

CENTRE
for **SOCIAL**
IMPACT

Measuring Financial Exclusion In Australia

Centre for Social Impact
for National Australia Bank

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Contents

Foreword from NAB	2
Acknowledgements	3
Executive Summary	5
Introduction	7
The Extent of Financial Exclusion in Australia	9
Cost Exclusion	13
The Demographic Profile of Financial Exclusion	17
Conclusion	24
Appendix 1 – Bibliography	25
Appendix 2 – Methodology	27

Foreword from NAB

As a nation, we have enjoyed economic growth almost unparalleled in the world, yet many Australians continue to have difficulty accessing mainstream banking services.

NAB has been measuring financial exclusion in Australia for four years and in that time, the number of people severely or fully excluded from the financial system has grown to more than three million.

In particular, access to a moderate amount of credit continues to be a concern for many Australians. In our community there are people living from pay to pay, without a safety net to help them manage unexpected expenses such as the car they rely on to maintain a job breaking down. Many people still face challenges accessing the simple finance that most of us take for granted.

At NAB we believe this is unacceptable and we are working to make mainstream banking accessible to more Australians. Over the past decade, our partnership with Good Shepherd Microfinance has resulted in more than 90,000 loans to low income Australians. We know our programs are having a real impact for the most vulnerable in our society and we have set ourselves the challenge of improving financial inclusion for one million people by 2018.

We will continue to focus our attention on people who are financially disadvantaged but a whole of industry approach is required if we are to make significant change.

Financial exclusion is a complex issue but by working together with government and the community sector we can build a more prosperous Australia.

Cameron Clyne,
Group CEO, National Australia Bank

Acknowledgements

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

At the Centre for Social Impact we believe in a stronger society for all. Our mission is to improve the delivery of beneficial social impact in Australia through research, teaching, measurement and the promotion of public debate. We take a systems approach to developing innovative solutions to the biggest social challenges today, with a vision for a better Australia tomorrow. Through our research, teaching, events and advocacy, we aim to ensure knowledge translates to impact.

The Centre for Social Impact is a collaboration of four universities: the University of New South Wales, Swinburne University of Technology, The University of Western Australia and The University of Melbourne.



NAB

www.nab.com.au

National Australia Bank (NAB) is a financial services organisation with over 42,000 people, operating more than 1800 branches and service centres and responsible to more than 500,000 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.

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

www.csi.edu.au/research/our-project

and

www.nab.com.au/microfinanceresearch

Research Advisory Committee

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

- Andrew Black, Department of Social Services (DSS)
- Gerard Brody, Consumer Action Law Centre
- Robert Drake, Australian Securities and Investments Commission (ASIC)
- Adam Mooney, Good Shepherd Microfinance
- Dean Pearson, NAB
- Corinne Proske, NAB
- David Tennant, FamilyCare Shepparton

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Connolly C, *Measuring Financial Exclusion in Australia*, Centre for Social Impact (CSI) – University of New South Wales, 2014, for National Australia Bank.

Executive Summary

Financial exclusion is an important issue for Australia in 2014. Australia is conducting the first major inquiry into the financial system for many years, and one of the inquiry objectives is to develop policy options that 'meet the needs of users with appropriate financial products and services'.¹

Australia is chairing the G20 in 2014, and the G20 Development Working Group has prioritised financial inclusion as one of its key activities.²

All of this activity is taking place during a period of growing global interest in financial exclusion. The World Bank, *2014 Global Financial Development Report: Financial Inclusion*, calls for a concerted global effort to promote financial inclusion.³ In March 2014 NAB and the Centre for Social Impact (CSI) published a new *Global Snapshot of Financial Exclusion* that examined and compared responses to financial exclusion in 23 selected jurisdictions.⁴

It is in this context that NAB and CSI continue to publish important research on the level of financial exclusion in Australia. CSI published its first measurement of financial exclusion in Australia in 2011. The research – commissioned by NAB – is repeated annually and is now in its fourth year. The objective of the research is to improve our understanding of financial exclusion and its interaction with social and economic disadvantage in Australia.

This year's report shows that 16.9% of the adult population (18+) in Australia were either fully excluded or severely excluded from financial services in 2013. This figure comprises 1% of adults who were fully excluded (they had no financial services products) and 15.9% of adults who were severely excluded (they only had one financial services product).

In real terms, 181,000 adults were fully excluded and 2,859,000 were severely excluded, totalling 3,040,000 Australians experiencing financial exclusion.

The new figures show a small decrease compared with the 2012 data, when 17.7% 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 to examine the medium-term trend.

Over the seven years of available data, we have seen an increase in the number and proportion of adults who are either fully excluded or severely excluded from access to financial services.

There have been small variations each year, and CSI will be publishing a more detailed trend analysis later in 2014, including comparisons between the level of financial exclusion and other social and economic indicators over time.

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

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 in 2013 was \$1801. This is made up of \$82 for a basic bank account, \$717 for a low cost credit card, and \$1002 for general insurance (basic motor vehicle and basic home contents combined). For 8.1% of the adult population (1,456,300 people) this would represent over 15% of their annual income. For another 10% 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 individuals who were financially excluded. For the first time we are publishing the number of individuals who fall into either the fully excluded or severely excluded category, mapped against key demographic characteristics (income, work status, age, highest level of education, country of birth and gender).

The analysis shows that a large number of young people were excluded, but the number of students within this excluded group is surprisingly low.

Another key finding is that a very high number of people in employment, including full time employment, were excluded from access to financial services. This finding may confirm concerns that we have expressed in our earlier research regarding the low level of access to financial services by the 'working poor' – those individuals who do not qualify for welfare assistance because they have some employment, but who receive a very low income.

Some other demographic characteristics were shown to have a relatively 'even' spread amongst financially excluded individuals, including gender and the highest level of education individuals have obtained.

This analysis should help stakeholders understand the size of key market segments. We hope this information can be used to develop appropriate products and financial inclusion initiatives that target individuals with these characteristics.

Conclusion

This year's report highlights the substantial 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 provides an insight into the demographic characteristics of Australians who are excluded, and the size of the groups who may require assistance or customised products.

This report, and indeed the data from the four years of cumulative research and analysis, should help to deepen our understanding of the challenge of financial exclusion at a time of significant development in Australia's financial system.



¹ Financial Systems Inquiry – Terms of Reference, 2014, <http://fsi.gov.au/terms-of-reference/>

² See the G20 Principles for Innovative Financial Inclusion, Toronto, 2010, <http://www.g20.utoronto.ca/2010/to-principles.html>

³ World Bank, 2014 *Global Financial Development Report: Financial Inclusion*, www.worldbank.org

⁴ Chris Connolly, *Global Snapshot of Financial Exclusion*, NAB and Centre for Social Impact (CSI), 2014, www.csi.edu.au

Introduction

Centre for Social Impact (CSI) has examined financial exclusion, and developed 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 2014 Report examines data for the 2013 calendar year.

Research History

This research series has been running for four years. Each report includes an analysis of the headline data, which presents the number and proportion of financially excluded Australians. The headline data thus presents a measure of the extent of financial exclusion in Australia. The 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 issues were also studied 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), supplemented with a re-contact survey (661 telephone interviews), focusing 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

The 2013 report repeated the main measurement of the extent of financial exclusion, using data for the 2012 calendar year. The main large survey (50,000 face-to-face interviews) was supplemented by an additional small survey (1,500 online interviews), focusing on issues related to insurance.

The 2013 report included additional sections on the use of insurance and a summary of current initiatives aimed at addressing financial exclusion.

The 2014 Report (this report)

The 2014 report repeats the main measurement of the extent of financial exclusion, using data for the 2013 calendar year. Again the data is based on the large Roy Morgan survey (50,000 face-to-face interviews).

For the first time, the 2014 report includes detailed demographic analysis, including the exact population size, for consumers in either the fully excluded or severely excluded categories.

In previous years we have published separate chapters on specific issues such as credit and insurance. In 2014 we are conducting separate study on superannuation, which will be published as a stand-alone report later in 2014.

Defining Financial Exclusion

Financial exclusion exists where individuals lack access to appropriate and affordable financial services and products. The primary 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 ability to manage day-to-day transactions and payments.

Access to a moderate amount of credit

Credit is a financial tool that enables 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 expenditure and protecting against income shocks and financial stress.

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

It is difficult to measure access to credit in Australia. In this project we have 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 closely tracks the general rate of mainstream credit use in Australia (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 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 and car insurance.

(For a more detailed discussion of the definition of financial exclusion please see the 2011 report.)

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 (around 1,000 interviews are conducted each week). The interview includes detailed questions on all of the financial products owned by each respondent, as well as comprehensive demographic information.

This is the largest national study of financial exclusion undertaken anywhere in the world.

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



The Extent of Financial Exclusion in Australia

More than three million people (16.9% of the adult population in Australia) were either fully excluded or severely excluded from financial services in 2013. This figure comprises 1% of adults who were fully excluded (they had no financial services products) and 15.9% of adults who were severely excluded (they had only one financial services product).

This represents a slight improvement compared with the 2013 report, which identified 17.7% of the population as being either fully excluded or severely excluded in the 2012 data.

Financial Exclusion – 2013 Data

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

Three 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 (50,000 face-to-face surveys). The high-level results for 2013 are as shown in Table 1.

Table 1: Extent of Financial Exclusion in Australia 2013

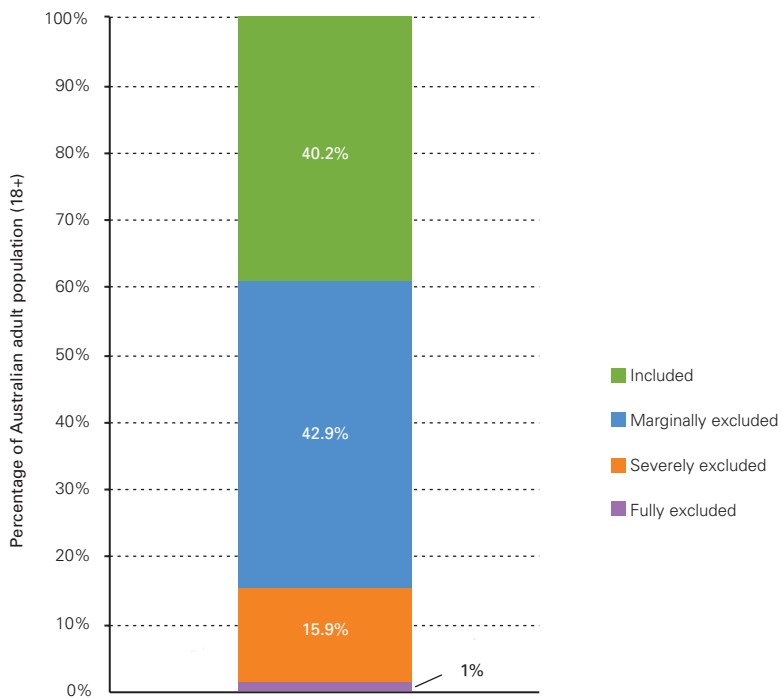
Transaction Account	Credit Card	General Insurance	% of population	Category
Yes	Yes	Yes	40.2%	Included 40.2%
Yes	Yes	No	2.6%	Marginally excluded 42.9%
Yes	No	Yes	39.9%	
No	Yes	Yes	0.4%	
Yes	No	No	15.0%	Severely excluded 15.9% ⁵
No	Yes	No	0.1%	
No	No	Yes	0.8%	
No	No	No	1.0%	Fully excluded 1.0%

Source: Roy Morgan Research, 2013.

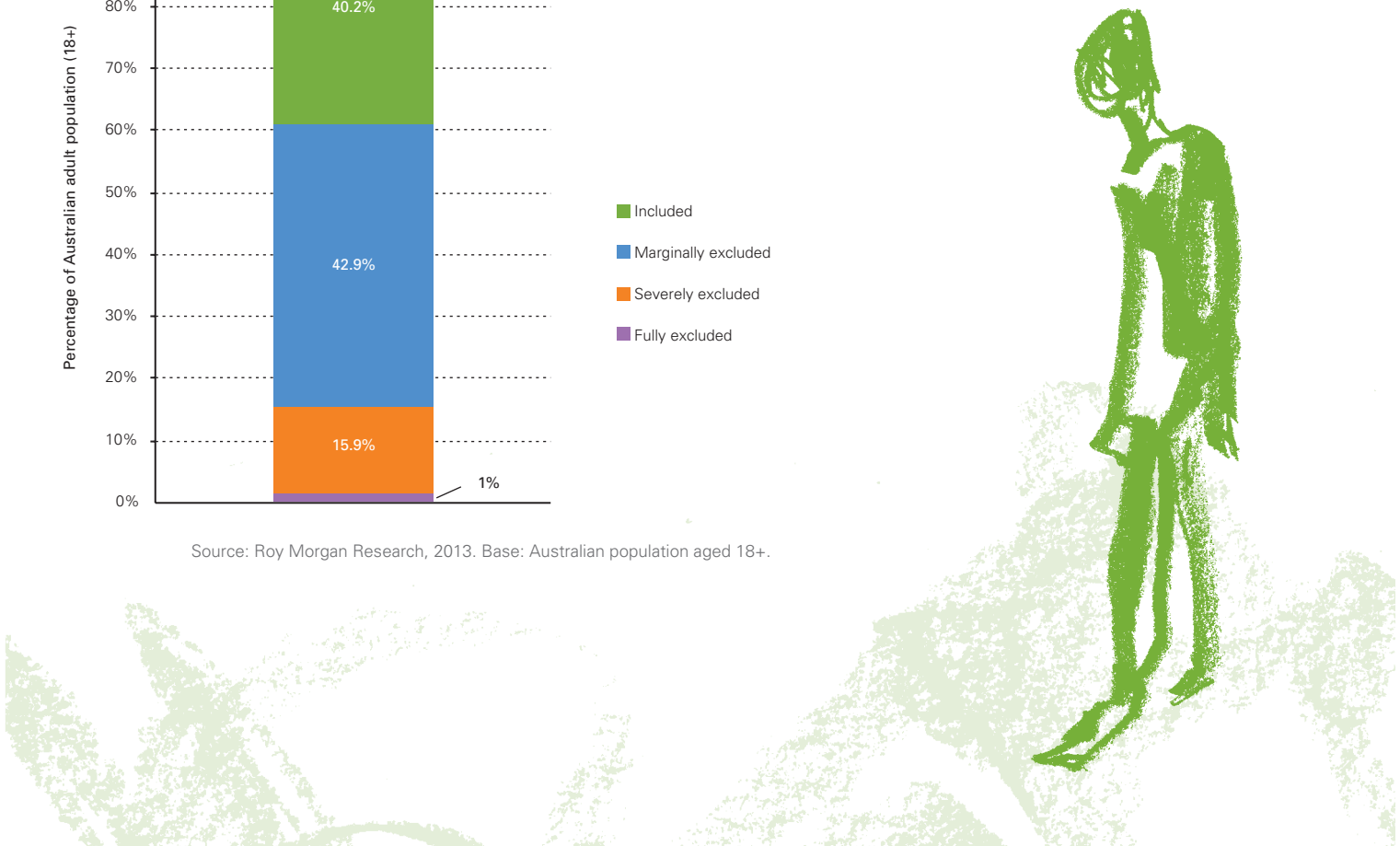
In real terms, 181,000 adults were fully excluded and 2,859,000 were severely excluded, totalling 3,040,000 people experiencing financial exclusion in 2013. We do not consider those in the marginally excluded category in our headline figure for financial exclusion.

⁵The high level results include some rounding up or down.

Chart 1: Financial Exclusion Segments 2013



Source: Roy Morgan Research, 2013. Base: Australian population aged 18+.



Financial Exclusion – Historical Data

Data is available for the period 2007-2013.

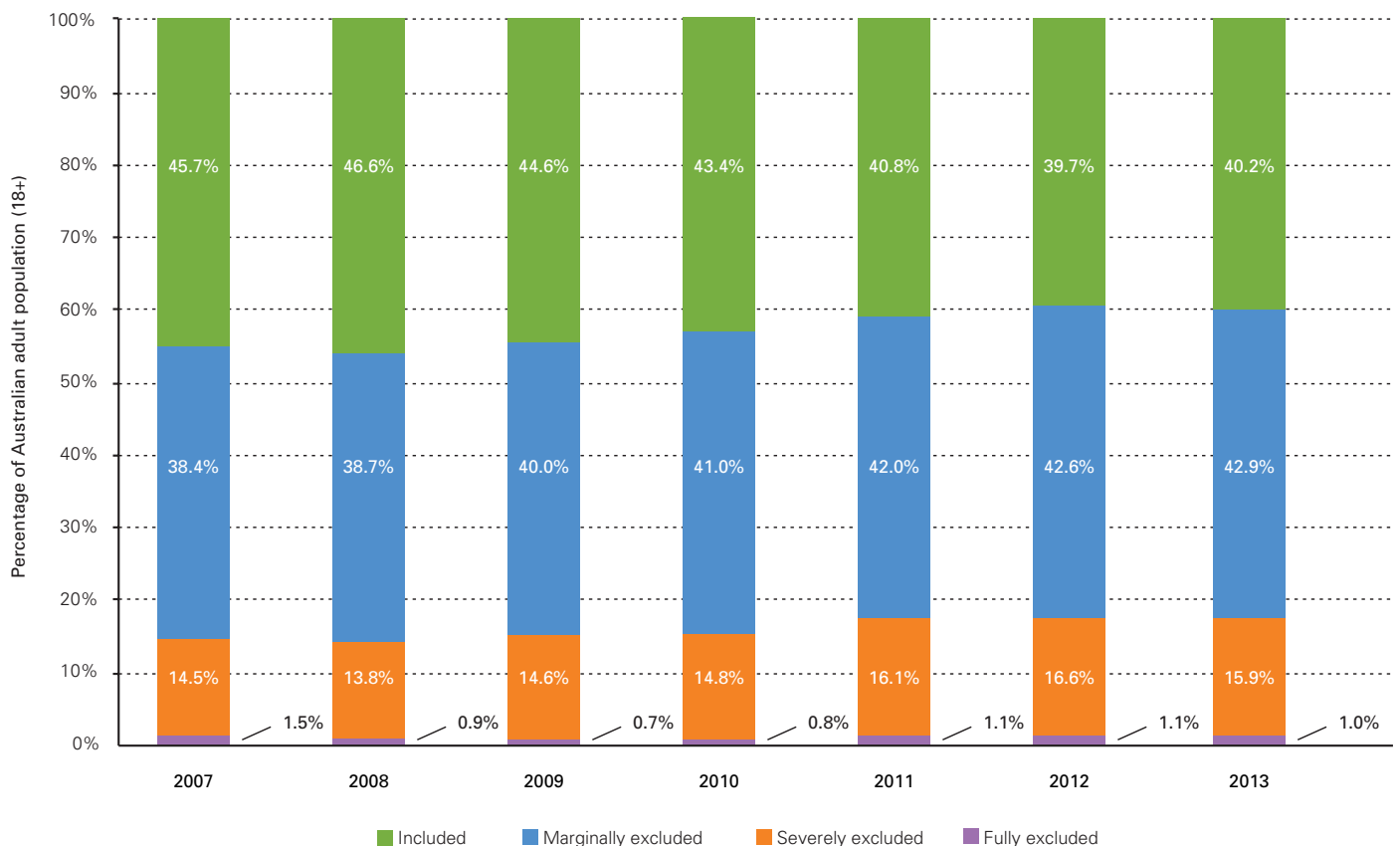
Table 2: Financial Exclusion (2007 to 2013)

Degree of exclusion	2007	2008	2009	2010	2011	2012	2013
Included	45.7%	46.6%	44.6%	43.4%	40.8%	39.7%	40.2%
Marginally excluded	38.4%	38.7%	40.0%	41.0%	42.0%	42.6%	42.9%
Severely excluded	14.5%	13.8%	14.6%	14.8%	16.1%	16.6%	15.9%
Fully excluded	1.5%	0.9%	0.7%	0.8%	1.1%	1.1%	1.0%

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

The following chart shows the degree of financial exclusion in Australia over a seven year period.

Chart 2: Degree of Financial Exclusion (2007 to 2013)



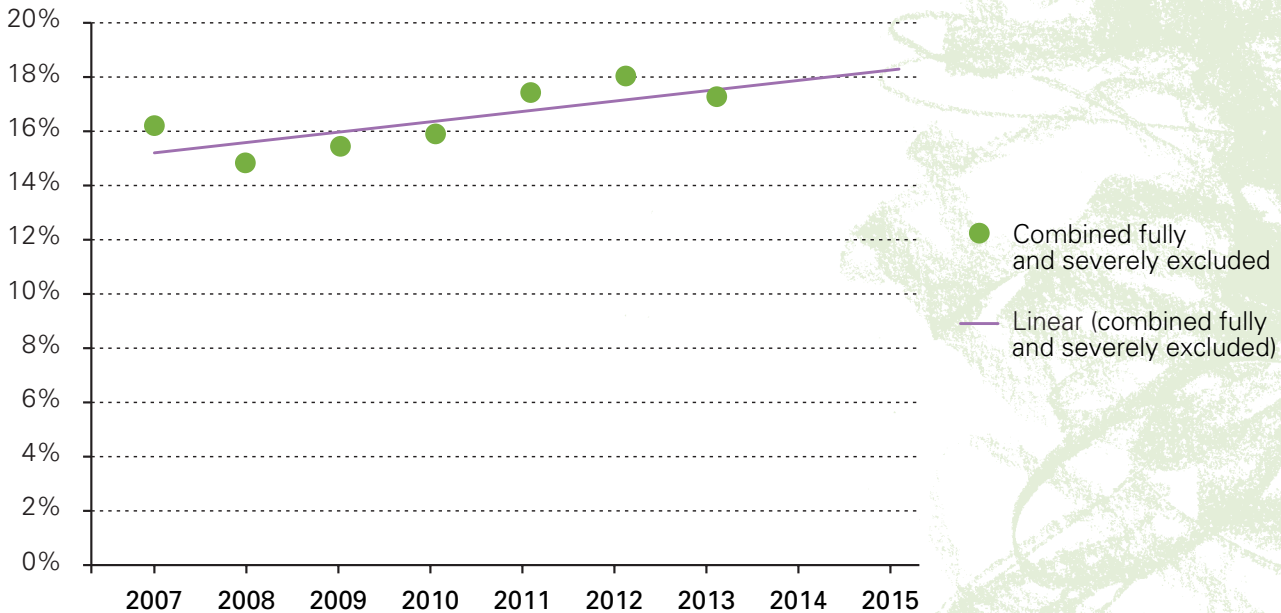
Source: Roy Morgan Research. Base: Australian population aged 18+. Percentages may not sum to 100 due to rounding.

As can be seen in chart 2, the 2013 data shows a small decrease in the proportion of people in the severely excluded category.

However, over the seven years of available data we have seen an increase in the number and proportion of adults who are either fully excluded or severely excluded from access to financial services. There have been small variations each year, which will be discussed in the CSI's trend analysis to be released later in 2014, including comparisons between the level of financial exclusion against other social and economic indicators over time.

In the meantime, we can see the medium-term trend in the following chart showing the proportion of combined fully and severely excluded consumers each year since 2007.

Chart 3: Combined Fully and Severely Excluded (2007 to 2013)



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

Cost Exclusion

Cost exclusion is the exclusion from accessing financial products such as transaction accounts, credit cards and insurance on the basis of cost, rather than credit rating or knowledge or some other factor.

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 \$1801 - just to maintain a very simple level of service, with no additional features or benefits. For around 8.1% of the adult population (1,456,300 people) this cost would represent more than 15% of their annual pre-tax income.

This cost was a 3.6% increase on the \$1739 cost reported in the 2013 report, mainly due to higher insurance costs. During the same period the Consumer Price Index rose by 2.7%.

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 CANSTAR).

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

The average annual cost for holding a basic transaction account in 2013 was \$82. The costs of the top 10 providers ranged from \$27 to \$107. These costs were 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 regularly incurred by consumers using these accounts. The main costs are fees for accessing ATMs and annual account keeping fees still charged by some of the top 10 institutions.

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 are more likely to make more frequent transactions for smaller amounts.

The 2013 average cost of \$82 was slightly lower than the 2012 average of \$85. 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).

It is important to note that new types of fees have been introduced by some institutions and these have not been included in these calculations. These include fees for providing monthly statements (e.g. \$2 a month) and fees for providing a debit card (e.g. \$1 to \$3 per month). If these fees become widespread, we will have to consider including them in our cost calculations, and the average cost of running a basic account is likely to increase. At the time of writing, these fees are only charged by three of the institutions in the top 10 providers of basic bank accounts. We will revisit this issue in next year's report.

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 CANSTAR).

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

The average annual cost for holding a basic credit card in 2013 was \$717. The costs of the top ten providers ranged from \$667 to \$846. These costs were 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 were regularly incurred by consumers using these cards, and was based on a customer carrying an ongoing credit balance. Obviously many customers do not carry an ongoing balance, but we were 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 2013 average cost of \$717 was slightly higher than the 2012 average of \$711. This was due to some increases in annual fees. The average number and value of cash advances by customers remained stable this year, after falling in each of the previous three years.

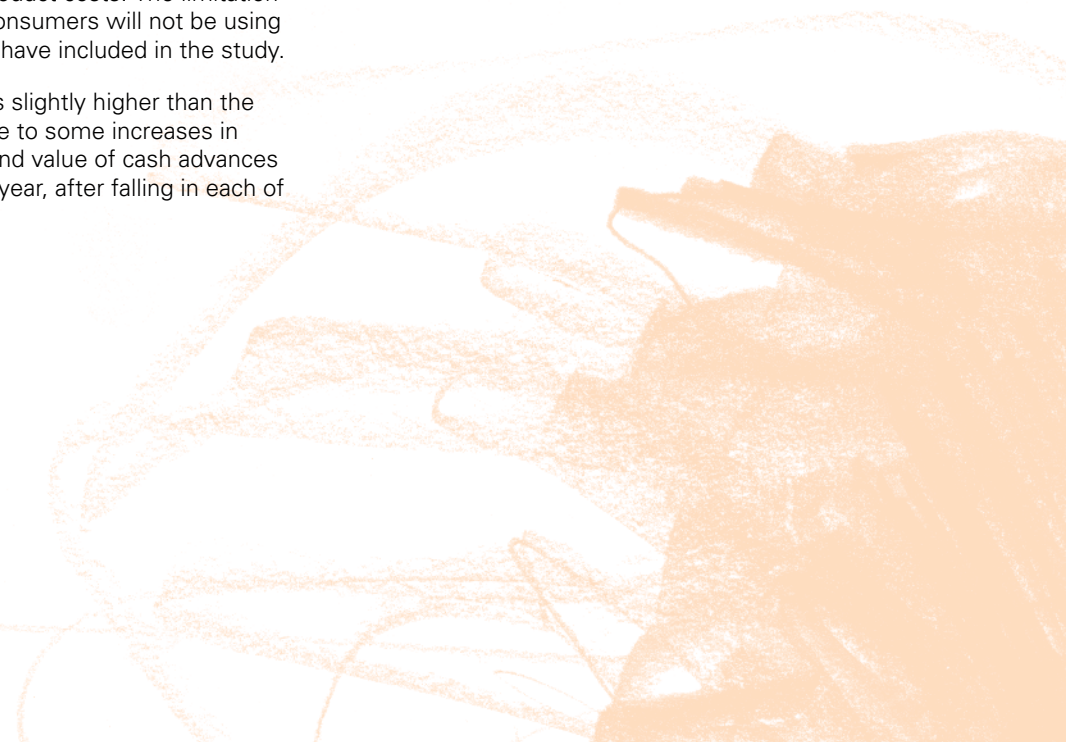
Annual Cost of Basic General Insurance

We calculated the annual cost of maintaining basic general insurance to protect 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 in June 2013 was \$344. The average annual premium for comprehensive motor vehicle insurance (excluding Compulsory Third Party cover) was \$658. This results in a combined annual average cost of \$1002 to protect these important assets.

The strength of this methodology is this data is updated by Insurance Statistics Australia each year, making it easy to include in annual issues of the report. The limitation of this methodology is the premium calculation is an 'average of averages' and 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 2013 average cost of \$1002 was higher than the 2012 average of \$943. This was due mainly to a 9.8% increase in the average cost of home insurance. Motor vehicle insurance costs increased by 6.2%. 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 products is \$1801. This is made up of \$82 for a basic bank account, \$717 for a low cost credit card, and \$1002 for basic general insurance.

These costs have tended to vary each year. Bank account costs have fallen steadily. Insurance costs have risen quickly. Credit costs have been more volatile. The changes for each product can be seen in the following table:

Table 3: Average Annual Cost of Basic Financial Products (2010 to 2013)

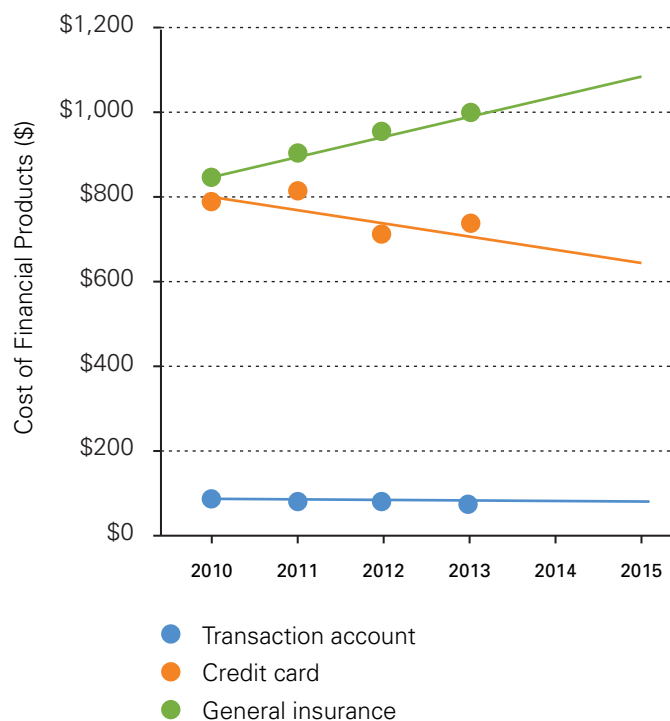
Item	2010	2011	2012	2013
Transaction account	\$92	\$88	\$85	\$82
Credit card	\$793	\$808	\$711	\$717
General insurance	\$855	\$898	\$943	\$1002
Total	\$1740	\$1794	\$1739	\$1801

Source: Roy Morgan, CANSTAR, Insurance Statistics Australia and NAB internal aggregated data.

With these products in place, a consumer can manage basic payments, handle small emergencies, smooth income, and protect key assets from basic risks. However, the data raises questions about whether all consumers can afford to maintain these three basic products. This may be especially the case with purchasing general insurance, which has seen the biggest rise in costs each year over the last three years.

The following chart shows the changes in the annual costs for each product since 2010, including a trend line analysis:

Chart 4: Cost Trend 2010 to 2013



Source: Roy Morgan, CANSTAR, Insurance Statistics Australia and NAB internal aggregated data.



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

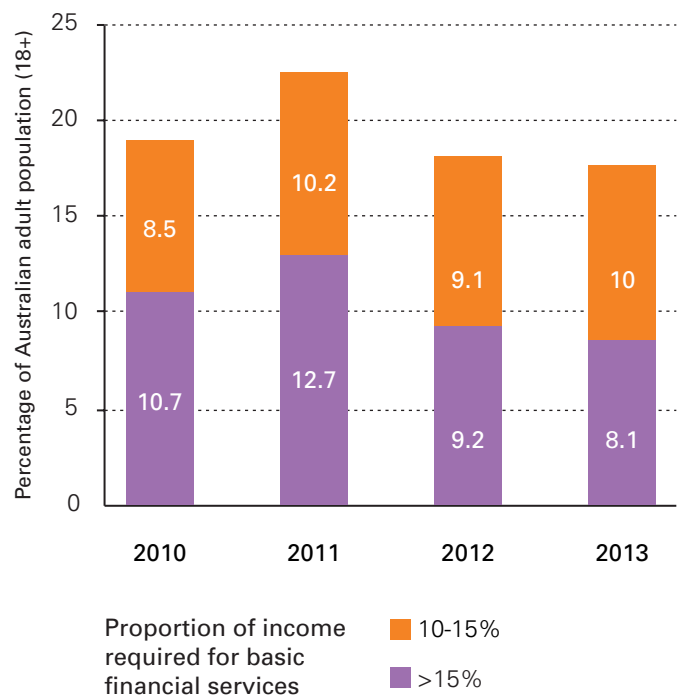
Total income before tax of each individual in the survey has been used to measure how many people fall into each category, from Roy Morgan demographic data.

Table 4: Proportion of Income Used to Purchase Financial Products (2010 to 2013)

Proportion of income required to access basic financial services	% of population 2010	% of population 2011	% of population 2012	% of population 2013
< 5%	46.2	42.3	48.1	49
5%-10%	22.7	24.2	23.5	22.6
10%-15%	8.5	10.2	9.1	10
> 15%	10.7	12.7	9.2	8.1

Source: Roy Morgan Research. Base: Australian population aged 18+. We exclude some consumers categorised as dependents from this table. See Appendix 2 - Methodology for further details.

Chart 5: Cost exclusion (2010 to 2013)



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

Around 18.1% of individuals would face significant challenges accessing financial services due to the average cost of purchasing 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 (16.9%).

It is likely that this indicates a larger number of individuals suffer some degree of financial stress in managing their access to financial services.



The Demographic Profile of Financial Exclusion

In previous years' reports we have described some of the demographic indicators of financial exclusion. This year, for the first time, we are publishing the number of individuals who fall into either the fully excluded or severely excluded category, mapped against demographic characteristics (income, work status, age, highest level of education, country of birth and gender).

This analysis should help stakeholders understand the size of key market segments. We hope this information can be used to develop appropriate products and financial inclusion initiatives that target individuals with these characteristics.

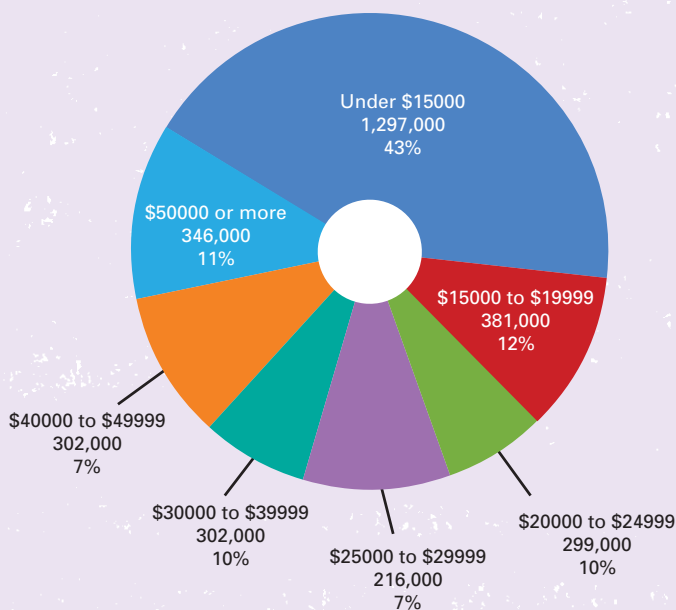
Income

We already know that income is one of the key factors in determining access to financial services. For example, in previous reports we have discussed how individuals with an income below \$15,000 per year had an exclusion rate 118% greater than the national average of exclusion.⁶

In this year's report we are taking a deeper look at this issue, and publishing the exact population sizes of individuals who are either fully excluded or severely excluded from financial services, mapped against their income bracket. In this section we measure total income from all sources before tax.

The following chart provides the population in each income segment who are either fully or severely excluded. The percentages shown in the chart are a proportion of the combined fully and severely excluded population (3,040,000 people), not the national adult population.

Chart 6: Income Brackets of those Fully or Severely Excluded



Source: Roy Morgan Research, 2013. Base: Australian population aged 18+. The figures used for this chart have been rounded up.

The chart clearly shows a link between income and financial exclusion, and helps us identify the market size for potential products and initiatives to improve financial inclusion. For example, the 299,000 people earning between \$20,000 and \$25,000 per year may be in the 'working poor' category, where their income prevents them from qualifying for government welfare assistance, but their income remains extremely low.

⁶See page 18 of the 2013 report. The quoted figure applies only to the fully excluded category. For the severely excluded category individuals earning less than \$15,000 per year had an exclusion rate 77% greater than the national average. The 2013 report includes similar data for all income segments.

This group may need a different type of assistance to those earning less (who are more likely to be in contact with government welfare services).

Income is a factor in determining access to all financial products, although it has the greatest impact on access to credit. The national proportion of adults with access to credit is 43.3%. However, no income segments actually reach this rate until earnings rise above \$50,000. The national proportion of adults with access to insurance is 81.3%. Individuals only need to earn slightly more than \$30,000 to reach this rate.

Table 4: Access to Financial Products by Income Bracket

Income	TOTAL	Under \$15,000	\$15,000 to \$19,999	\$20,000 to \$24,999	\$25,000 to \$29,999	\$30,000 to \$39,999	\$40,000 to \$49,999	\$50,000 or more
Transaction account	97.6%	95.6%	98.1%	98.4%	98.0%	97.9%	98.5%	98.2%
Credit cards	43.3%	30.5%	30.0%	32.7%	35.9%	38.7%	41.8%	60.5%
General insurance	81.3%	66.9%	75.3%	76.2%	79.3%	80.9%	85.4%	92.8%

Source: Roy Morgan Research, 2013. Base: Australian population aged 18+.

While income is obviously an important factor in determining access to financial services, table 4 shows that there are surprisingly high population numbers right across the income spectrum. A recent World Bank study of global financial exclusion concluded that income levels could only explain about 70% of the variation in global rates of financial exclusion⁷. Other factors must be at play, and our study now turns to other possible factors.



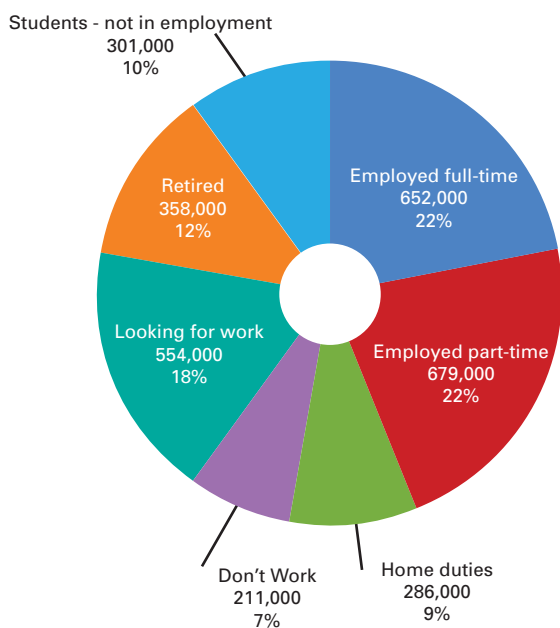
⁷See: Asli Demircug-Kunt and Leora Klapper, Measuring Financial Inclusion: The Global Findex Database, World Bank Policy Research Paper 6025, 2012, http://data.worldbank.org/data-catalog/financial_inclusion (page 3)

Work Status

We have already seen that income is a factor in the level of financial exclusion, and work status and income are usually closely linked. However, an analysis of the work status of people who are either fully excluded or severely excluded from financial services produces some surprising results.

The following chart illustrates the spread across work status segments in the population of fully or severely excluded adults. The percentages shown in the chart are a proportion of the combined fully and severely excluded population (3,040,000 people), not the national adult population.

Chart 7: Work Status of Those Severely or Fully Excluded



Source: Roy Morgan Research, 2013. Base: Australian population aged 18+. The figures used for this chart have been rounded up.

The chart shows that a high proportion of individuals are in employment (the combined total of full-time and part-time employees is 1,331,000) but they are still either fully or severely excluded from financial services. It seems clear that having work is not always a path to financial inclusion, and other barriers may be preventing this group from accessing basic financial products.⁸

⁸For a discussion of other barriers to accessing credit see the 2012 Report. For barriers to accessing insurance see the 2013 Report.

⁹Les Hems, Stephen Bennett, Meiko Georgouras, Axelle Marjolin and Jade Wong, *A little help goes a long way – Measuring the impact of the StepUp-loan-program*, Centre for Social Impact (CSI), 2013, <http://csi.edu.au/research/our-project/little-help-goes-long-way-measuring-impact-stepup-loan-program/>

¹⁰Bennett, S., Georgouras, M., Hems, L., Marjolin, A., and Wong, J. (Forthcoming). An Outcomes Evaluation of the Good Shepherd Microfinance No Interest Loans Scheme (NILS). Centre for Social Impact. University of New South Wales. A report prepared for Good Shepherd Microfinance.

Interestingly, recent reviews of some key financial inclusion initiatives in Australia have revealed that people in employment are not well represented in the client base for these services. For example, the review of the NAB *StepUp* microcredit product in 2013 found that only 34% of the clients (in the study sample of 500 clients) were employed.⁹

An even smaller proportion of clients of the No Interest Loan Scheme (NILS) are in employment. In a survey of 710 NILS recipients undertaken in 2012, only 15% were in employment.¹⁰

There may be a large untapped market for financial inclusion initiatives aimed at people in employment. There may also be a need to design and provide appropriate mainstream financial services and products for this group.

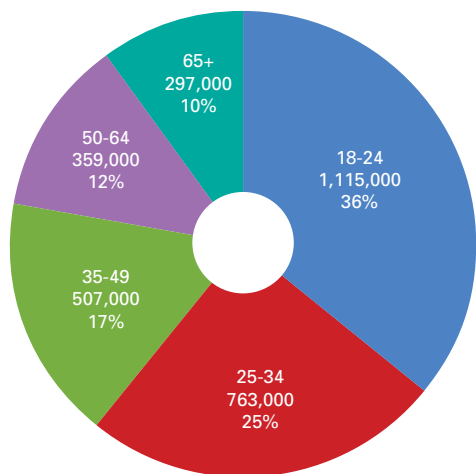
Age

Our research has identified age as an important factor in access to financial services, especially for young people. For example, our 2013 report found that being aged 18 to 24 resulted in an exclusion rate that was 78% higher than the national average.

In this year's report we are publishing the exact population sizes of individuals who are either fully excluded or severely excluded from financial services, by age.

The following chart provides the population numbers in each age bracket who are either fully or severely excluded. The percentages shown in the chart are a proportion of the combined fully and severely excluded population (3,040,000 people), not the national adult population.

Chart 8: Age of those Severely or Fully Excluded



Source: Roy Morgan Research, 2013. Base: Australian population aged 18+. The figures used for this chart have been rounded up.

The chart shows that young people are represented in extremely high numbers in the fully excluded and severely excluded categories. More than one million financially excluded individuals are in the 18 to 24 age bracket. It should be noted that this is a very small age bracket-just six years - compared with the other age brackets used here. Another 763,000 individuals are in the 25 to 34 age bracket.

When we have discussed age as a factor in determining financial exclusion in previous reports, some stakeholders have queried whether the 18 to 24 age group is largely made up of students. We hope to conduct further analysis on this issue, however the previous section on work status showed the overall number of students appearing in the fully excluded and severely excluded categories was quite low (301,000 people). The student population can only account for a small proportion of the young people who are excluded from financial services.

Age can also be tracked against access to specific products, and it is notable as a factor in relation to two financial products - restricting access to credit and to general insurance. Age has very little impact on access to a transaction account.

Table 6: Impact of Age on Access to Financial Products

Age	All ages	18-24	25-34	35-49	50-64	65 and Over
Transaction account	97.6%	97.5%	97.7%	97.9%	97.6%	97.2%
Credit cards	43.3%	11.2%	35.3%	50.8%	56%	46.8%
General insurance	81.3%	47.3%	73.3%	87.9%	90.9%	91.2%

Source: Roy Morgan Research, 2013. Base: Australian population aged 18+.

Although demand for credit and insurance may be slightly lower amongst the segment of the population aged 18 to 24, their lack of access to mainstream products makes this group vulnerable to predatory lending products and to the loss of uninsured assets.

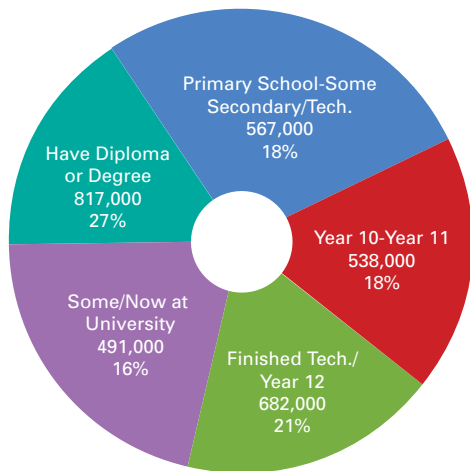
It also appears that once consumers have gained access to credit or insurance, they keep it. Access to these products keeps rising with age, and only falls slightly for people over 65. It is possible that difficulties in entering the financial services market have a greater impact on financial exclusion than difficulties in maintaining products.

Education

In this year’s report we are publishing the exact population sizes of individuals who are either fully excluded or severely excluded from financial services, mapped against the highest level of education that they have attained.

The following chart provides the population numbers in each education segment who are either fully or severely excluded. The percentages shown in the chart are a proportion of the combined fully and severely excluded population (3,040,000 people), not the national adult population.

Chart 9: Education Status of those Severely or Fully Excluded



Source: Roy Morgan Research, 2013. Base: Australian population aged 18+. The figures used for this chart have been rounded up.

The chart shows a fairly even spread over the education segments, and the overall data is not particularly revealing. However, a deeper analysis of access to specific products, mapped against the highest level of education, does produce some interesting results.

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 7: Impact of Education on Access to Financial Products

Highest level of education reached	TOTAL	Primary School	Finished Tech / Year 12	Have Diploma or Degree
Transaction account	97.6%	95.6%	98.1%	97.8%
Credit cards	43.3%	19.9%	38.4%	55.4%
General insurance	81.3%	72.8%	80.6%	86.6%

Source: Roy Morgan Research, 2013. Base: Australian population aged 18+.

Country of Birth

In this study we are able to analyse financial exclusion data by country of birth, 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 overall financial inclusion. The most significant difference relates to insurance however, with only 69.8% of people born in non-English speaking countries having access to general insurance (compared with 83.9% for people born in Australia or an English speaking country).

We studied this issue in detail in the 2013 report and found that 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 financial products and the complexity of insurance documentation. For example, consumers born overseas who reported that they did not have difficulty with general literacy or understanding written English, still reported difficulty understanding insurance products or reading insurance documentation.

Table 8: Impact of Country of Birth on Access to Financial Products

Product	TOTAL	Born in AUS	Born in NZ, Canada, UK or USA	Born in Australia or English speaking country	Born Overseas in Non-English speaking country
Transaction accounts	97.6%	97.9%	97.9%	97.9%	96.4%
Credit cards	43.3%	43.4%	49.2%	44.2%	39.6%
General insurance	81.3%	83.9%	83.7%	83.9%	69.8%

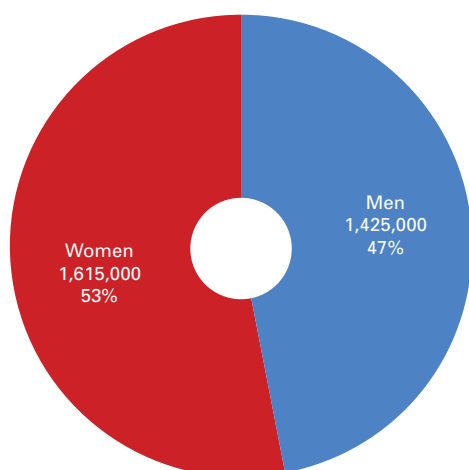
Source: Roy Morgan Research, 2013. Base: Australian population aged 18+.



Gender

The following chart shows the number of males and females who were either fully excluded or severely excluded from access to financial services in Australia in 2013.

Chart 10: Gender of those Severely or Fully Excluded



Source: Roy Morgan Research, 2013. Base: Australian population aged 18+. The figures used for this chart have been rounded up.

As you can see, there are slightly more females in the combined fully and severely excluded categories than males. At 30 June 2013, the gender ratio of the total population for Australia was 99.2 males per 100 females. (or 49.8% males and 50.2% females).

At 30 June 2013, the gender ratio of the adult (18+) population for Australia was 49.3% males and 50.7% females.¹¹

During our research on financial exclusion in Australia gender has not emerged as a major issue when it is treated as a stand-alone demographic characteristic. However, when it is combined with other characteristics, such as income and work status, gender may play a role.

In addition, gaps in average income between genders will also affect financial exclusion, as low income is a key factor in access to some financial products, particularly credit and insurance. If gender is partly responsible for low income, it may also be a cause of financial exclusion.¹²

¹¹Australian Bureau of Statistics (ABS), *Australian Demographic Statistics*, Item 3101.0, June 2013.

¹²For a recent discussion of gender issues in financial exclusion at the global level, see: Asli Demirgüç-Kunt, *The Gender Gap in Access to Finance*, World Bank, August 2013, <http://blogs.worldbank.org/psd/the-gender-gap-in-access-to-finance>

Conclusion

This year's report highlights the substantial proportion of the Australian population who were 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 provides an insight into the demographic characteristics of Australians who were excluded, and the size of the groups who may require assistance or customised products.

This report, and indeed the data from the four years of cumulative research and analysis, should help to deepen our understanding of the challenge of financial exclusion during this period in the development of Australia's financial system.

Next Steps and Future Research

NAB and the CSI continue to partner on a range of important research in relation to financial exclusion. In 2014 we will be developing and publishing an analysis of financial exclusion and superannuation in Australia. We are also working on a comparative analysis of rates of financial exclusion over time, tracked against other social and economic indicators.

We welcome suggestions for other research topics, and each year try to incorporate feedback and suggestions on our research methodology and output.

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Appendix 2 - Methodology

Product Ownership Exclusion

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 include only 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.

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. The ratio of cost to annual income is being used as an indicator for cost exclusion.

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



Data Sources

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

Key Data Sources	Use	Strengths	Limitations
Roy Morgan Research Financial Services Survey	<ul style="list-style-type: none"> 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
CANSTAR	<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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Centre for Social Impact for National Australia Bank

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