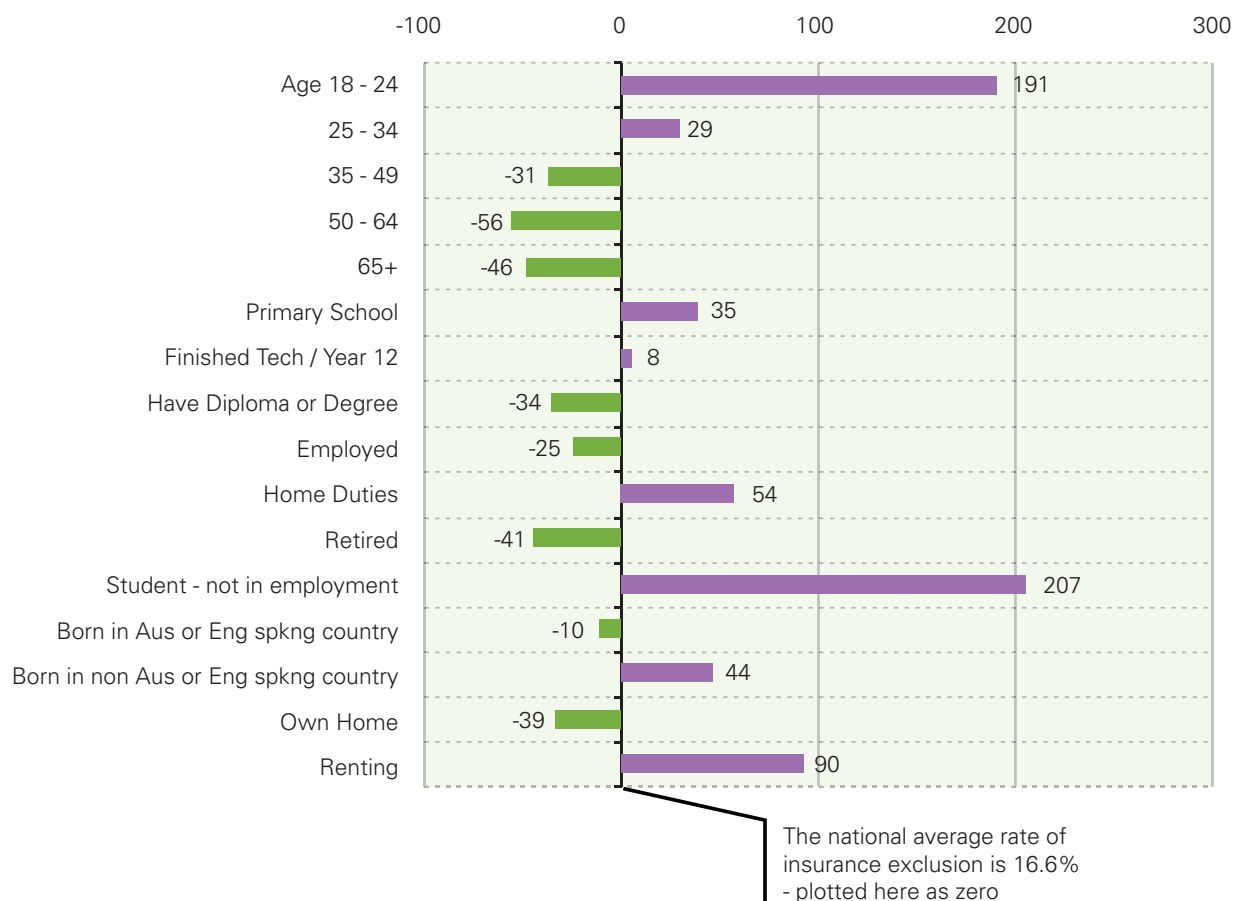
In the analysis of severely excluded individuals, the income segments follow a much smoother trajectory, with income closely tracking rates of exclusion. This is in contrast to the earlier, more volatile graph that compared full exclusion rates against income.

Severely Excluded - Income Segments



The next graph shows the rate of severe exclusion (having just one product) for segments of the population with key demographic features, such as age and highest level of education attained.

Severely Excluded - Other demographic segments



Some of the key demographic factors are analysed in more detail in the following sections, where access to specific products is tracked against demographic factors.

Income

Income is a key factor in access to all financial products, although it has the greatest impact on access to credit. The national average rate for access to credit is 43.4% - no income segments reach this rate until earnings rise above \$50,000. The national average rate for access to insurance is 80.5%. Individuals only need to earn above \$30,000 to reach this rate.

Table 6: access to all basic financial products based on income

Income	Total	Under \$15000	\$15000 to \$19999	\$20000 to \$24999	\$25000 to \$29999	\$30000 to \$39999	\$40000 to \$49999	\$50000 or More
Transaction Account	96.9%	95.3%	98.1%	97.4%	97.0%	97.2%	97.2%	97.6%
Credit Cards	43.4%	30.2%	28.7%	32.0%	37.2%	38.7%	41.7%	62.5%
General Insurance	80.5%	66.8%	74.8%	74.5%	78.9%	80.8%	84.6%	92.2%

Source: Roy Morgan Research, 2012. Base: Australian population aged 18+.

Age

Age is notable as a factor in two key areas – not having access to credit and not having access to general insurance. Age has very little impact on access to a transaction account.

Table 7: access to all basic financial products based on age

Age	All ages	18-24	25-34	35-49	50-64	65 and Over
Transaction Account	96.9%	97.3%	97.3%	96.9%	97.0%	96.4%
Credit Cards	43.4%	11.2%	36.2%	51.6%	56.5%	44.8%
General Insurance	80.5%	46.1%	73.2%	86.6%	91.0%	89.9%

Source: Roy Morgan Research, 2012. Base: Australian population aged 18+.

Although demand for credit and insurance may be slightly lower amongst the segment of the population aged 18-24, their lack of access to mainstream products makes this group vulnerable to predatory lending products and to the loss of uninsured assets. It also appears that once consumers have gained access to credit or insurance, they keep it. Access to these products keeps rising with age, and only falls slightly for people over 65. It is possible that difficulties in entering the financial services market have a greater impact on financial exclusion than difficulties in maintaining products. A longitudinal study could help us to understand this process, and this should be considered in future research.

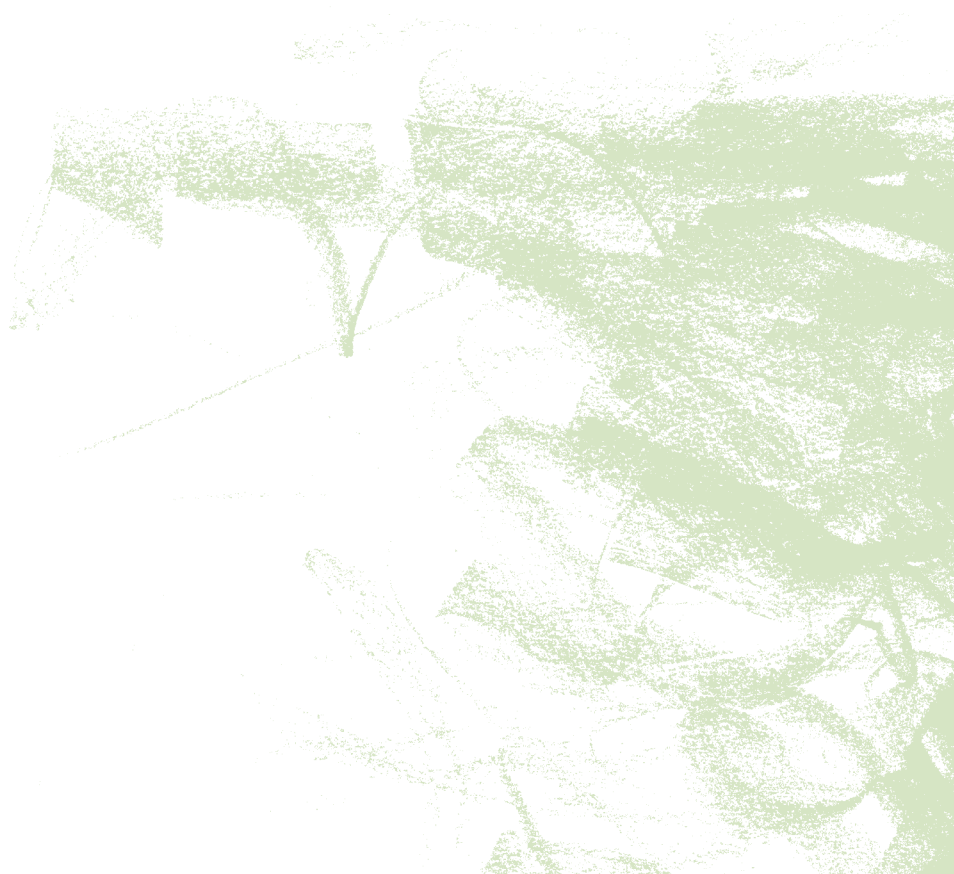
Not surprisingly, age is the key factor in determining whether an individual uses internet banking regularly. It is an important aspect to look at as it is an affordable way to conduct many enquiries and transactions, even though the full functionality of what can be done in a branch is not necessarily possible.

The data also highlights the increased use of mobile banking, using a smart phone or a tablet.

Table 8: online banking by age

Access to Internet banking	All ages	18-24	25-34	35-49	50-64	65 and Over
Conducted Internet banking (using website only)	51.3%	57.3%	66.3%	60.9%	48.8%	20.8%
Conducted Internet banking (using mobile phone, tablet or website)	56.2%	68.7%	74.3%	65.4%	51.0%	21.7%

Source: Roy Morgan Research, 2012. Base: Australian population aged 18+.



Country of birth

In this study we are able to distinguish between people born in a selection of English speaking countries (Australia, Canada, New Zealand, the UK and USA), and those born in non-English speaking countries.

People born overseas in non-English speaking countries have slightly lower rates of financial inclusion, but the most significant difference relates to insurance, where only 70.1% of people born in non-English speaking countries have access to general insurance.

Interestingly, consumers do not report significant challenges associated with literacy or translation in relation to insurance, but they do report high levels of difficulties with the complexity of products and the complexity of insurance documentation (see the Access to Australia chapter on page 26 of this report.)

Table 9: access to basic financial products based on country of birth

Product	Total	Born in Australia	Born in NZ, Canada, UK or USA	Born in Australia or English Speaking Country	Born Overseas in Non-English speaking Country
Transaction Accounts	96.9%	97.2%	97.5%	97.2%	95.8%
Credit Cards	43.4%	43.4%	50.1%	44.3%	39.6%
General Insurance	80.5%	82.8%	84.0%	82.9%	70.1%

Source: Roy Morgan Research, 2012. Base: Australian population aged 18+.



Education

The following table shows the highest level of education attained by individuals, plotted against each of the three major financial products. Education has the most significant impact on access to credit, although it also has a moderate impact on access to insurance. Education is linked closely to income, which is a key factor in determining access to both credit and insurance.

Table 10: access to basic financial accounts based on educational achievements

Highest level of education reached	Total	Primary School	Finished Tech / Year 12	Have Diploma or Degree
Transaction Account	96.9%	94.2%	97.5%	96.9%
Credit Cards	43.4%	19.7%	37.5%	57.3%
General Insurance	80.5%	76.0%	80.2%	85.6%

Source: Roy Morgan Research, 2012. Base: Australian population aged 18+.



Access to Insurance in Australia

Ownership of insurance products

In this year's report we have collected some additional data on the use of insurance in Australia. This includes additional analysis of the data collected in the large survey (50,000 face to face interviews conducted in 2012), plus a separate smaller survey (1500 online interviews conducted in March / April 2013) that focussed only on access to insurance products.

A wide variety of insurance products are available, and although we only include access to general insurance (vehicle, home building and home contents) in our definition of financial exclusion, we have included a wider selection of products in some parts of this year's report.

The following table shows access to insurance products amongst the adult population, based on the 50,000 individuals who were interviewed in 2012. The table also provides information on the number of individuals who do not have access to insurance.

Table 11: access to insurance products

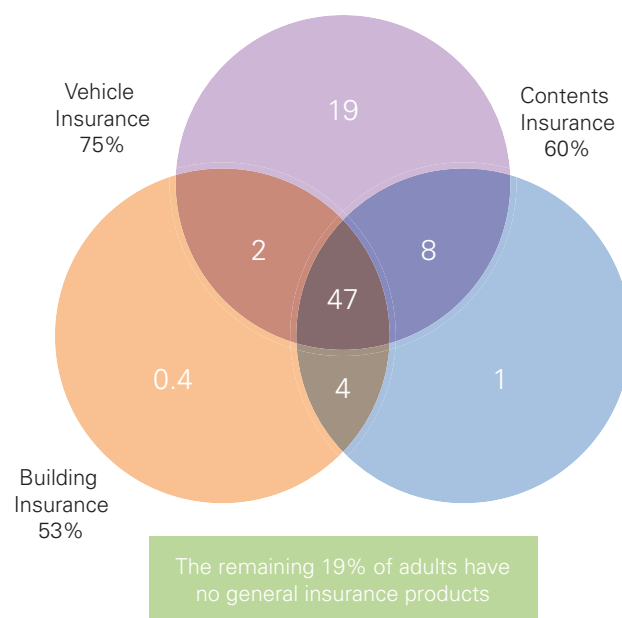
Product	Insured (%)	Uninsured Market (%)	Uninsured Market (Individuals)
Vehicle insurance (third party)	45.4%	54.6%	9,635,000
Vehicle insurance (comprehensive)	64.4%	33.6%	5,929,000
Building insurance	52.8%	47.2%	8,329,000
Contents insurance	59.7%	40.3%	7,112,000
Valuable items	4.0%	96.0%	16,941,000
Private Health insurance	46.4%	53.6%	9,459,000
Life insurance	18.9%	81.1%	14,312,000
Risk (trauma, accident, income protection)	12.4%	87.6%	15,459,000

Source: Roy Morgan Research, 2012. Base: Australian population aged 18+.

The analysis of general insurance ownership in Australia also shows massive overlaps in coverage between vehicle insurance, building insurance and home contents insurance.

As can be seen in the following diagram, the dominant groups are those with all three products and those with at least two products. For example, 47% of the population have all three products, and 14% of the population have two products. This last group is made up of 8% of the population who have vehicle insurance and contents insurance combined, 4% who have building and contents insurance combined, and 2% who have building and vehicle insurance combined.

Insurance product ownership in Australia



Source: Roy Morgan Research, 2012. Base: Australian population aged 18+. Some high-level numbers have been subject to rounding.

Demand for insurance

Clearly there are significant gaps in insurance coverage. In our larger survey (50,000 respondents) we found that 19.5% of the adult population do not have any general insurance, but we were uncertain what proportion of the population had an unmet demand for insurance.

The additional online survey of 1500 people allowed us to explore these gaps in more detail. We asked respondents whether they had a current unmet need for general insurance, and 18.2% of them said "yes".

We then asked this sub-group to identify the nature of their current need for insurance. Respondents could provide more than one response. The results are shown in the table below.

Table 12: need for insurance

Product required	Number	Proportion of entire population	Proportion of those with a need
No need	1148	81.8%	-
Some need (Participants could select more than one category)	256	18.2%	-
- Motor-vehicle insurance	70	5.0%	27.3 %
- Home building insurance	50	3.6%	19.5 %
- Home contents insurance	129	9.2%	50.3 %
- Other insurance ³	126	9.0%	49.2 %

Source: Roy Morgan, Online Survey, March / April 2013. Data excludes some participants who answered 'could not say'.

These figures are quite high when the potential negative impact of owning unprotected assets such as a car, building or home contents is considered. As the respondents have self-identified the need for insurance, we can assume that they believe the asset is important or valuable.

The next sections discuss some of the reasons that this need may not have been met.

³The 'other' category included a diverse range of insurance products, including health insurance, life insurance, landlord insurance, farm insurance and insurance for pets, collectibles, caravans, hearing aids, boats, musical instruments and mobility scooters.

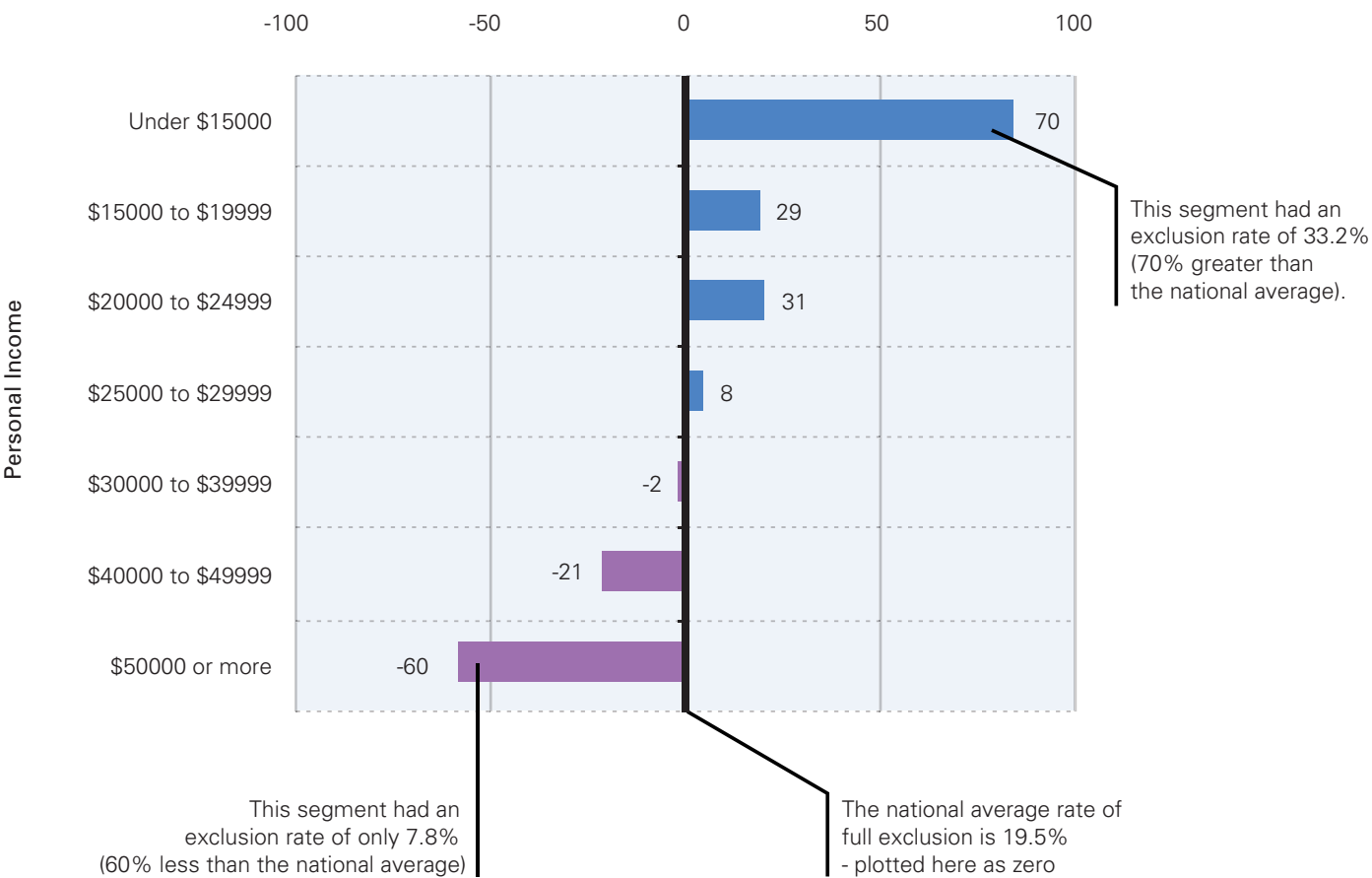
Demographic factors that impact on ownership of insurance

In this section we report on demographic factors that may have an impact on access to general insurance. The graphs in this section only examine access to vehicle insurance, home contents insurance and building insurance. Our test is very conservative: if a consumer has access to any one of these products we categorise them as included, even though they may have an unmet need for one of the other products.

The extent of divergence from the national average rate of insurance exclusion helps us to identify some significant demographic factors.

The first graph examines the rate of insurance exclusion in various income segments, and there are no surprises in the results. A positive impact is not observed until an individual is earning more than \$30,000 – everyone earning below that level has a higher rate of exclusion than the national average.

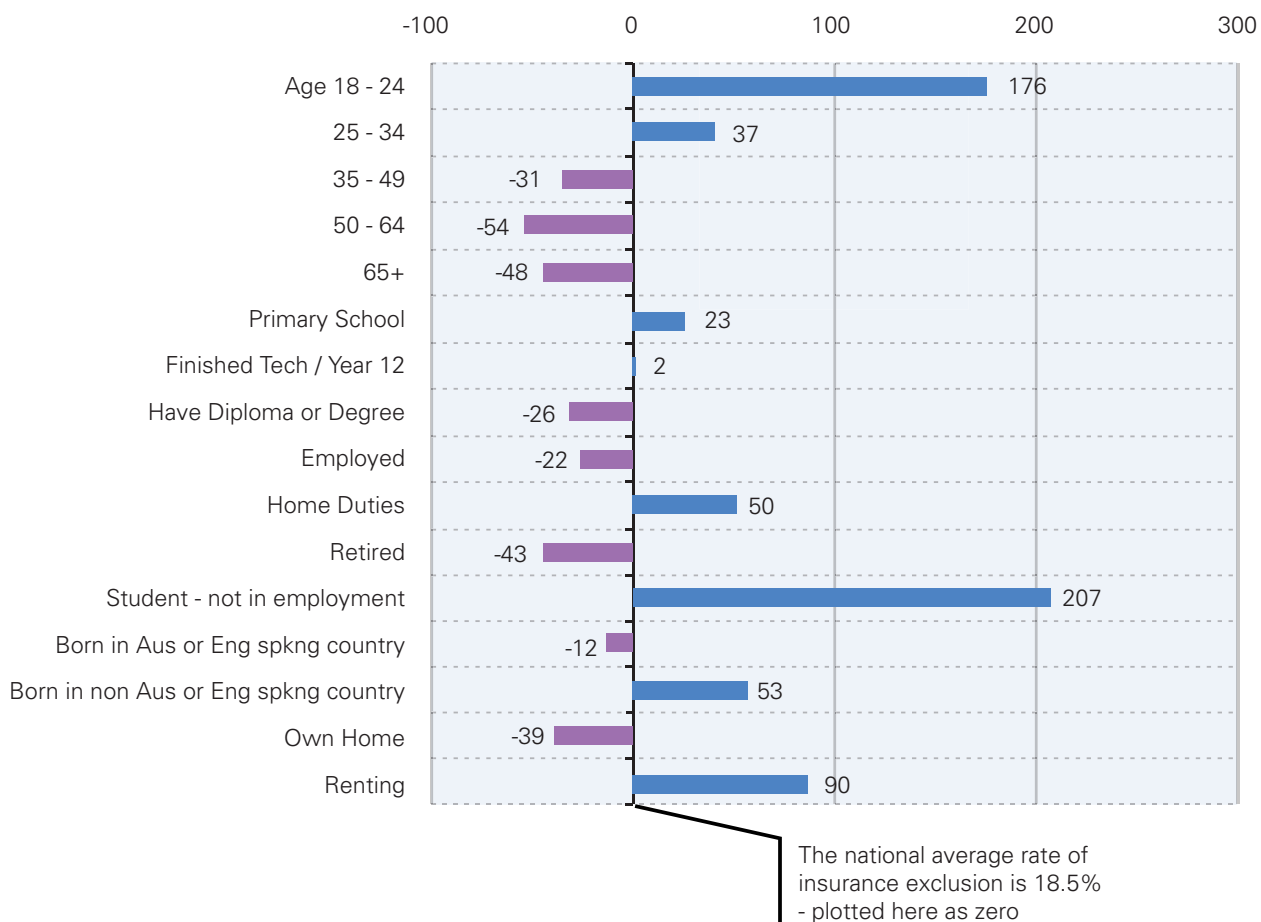
Insurance exclusion - Income Segments



Source: Roy Morgan Research, 2012. Base: Australian population aged 18+.

The next graph shows the rate of insurance exclusion (having no general insurance products) for segments of the population with key demographic features, such as age and the highest level of education attained.

Insurance Excluded - Other demographic segments



Source: Roy Morgan Research, 2012. Base: Australian population aged 18+.

The graph shows that age has a major impact on levels of insurance. Even up to age 34, young people are less likely to have insurance. Students not in employment are the group least likely to have insurance, but this is consistent across all financial services.

As noted in the 2011 and 2012 reports, the level of insurance exclusion amongst people who were born in a non-English speaking country is 53% greater than the national average, whereas their access to bank accounts and credit is only slightly below the national average. Interestingly the biggest divergence for this group relates to home contents insurance, where coverage for people born in non-English speaking countries is very low.

Insurance ownership and income

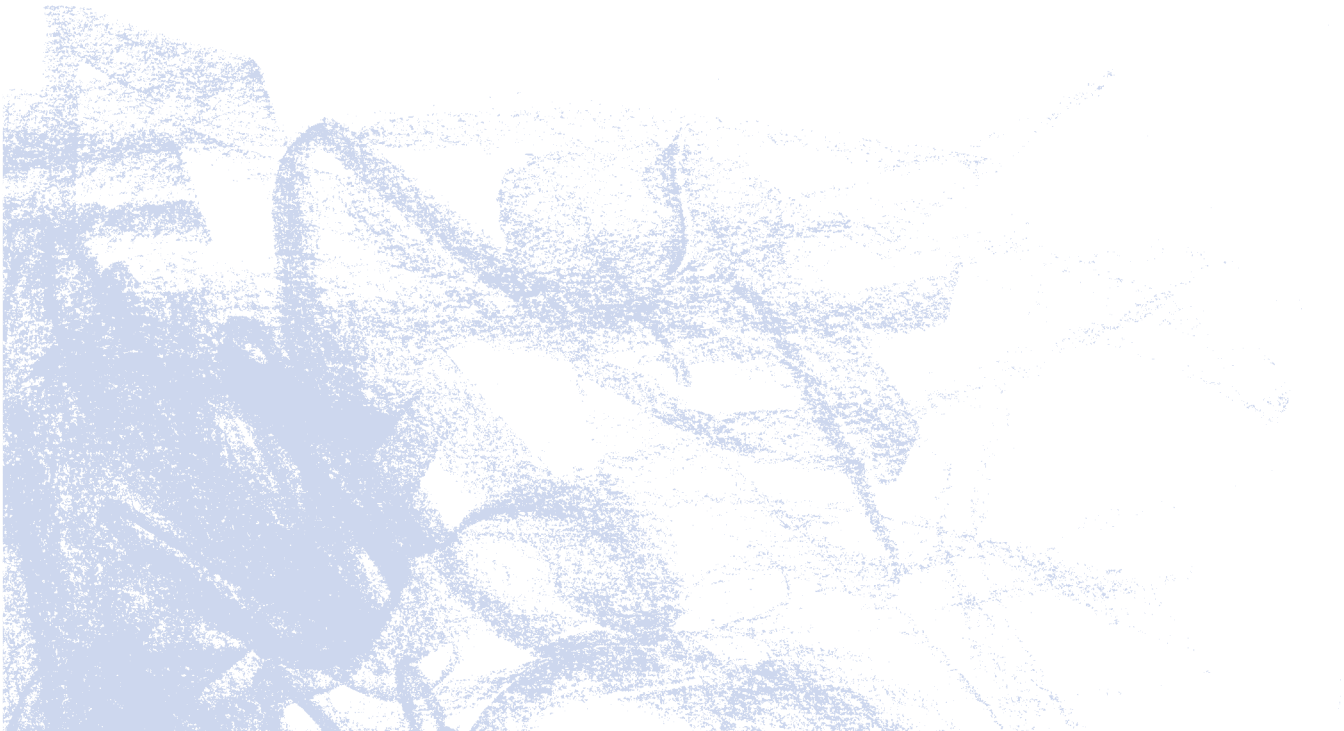
In our definition of financial exclusion we measure access to appropriate and affordable financial services products, including access to insurance.

Our analysis of the large survey (50,000 individuals) shows that access to insurance tracks closely against income, with people earning less than \$30,000 a year having below average access to insurance in all categories. Not surprisingly, access to building insurance remains below average until individuals earn more than \$50,000.

Table 13: access to insurance based on income

Product	Total	Under \$15000	\$15000 to \$19999	\$20000 to \$24999	\$25000 to \$29999	\$30000 to \$39999	\$40000 to \$49999	\$50000 or More
Vehicle insurance	74.5%	60.0%	65.4%	67.6%	73.0%	75.6%	79.9%	87.1%
Building insurance	52.8%	44.5%	46.7%	43.9%	49.4%	46.7%	48.9%	66.0%
Contents / valuables insurance	60.0%	49.2%	54.2%	52.5%	56.3%	54.5%	56.2%	74.3%

Source: Roy Morgan Research, 2012. Base: Australian population aged 18+.



Difficulties obtaining or maintaining insurance

The demographic profile described on page 27 reveals the broad make-up of the group who are excluded from general insurance in Australia. However, this group includes consumers who may not have a need for insurance, as they do not own sufficient assets such as a car or they are still being supported by their families. Young age (18-24) and being a student not in employment are the two most significant demographic factors influencing non-insurance, but we can assume that the need for insurance in those groups is already below the national average.

In order to explore these issues in greater detail, we have supplemented the large survey (50,000 face to face interviews) with a smaller online survey of 1500 individuals. The smaller survey only asked questions relating to insurance.

We asked whether individuals had faced difficulties in either obtaining or maintaining general insurance coverage.

The following table shows the level of difficulty for each category, ranked from “no difficulty at all” (zero points) to “extremely difficult” (10 points).

Table 14: barriers to obtaining insurance

Difficulty obtaining or keeping insurance	Average level of difficulty (1 = no difficulty, 10 = extreme difficulty)
Can't afford the insurance cover	4.57
Policy too complicated	3.52
Cover not available (I live in a flood-prone area)	2.18
Cover not available (I live in a bush-fire prone area)	2.08
Unable to provide identity or other documents	2.01
Language or literacy challenges	1.65

Source: Roy Morgan, Online Survey, March / April 2013.

For some of these categories the majority of consumers did not experience any difficulties. However, the proportion of people who reported experiencing no difficulties in relation to affordability was extremely low - just 28% of respondents. The proportion of people who experienced no difficulties in relation to the complexity of the policy was also very low, at just 34.5%.

The impact of cost is the dominant finding of this survey. This should not be surprising, as insurance is a major category of household expenditure. A recent paper by the South Australian Council of Social Services noted that insurance (excluding life insurance) accounted for 5.6% of the average household expenditure – a higher proportion than domestic fuel and power (i.e. electricity and gas).⁴

The same question also reveals the proportion of consumers who faced serious challenges that were likely to prevent them from obtaining or keeping insurance. These consumers ranked the challenges with an 8, 9 or 10 on a scale where ‘extreme difficulty’ was a 10. In this table the challenge of providing identity documents jumps one place up the list.

Table 15: most common barriers to obtaining insurance

Difficulty obtaining or keeping insurance	Proportion of respondents citing significant difficulty (rank 8, 9 or 10 where 10 = extreme difficulty)
Can't afford the insurance cover	22.7%
Policy too complicated	9.0%
Cover not available (I live in a flood-prone area)	4.3%
Unable to provide identity or other documents	3.5%
Cover not available (I live in a bush-fire prone area)	3.1%
Language or literacy challenges	0.4%

Source: Roy Morgan, Online Survey, March / April 2013.

It is important to note that some of these difficulties may be historical, reflecting previous periods when insurance coverage was unavailable (often the case for flood-prone areas). There is constant reform in both insurance law and the insurance market, and consumers are unlikely to be aware of the full range of products now available.

Some of the responses may also be related to perceptions. For example, cover will typically be available even in bush-fire prone areas, although the number of suppliers may be limited and the costs may be significant.

⁴SACOSS, Cost of Living Update No.13, March 2013.

Options for improving
access to insurance

Finally, we showed participants in the online survey (1500 respondents) a short list of potential improvements that might help them access or keep insurance.

The following table shows the ranking provided by consumers, with the results shown in order. Note that in this table a score of 1 is positive.

Table 16: suggestions to help in obtaining or keeping insurance

Please rank the possible improvements on the list, from most to least helpful, when obtaining or keeping insurance.	Average rank (where 1 is most helpful and 8 is least helpful)
Lower price (premium)	2.2
Simpler, less complex insurance products	3.5
Shorter, less complex documents	3.6
Free and independent online advice service	4.3
Free and independent phone advice service	4.8
Fortnightly payment options	4.8
Specialised insurance for bush-fire or flood-prone areas	5.9
Translation of insurance documents into your language	6.9

The three highest scores were received for lower price, shorter less complex products, and simpler less complex documents. This provides useful guidance for the design of appropriate and affordable insurance products in the future. The inclusion of a free and independent online advice service also received a high score.

Source: Roy Morgan, Online Survey, March / April 2013.



Mapping Financial Exclusion

Process for mapping financial exclusion in Australia

Since the release of the first national measurement of financial exclusion in Australia in 2011, there has been a strong interest in identifying regions where rates of financial exclusion are higher than average. This is a complex process, and we have been undertaking this analysis in stages.

In 2012 we published maps and tables showing the overall rate of financial exclusion in 58 regions of Australia, and the overall demographic profile of each region. We also included an analysis of the rate of access to transaction accounts in each region.

Mapping insurance exclusion in Australia

This year we have undertaken a geographic analysis of the rate of access to insurance, using the same 58 regions. Although we can't include the full details in this public Report, the data can be used by key stakeholders in the design and delivery of appropriate products and community programs.

We are able to include some of the highlights from this geographic analysis in this section, including a comparative analysis of State and Territory insurance coverage, and a summary of those regions where insurance rates are very low (more than 10% lower than the national average).

The following table shows the rate of insurance coverage across each State and Territory, compared with the national average.

Table 17: rate of insurance coverage by State/Territory

	General insurance level	Difference from national average	Vehicle insurance level	Difference from national average	Building insurance level	Difference from national average	Contents insurance level	Difference from national average
TOTAL	80.5%		74.5%		52.8%		60.0%	
N.S.W. incl. ACT	78.6%	-2%	72.4%	-3%	50.1%	-5%	56.0%	-7%
Victoria	80.2%	0%	73.6%	-1%	55.1%	+4%	61.2%	+2%
Queensland	84.0%	+4%	79.5%	+7%	51.8%	-2%	61.6%	+3%
South Australia	81.6%	+1%	74.5%	0%	55.4%	+5%	64.8%	+8%
Western Australia	80.5%	0%	74.3%	0%	55.6%	+5%	62.1%	+4%
Tasmania	83.1%	+3%	76.3%	+2%	63.4%	+20%	71.6%	+19%
NT	68.3%	-15%	62.5%	-16%	31.8%	-40%	43.6%	-27%

Source: Roy Morgan Research, 2012. Base: Australian population aged 18+.

The next table shows the individual regions where general insurance rates are very low (more than 10% lower than the national average). Readers can learn more about these regions, including full demographic details, by consulting the 2012 Report.

Table 18: regions with low levels of general insurance coverage

Regions with low levels of general insurance coverage (national average is 80.5%)	General insurance level	Difference from national average
Melbourne - Inner City	63.4%	-21%
Sydney – Central	63.7%	-21%
Wollongong	66.1%	-18%
Darwin	66.9%	-17%
SA Country – Eyre	68.6%	-15%
Sydney – Southern	72.2%	-10%

We can see from the general insurance table that the inner city areas of large capital cities have low overall levels of insurance coverage. The divergence of 21% shown in this table is very high when you consider the conservative nature of our test. Our test for general insurance coverage is that the consumer must have at least one of the three core general insurance products (vehicle, building or home content insurance).



The next three tables show the individual regions where insurance rates are very low for specific insurance products (more than 10% lower than the national average).

Table 19: regions with low levels of vehicle insurance coverage (national average is 74.5%)

Regions with low levels of vehicle insurance coverage (national average is 74.5%)	Vehicle insurance level	Difference from national average
Melbourne - Inner City	52.8%	-29%
Sydney – Central	55.9%	-25%
Wollongong	59.3%	-20%
SA Country – Eyre	60.5%	-19%
Darwin	61.5%	-17%
Melbourne – North	67.2%	-10%
Sydney – Southern	67.3%	-10%

Table 20: regions with low levels of home building insurance coverage (national average is 52.8%)

Regions with low levels of home building insurance coverage (national average is 52.8%)	Home Building insurance level	Difference from national average
Melbourne - Inner City	29.5%	-44%
Darwin	30.6%	-42%
Sydney – Central	35.5%	-33%
SA Country – Eyre	39.9%	-24%
Sydney – Southern	40.9%	-23%
Wollongong	43.1%	-18%
Perth – Central	44.0%	-17%
Brisbane – Western	44.4%	-16%
Melbourne – North	45.8%	-13%

Table 21: regions with low levels of home contents insurance coverage (national average is 60%)

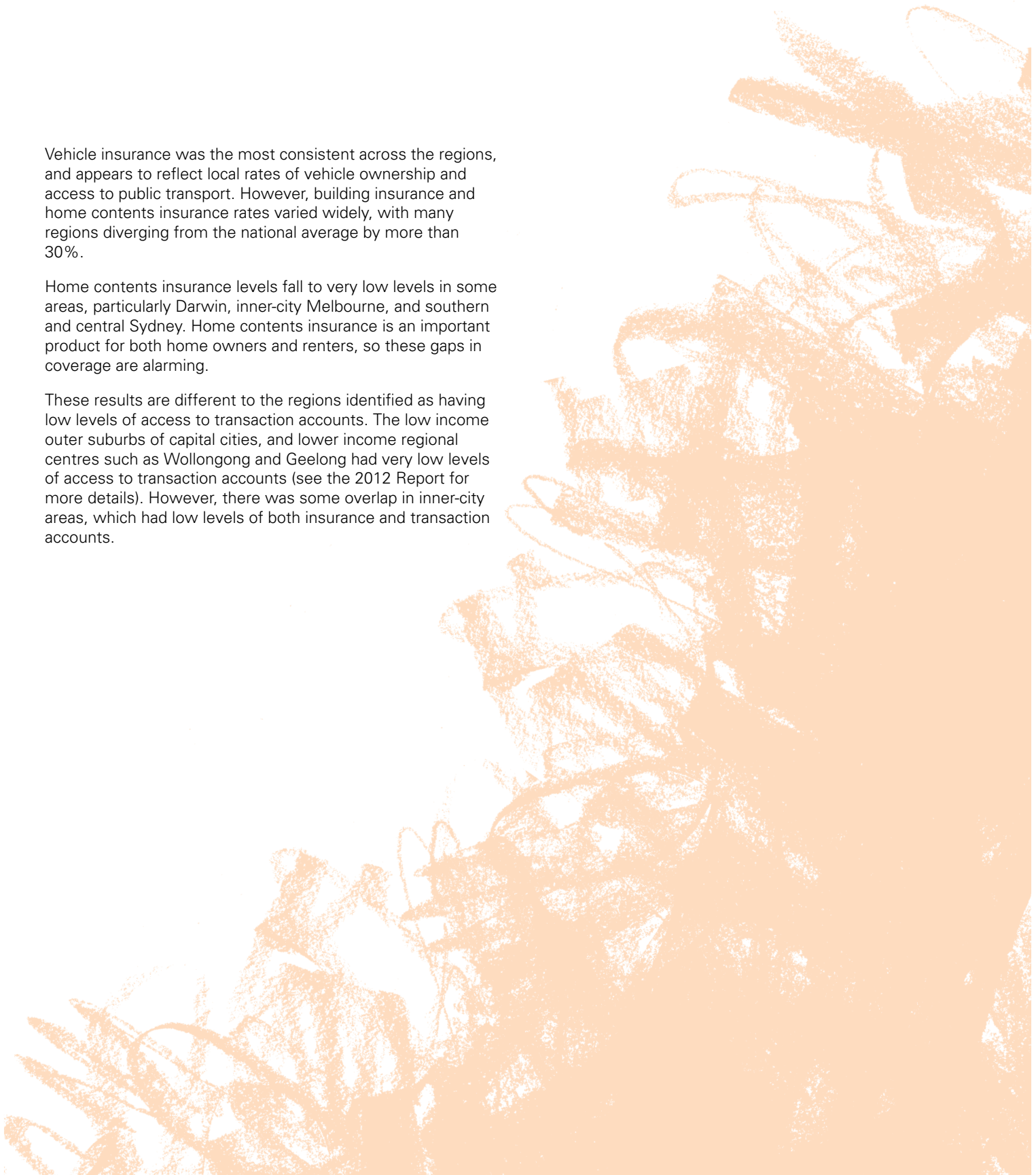
Regions with low levels of home contents insurance coverage (national average is 60%)	Home contents insurance level	Difference from national average
Sydney – Central	40.0%	-33%
Darwin	41.3%	-31%
Melbourne - Inner City	41.5%	-31%
Sydney – Southern	44.0%	-27%
Sydney - South Western	48.6%	-19%
Wollongong	49.5%	-17%
Melbourne – North	50.4%	-16%
SA Country – Eyre	52.6%	-12%
Sydney – Western	53.7%	-11%
Melbourne – West	54.2%	-10%

Source: Roy Morgan Research, 2012. Base: Australian population aged 18+.

Vehicle insurance was the most consistent across the regions, and appears to reflect local rates of vehicle ownership and access to public transport. However, building insurance and home contents insurance rates varied widely, with many regions diverging from the national average by more than 30%.

Home contents insurance levels fall to very low levels in some areas, particularly Darwin, inner-city Melbourne, and southern and central Sydney. Home contents insurance is an important product for both home owners and renters, so these gaps in coverage are alarming.

These results are different to the regions identified as having low levels of access to transaction accounts. The low income outer suburbs of capital cities, and lower income regional centres such as Wollongong and Geelong had very low levels of access to transaction accounts (see the 2012 Report for more details). However, there was some overlap in inner-city areas, which had low levels of both insurance and transaction accounts.



Measures to Promote Financial Inclusion

An overview of financial inclusion programs in Australia

A wide range of financial inclusion programs operate in Australia. They are often partnerships between mainstream financial service providers and non-profit community organisations. The Commonwealth and State Governments also provide a mix of financial support to these programs and their own stand-alone financial inclusion initiatives.

The programs have several, often complementary, objectives:

- Improving the financial capability of the individual, through improved financial literacy, confidence or resilience;
- Diverting consumers from negative behaviour that might exacerbate financial exclusion, for example, diverting consumers away from the regular use of fringe credit providers;
- Providing consumers with a path towards financial inclusion, by providing contacts, skills and incentives to obtain appropriate and affordable mainstream financial products; and/or
- Providing direct benefits, such as assets purchased with a micro-finance product, matched savings funds or start-up funds to facilitate a business or employment opportunity.

However, many of the programs are relatively modest in terms of scale. There are also gaps and overlaps in the type of services offered under these programs, and all programs are subject to funding and sustainability pressures. Overall, the efforts to address financial exclusion in Australia appear to be dwarfed by the scale of the problem. Alternative and innovative approaches to microfinance products, distribution and support services need to be investigated to meet the growing levels of financial exclusion, in a way that is sustainable.

Improving access to basic banking

Banks and other mainstream financial service providers such as credit unions and building societies have, over time, recognised that some low income and vulnerable consumers require assistance in accessing (and maintaining) affordable and appropriate transaction accounts.

The first wave of reforms in this area resulted in the majority of financial institutions offering 'basic banking products' with low fee structures, or in some cases no fees at all. (This was roughly during the period 2007-2009). This was complemented by recent reductions in penalty fees, which have a disproportionate impact on low income and disadvantaged consumers (2011-2012). This has resulted in a range of suitable accounts being available, and this is reflected in the low average cost for accessing a transaction account (discussed earlier in this report).

The second wave of reforms is only beginning now, with efforts being made to ensure that disadvantaged consumers are directed to accounts that are appropriate. One example is Section 16 of the new Code of Banking Practice, which is outlined here:

16.

Account suitability

...

16.2.

If you tell us that:

(a) you are a low income earner or a disadvantaged person (regardless of whether you are an existing or prospective customer); or

(b) you would like factual information about accounts which attract no or low standard fees and charges,

we will provide you with factual information about any of our accounts which may be suitable to your needs. That information may include details of our accounts which attract no or low standard fees and charges.

16.3.

If in the course of speaking with you, in relation to your accounts, we become aware that you may be the holder of a Commonwealth Seniors Health Card, Health Care Card or Pensioner Concession Card (regardless of whether you are an existing or prospective customer), we will provide you with factual information about our accounts which attract no or low standard fees and charges.

16.4.

Please note that we will not assess continuously whether you may be a low income earner or a disadvantaged person, but we encourage you to let us know at any time if this is the case.

16.5.

We will make information publicly available about accounts which attract low or no standard fees and charges on our website and through other means.

16.6.

We will train staff to help them to recognise a customer that may qualify for an account which attracts no or low standard fees and charges...

The new Code will come into force in early 2014, and it is hoped that Section 16 will have a positive impact. More work needs to be done to ensure that consumers are directed to accounts that are appropriate for their particular circumstances.

These developments have meant that efforts to promote financial inclusion in relation to access to transaction accounts have focussed on mainstream providers, and there has been no need to seek alternative products. This is in contrast to access to credit, discussed in the next section.

One small exception to this mainstream approach is the development of the BasicsCard as part of the Commonwealth Government's Income Management Program. Under the program, some welfare recipients have a proportion of their income managed and diverted to essential items and services such as food, clothes, rent and health care. The BasicsCard is a personal identification number (PIN) protected card that allows expenditure at approved stores and businesses.

The program has been the subject of several independent reviews, which have identified some issues in design and delivery that may be relevant to financial inclusion. For example, the first formal evaluation of the scheme was published in 2012.⁵ The evaluation noted some positive features of income management, but in relation to the BasicsCard it made the following observation:

“In addition to being the main way by which Income Management funds are spent, the BasicsCard is the main aspect of being income managed which is publicly visible when used to check balances at BasicsCard kiosks or when making purchases at stores.... There is convincing evidence that for some customers there was embarrassment or shame associated with using the BasicsCard.”

On the other hand, the BasicsCard was viewed as having a positive impact in some remote indigenous communities as it “partially addresses” the long-standing problem of high ATM costs in those communities. A pilot involving industry agreement on fees charged in remote locations is being undertaken and may help address this issue.

A review undertaken by the Australian National Audit Office in 2012 noted that an Income Management Incentive payment of \$250 for participating in the program for 26 consecutive weeks may provide a ‘disincentive’ to individuals to become self-sufficient and rejoin the mainstream benefits system (and the mainstream financial system).⁶

The BasicsCard is the subject of ongoing review and reform and although the main objective of the scheme is not directly related to financial inclusion, it is important that it does not unintentionally contribute to financial exclusion by diverting people away from mainstream financial services.

Improving access to credit

The majority of financial inclusion initiatives in Australia relate to the provision of credit. They are often described as micro-credit or micro-finance programs, adopting the language associated with micro-lending in developing countries. The following is a brief overview of two of the larger programs – it is not an exhaustive list.

NILS

Good Shepherd Microfinance’s No Interest Loan Scheme (NILS) has been operating for more than 30 years in over 600 locations, and has the financial support of the National Australia Bank (NAB), the Commonwealth Government’s Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA), and various State governments.

A NILS loan is a small loan of between \$800 and \$1200 that is provided to low-income individuals for the purpose of purchasing an essential household good or service. The loan carries no interest, and is available to low income households who meet specific criteria.

NILS is one of the most substantial and influential financial inclusion initiatives in Australia.

The first independent national evaluation of NILS is underway and the results will be released in mid-2013 by the Centre for Social Impact. The evaluation will gather quantitative data from over 1500 NILS clients, and will measure the social and economic impact of NILS.

StepUP Loans

The StepUP Loan program has been provided by NAB, in partnership with Good Shepherd Microfinance, since 2004, and more recently with the support of the Commonwealth Government. These are affordable, low interest loans (currently 3.99%) of between \$800 and \$3000. The loans are available to low income households.

The StepUP Loan program was the subject of an independent evaluation, published by the Centre for Social Impact in April 2013.⁷ The evaluation found that StepUP Loans helped consumers improve their level of financial inclusion, as can be seen in the following table.

⁵Social Policy Research Centre, *Evaluating New Income Management in the Northern Territory: First Evaluation Report*, University of NSW, July 2012. http://www.fahcsia.gov.au/sites/default/files/documents/11_2012/nim_first_evaluation_report.pdf

⁶Australian National Audit Office, *Administration of New Income Management in the Northern Territory, Canberra 2012*, available at: <http://www.anao.gov.au/Publications/Audit-Reports/2012-2013/Administration-of-New-Income-Management-in-the-Northern-Territory/Audit-summary>

⁷The Centre for Social Impact, *A little help goes a long way: Measuring the impact of the StepUP Loan program*, April 2013, [http://www.csi.edu.au/assets/assetdoc/247d7bcf01d0154f/NAB_STEP_UP_REPORT\[1\].pdf](http://www.csi.edu.au/assets/assetdoc/247d7bcf01d0154f/NAB_STEP_UP_REPORT[1].pdf)

Table 22: StepUP loan statistics

	Pre StepUP	Post StepUP
Fully Included	15.0%	18.2%
Marginally Excluded	35.2%	39.8%
Severely Excluded	48.2%	41.4%
Fully Excluded	1.6%	0.6%

Source: Centre for Social Impact, 2013

Recipients of StepUP Loans also experienced significant improvements in areas such as financial literacy, financial confidence and financial management.

One of the most striking findings of the evaluation was that the use of fringe credit providers fell dramatically once an individual had participated in the StepUP Loan program. Out of the 113 individuals who had borrowed from a fringe lender prior to StepUP, 73 stopped using fringe credit providers entirely. Others reduced the frequency of their fringe borrowing.

The review also included an economic analysis of StepUP. For every 1000 loans written (at a cost of \$1.06 million), the program delivered economic benefits of \$1.49 million and social benefits of \$1.35 million. This resulted in an impressive net benefit of \$1.78 million for every 1000 loans. Or in other words, for every one dollar invested in the program, \$2.68 in social and economic value is created.

A range of other micro-lending and community finance initiatives operate in Australia, although many of these are still in the early stages of development. For example, the Commonwealth Government has provided seed funding for the Community Development Financial Institutions (CDFI) pilot project. This involves several test projects which offer appropriate and fair access to financial products and services. These pilot projects are directed towards individuals who are able to repay a loan but who are excluded from mainstream banking access to safe and affordable credit. The CDFI Pilot began in 2009 and has now been extended until mid-2014.⁸

⁸More information on the CDFI Pilot project is available at: <http://www.fahcsia.gov.au/our-responsibilities/communities-and-vulnerable-people/programs-services/financial-management-program/community-development-financial-institutions-cdfi-pilot-project>

Matched savings programs

Matched savings programs aim to introduce low income consumers to savings products and encourage the development of savings behaviour. They are often complemented by financial literacy training or other forms of contact and assistance.

There are only three small programs operating in Australia, and only one of these programs has been subject to an independent evaluation. However, they clearly have positive features, and can help individuals follow a path towards financial inclusion. They can also be 'packaged' with other suitable programs (such as NILS).

AddsUP

NAB and Good Shepherd Microfinance have been providing the AddsUP Savings Plan to low income individuals since 2009. AddsUP is designed to encourage regular savings behaviour, and there are no restrictions on the purpose for which money is being saved.

AddsUP is offered to consumers who have successfully repaid a NILS or StepUP Loan (see page 40). NAB matches \$1 for every \$1 saved by the consumer over a 12 month period up to \$500.

The program has not been the subject of a full external evaluation.

Saver Plus

Saver Plus is a matched savings program which aims to assist people on low incomes to develop a sustainable savings habit, build their assets and improve their financial well-being. ANZ developed the program in partnership with the Brotherhood of St Laurence in 2003. It also received Commonwealth Government support.

The program focuses on working with people on low incomes to save for education-related expenses. ANZ matches every dollar saved by participants with a further two dollars. Matched funds provided by ANZ are capped at \$500. Participants are also required to attend 10 interactive financial education and training sessions.

The effectiveness of the program has been demonstrated in several independent reviews. The most recent review⁹ found that 87% of participants were still engaged in positive savings behaviour three years after completion of the program.

Commonwealth Government Matched Savings Payment

The Matched Savings Payment is only available to individuals in the Government's Income Management program. It is a one-off payment to encourage individuals to develop a savings pattern with their discretionary funds. Eligible individuals can receive \$1 for every \$1 they save, up to a maximum of \$500.

This relatively new program has not yet been the subject of a full evaluation. The National Audit Office reported that by June 2012 only 18 people had participated in the program, so it may be some time before the impact of the program can be assessed.¹⁰

⁹Russell and others, *Evaluation of SaverPlus Past Participants*, RMIT University, 2011

¹⁰Australian National Audit Office, *Administration of New Income Management in the Northern Territory, Canberra 2012*, available at: <http://www.anao.gov.au/Publications/Audit-Reports/2012-2013/Administration-of-New-Income-Management-in-the-Northern-Territory/Audit-summary>

Improving access to insurance

There is a strong case to improve access to insurance in Australia. Almost 20% of the adult population do not have access to general insurance, and there are concerns that many other individuals are under-insured. Maintaining insurance can also be very challenging, especially in recent years when the cost of premiums has risen more quickly than incomes, welfare receipts and the general cost of living.

However there has been very little effort to provide insurance products that are suitable for low income and other disadvantaged groups, especially when compared to the effort made in relation to credit and savings.

There are currently no micro-insurance products available, although a StepUP Insurance product was briefly offered in the period 2006 - 2007 by NAB in partnership with Good Shepherd Microfinance. The product was only a limited success and was withdrawn from the market. It proved difficult to promote an insurance product through community channels, as the sale of financial products is tightly regulated. This will be an important consideration in the design of any future products. A small number of affordable home contents policies are available for renters, but they have a very limited profile. There are no micro-products available for buildings or vehicle insurance.

Non-profit community organisations such as the Brotherhood of St Laurence (2006)¹¹ and Good Shepherd (2013)¹² have tried to engage the Government and the corporate sector in discussions on suitable micro-insurance products, and this issue appears to be gaining some support.

Community organisations have also called for other improvements to existing insurance products, to make them more inclusive. This includes recommendations to allow insurance premiums to be paid fortnightly and to allow them to be paid directly from welfare receipts through the Centrepay system.

Other programs

A range of stand-alone financial literacy and financial education programs are also in place, and financial literacy programs in schools now receive substantial support. The role of financial counselling should also be acknowledged, as many counsellors are skilled at helping their clients on a path to financial inclusion, as well as addressing their immediate needs.

These initiatives are not described in detail in this report, but more information is available at the following sites:

National Financial Literacy Strategy

<http://www.financialliteracy.gov.au/>

Financial Counselling Australia

<http://www.financialcounsellingaustralia.org.au/Home>

Finally, some recent initiatives have attempted to introduce a holistic approach to financial inclusion, by packaging a range of services in one location. For example, in 2012 a partnership of NAB, Good Shepherd and the Victorian Government launched the 'Good Money' community finance pilot scheme.

Good Money is pilot of three retail store-fronts located 'on the high street' in Collingwood, Geelong and Dandenong in Victoria, where individuals can access a range of government and community financial services, including NILS, StepUP Loans, financial counselling and other relevant services and information. The stores are designed to compete more directly with the fringe lending market, and reach a broader segment of the market who may not traditionally seek support through community organisations.

An evaluation of the pilot is underway.

Good Money

<http://goodmoney.com.au/>

¹¹Sheehan, G & Renouf, G, *Risk and Reality: Access to General Insurance for People on Low Incomes*, Brotherhood of St Laurence, 2006.

¹²Collins, D, *Insurance for Low-Income Australians: Taking Innovative Action - A Discussion Paper*, Good Shepherd Microfinance, March 2013.

Conclusion

This report shows that 17.7% of the population are either fully excluded or severely excluded from mainstream financial services. This is part of a multi-year research series, and the rate of financial exclusion has grown each year.

Costs

The report reveals high rates of exclusion in relation to credit (56.6%) and insurance (19.5%). The data also shows that there is a proportion of the population who do not have access to a transaction account (3.1%). This presents a significant challenge, as Australia already has many of the drivers in place for providing access to bank accounts. We have a good range of affordable and appropriate accounts available, and our welfare payment system requires recipients to have an account in order to receive benefits. Providing access to this last group of excluded individuals will be difficult.

Demographics

Our demographic profile of exclusion identified people on incomes of between \$20,000 and \$25,000 have particularly low levels of access to transaction accounts. Although this income is less than the minimum wage for a full-time worker, it is above the amount typically received by a welfare recipient. This group have been recognised as the 'working poor', and it will be important to develop financial services and products that meet the needs of this group. A transaction account is an 'entry' product for financial services, and can help individuals on a path to full participation, so it is important to improve access to transaction accounts amongst this group.

Insurance – a deeper look

This year's detailed study of the use of insurance found that the rate of insurance exclusion is 19.5%. This rate increases dramatically for specific groups – particularly young people and people born in a non-English speaking country.

We also found that groups with low incomes have poor access to insurance. Individuals do not reach the national average level of insurance coverage until they are earning more than \$30,000.

An additional survey of 1500 consumers revealed that the most significant difficulty faced by consumers in obtaining or keeping insurance was affordability. They also reported significant difficulties related to the complexity of insurance products and documentation. Participants in this study also expressed a strong need for insurance, as they had assets which were important or valuable to them that they were currently unable to insure.

Financial exclusion by region

This report has examined insurance exclusion rates in 58 regions across Australia, and identifies many areas (mostly inner-city areas or very remote areas) where access to insurance is limited.

Programs and future direction

Finally, we have provided a brief overview and discussion of the main initiatives which are attempting to address financial exclusion in Australia. While there are a range of initiatives relating to basic banking, matched savings, access to credit and financial literacy, many of these programs are relatively modest in terms of scale, and all programs are subject to funding and sustainability pressures. We also note the absence of initiatives designed to improve access to insurance.

Overall, the efforts to address financial exclusion in Australia appear to be dwarfed by the scale of the problem. Alternative and innovative approaches to microfinance products, distribution and support services need to be investigated to meet the growing levels of financial exclusion, in a way that is sustainable.



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Appendix 2 - Methodology

Product ownership exclusion

In order to determine the degree of overall financial exclusion in Australia, we measured the level of product ownership for three key financial services. This was based on the level of product ownership amongst the Australian population who are 18 and older. Those three services are:

- The ability to manage day to day transactions and payments: We measured ownership of Transaction Accounts including a wide variety of accounts from all financial institutions, but excluding term deposits.
- Access to a moderate amount of credit: We measured ownership of credit cards which enable access to a moderate amount of credit. Note that credit cards were chosen as a proxy for measuring access to mainstream credit products.
- The ability to protect key assets: We measured ownership of general insurance products providing basic asset protection, narrowly defined to only include home contents insurance, building insurance and/or vehicle insurance.

Consumers were pooled into categories of financial exclusion ranging from individuals being:

- Included (owning all three services)
- Marginally excluded (lacking one service)
- Severely excluded (lacking two services)
- Fully excluded (lacking all three services).

Based on this framework, search queries have been created within the Roy Morgan Research financial services database. The database holds data collected from 50,000 face to face interviews with individuals in Australia. The results are weighted to reflect geographic, age and sex distribution of the population according to the latest ABS statistics.

In this research program we summarise our data collection periods as 2011, 2012 etc. In practice data collection is not based on an exact calendar year, and we use data from the period November 2011 to October 2012 in this year's report.

Cost Exclusion

To quantify the average cost of financial services, we examined the average annual costs of maintaining transaction accounts, credit cards and general insurance.

After estimating the average cost of each financial product the next step is to calculate the overall annual cost of financial services. As an indicator for cost exclusion the ratio of cost to annual income is being used.

To measure how many people fall into each category, Roy Morgan demographic data has been used. Within the lowest income bands there are about 15% of the population which earned less than the minimum Centrelink payment. Of those 15% about one third are the main income earner. Those were included in the calculation. The remainder are likely to be dependents, and they have been excluded from this particular calculation.

Roy Morgan Online Survey – Insurance

Roy Morgan Research were engaged to conduct a small additional survey of individuals to ascertain their use of insurance, and to seek information on challenges they faced in obtaining and keeping insurance products. This survey was conducted online in March / April 2013 and is completely separate from the large face to face survey. 1501 individuals participated in the survey.

Data sources

The following table provides a summary of the key data sources used in the calculation of the financial exclusion indicator.

Table 23: summary of key data sources

Key Data Sources	Use	Strengths	Limitations
Roy Morgan Single Source Survey	<ul style="list-style-type: none"> Financial product ownership Demographic data Means of accessing financial services 	<ul style="list-style-type: none"> 50,000 respondents Face to face interviews Weighted against ABS population data 	<ul style="list-style-type: none"> Not a longitudinal study
NAB internal data	<ul style="list-style-type: none"> Transaction patterns Average account balances 	<ul style="list-style-type: none"> Data on several million consumers available Reveals actual transaction data (no self reporting bias) 	<ul style="list-style-type: none"> Not weighted against ABS data – slight bias towards higher income consumers
CanstarCannex	<ul style="list-style-type: none"> Average cost of maintaining basic transaction account / basic credit card 	<ul style="list-style-type: none"> Comprehensive, detailed data Up to date cost information 	
Insurance Statistics Australia	<ul style="list-style-type: none"> Annual premium costs 	<ul style="list-style-type: none"> Up to date cost information 	<ul style="list-style-type: none"> Does not include taxes and other levies.

Further research

This is a multi-year project and CSI always welcomes suggested enhancements to the research methodology, new sources of data, or recommendations for issues that require more detailed analysis.







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