

Building financial capability

Submission to the Australian Securities and Investments
Commission's consultation on the National Financial Literacy
Strategy

December 2017



About VCOSS

The Victorian Council of Social Service (VCOSS) is the peak body of the social and community sector in Victoria. VCOSS members reflect the diversity of the sector and include large charities, peak organisations, small community services, advocacy groups, and individuals interested in social policy. In addition to supporting the sector, VCOSS represents the interests of vulnerable and disadvantaged Victorians in policy debates and advocates for the development of a sustainable, fair and equitable society.

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VCOSS acknowledges the traditional owners of country and pays its respects to Elders past and present.

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Introduction

The Victorian Council of Social Service (VCOSS) welcomes the opportunity to provide feedback on the proposed 2018 National Financial Literacy Strategy (the strategy). VCOSS is the peak body of the non-government social and community services sector in Victoria. We represent over 300 members, including large charities, peak organisations, small community services, and advocacy groups, who provide a wide range of support to people experiencing poverty and disadvantage.

A number of our members deliver programs under the current National Financial Literacy Strategy, or have a keen interest in the strategy and its programs. To prepare this submission VCOSS consulted with members, including the Financial and Consumer Rights Council. VCOSS is looking forward to participating in ASIC's further consultations on development of the strategy.

Low-income households face increasing financial stress due to a 'perfect storm' of stagnant wage growth, inadequate income support payments, housing stress, rising energy costs, and high household debt levels.¹ Almost two-thirds of low-income households experienced financial stress in 2015-16. Compared with 2009-10, low-income households are spending higher proportions of their income on essentials such as housing, food and energy. Half of all households reliant on income support report four or more financial stress indicators, such as not being able to pay bills on time or raise emergency funds.²

While financial literacy and capability programs are only one factor in achieving financial wellbeing, they help reduce vulnerability to financial stress and other problems, such as family violence.

This submission outlines some issues raised by VCOSS members in response to the consultation paper, including:

- a focus on people experiencing financial hardship and vulnerability
- the proposed shift from 'financial literacy' to 'financial capability'
- emerging challenges and opportunities
- the extended timeframe for the strategy.

¹ P Saunders and M Bedford, *New minimum income for healthy living budget standards for low-paid and unemployed Australians*, SPRC report 11/17, Social Policy Research Centre, 2017; Australian Bureau of Statistics, *Wage Price Index*, Australia, September 2017, cat. no. 6345.0; Australian Council of Social Service and Social Policy Research Centre, *Poverty in Australia 2016*, Australian Council of Social Service, 2016; Reserve Bank of Australia, *Financial Stability Review, April 2017*, 12 April 2017, 31 (around one quarter of highly indebted households are in the bottom two quintiles for income and wealth).

² Australian Bureau of Statistics, *Household Expenditure Survey, Australia: Summary of Results*, 2015-16, cat. no. 6530.0; Australian Council of Social Service, 'New figures are a wake-up call to government', media release, 14 September 2017.

Recommendations

Focus on financial hardship and vulnerability

- Focus the strategy on the needs of people experiencing financial hardship and vulnerability
- Focus on financial hardship and vulnerability risk factors, rather than particular groups of people
- Build individual organisations' research and evaluation capacity to target their financial capability services

Elaborate on the concept of 'financial capability'

- Develop the concept of 'financial capability' in consultation with stakeholders
- Promote the affordability and accessibility of insurance products for people on low incomes

Incorporate flexibility into a long-term strategy

- Incorporate evaluation and review mechanisms into a longer-term strategy to respond to emerging issues and consumer market changes

Focus on financial hardship and vulnerability

Recommendation

Focus the strategy on the needs of people experiencing financial hardship and vulnerability

The current strategy aims to strengthen Australians' financial literacy and capability. It does not specifically target people facing financial hardship. The current strategy aims to educate consumers generally, seeking to improve Australians' 'know-how to understand and negotiate the financial landscape, manage money and financial risks effectively, and avoid financial pitfalls'.³ Preventing exploitative and unlawful business behaviour, including in ASIC's areas of responsibility, is a valuable component of the strategy, as it helps limit the extent of consumer harm.

We suggest the strategy could have a clearer focus, and more clearly concentrate on the needs of people experiencing financial hardship and vulnerability. High-quality financial capability support can make a very significant difference in these circumstances, including by improving housing security and reducing women's vulnerability to family violence.⁴

A focus on financial hardship and vulnerability will help ensure people with the most at stake, and the least capacity to access financial information, can benefit from free, independent advice, avoid predatory commercial services that compound financial hardship, and prevent financial difficulties snowballing into much larger problems.

Financial resilience decreased in Australia between 2015 and 2016, with 2.4 million adults characterised as financially vulnerable. Levels of financial knowledge and behaviour have increased, but levels of access to financial products and services and social capital (such as social support in a crisis) have decreased. While more people were saving in 2016 compared to 2015, less money was being saved relative to income. People living in short-term rentals and people with

³ Australian Securities and Investments Commission, *National Financial Literacy Strategy Consultation 2017*, October 2017, 5.

⁴ Mark Planigale, Celia Clapp, Karen Rosauer, *Quietly Changing Lives: Summary Report of the Firmer Foundations Evaluation*, Good Shepherd Australia New Zealand, 28 November 2016.

mental illness were more likely to face severe financial stress. Compared with other age groups, fewer people under 35 experienced financial security.⁵

Financial hardship is a particular risk for people on low incomes, due to a 'perfect storm' of stagnant wage growth, inadequate income support payments, housing stress, rising energy costs, and high household debt levels.⁶ Almost two-thirds of low-income households experienced financial stress in 2015-16. Compared with 2009-10, low-income households are spending higher proportions of their income on essentials such as housing, food and energy. Half of all households reliant on income support report four or more financial stress indicators, such as not being able to pay bills on time or raise emergency funds.⁷

To address these trends, the strategy should predominantly focus on people susceptible to financial hardship and insecurity. These people's wellbeing is most compromised if they are unable to access quality financial capability services, and their experience of other crises can be exacerbated, such as family violence and homelessness.

Prioritise risk factors rather than groups of people

Recommendations

- Focus on financial hardship and vulnerability risk factors, rather than particular groups of people
- Build individual organisations' research and evaluation capacity to target their financial capability services

The current strategy identifies several priority audiences: Indigenous Australians, people from culturally and linguistically diverse backgrounds, pre-retirees and seniors, and women. ASIC has asked whether additional groups should be considered priority audiences in the strategy, while also targeting the current priority groups.

Numerous additional groups could be targeted in the strategy, including sole parents, and people with disability, including those participating in the National Disability Insurance Scheme.

Focusing on particular groups, and continuously adding more, risks a 'pick and choose' approach that inevitably omits certain groups in need, and is less able to deal with intersections between different groups facing financial hardship. It also unnecessarily homogenises groups, implying that

⁵ A Marjolin, K Muir, I Ramia and A Powell, *Why is financial stress on the rise? Financial resilience in Australia 2016*, Centre for Social Impact at the University of New South Wales, September 2017.

⁶ P Saunders and M Bedford, *New minimum income for healthy living budget standards for low-paid and unemployed Australians*, SPRC report 11/17, Social Policy Research Centre, 2017; Australian Bureau of Statistics, *Wage Price Index*, Australia, September 2017, cat. no. 6345.0; Australian Council of Social Service and Social Policy Research Centre, *Poverty in Australia 2016*, Australian Council of Social Service, 2016; Reserve Bank of Australia, *Financial Stability Review*, April 2017, 12 April 2017, 31 (around one quarter of highly indebted households are in the bottom two quintiles for income and wealth).

⁷ Australian Bureau of Statistics, *Household Expenditure Survey, Australia: Summary of Results*, 2015-16, cat. no. 6530.0; Australian Council of Social Service, 'New figures are a wake-up call to government', media release, 14 September 2017.

group membership indicates a lack of financial capability. For instance, while some women may benefit from support to build their financial capability, other women may have highly developed financial skills, superior to many men. Given the proposed 10 year timeframe, solidifying target groups reduces the strategy's ability to respond flexibly to changing profiles of financial hardship.

As an alternative, ASIC can target the strategy by focusing on major risk factors for financial hardship and vulnerability experienced by different groups, often in intersecting ways. Developing risk factors or indicators requires close consultation with stakeholders, but could include:

- low, inadequate, variable or insecure income
- unemployment and other income changes
- housing stress, including rental stress and mortgage stress
- significant life transitions, such as leaving out-of-home care
- sole parenting
- family violence, particularly economic abuse
- communication, language or literacy barriers
- experience of disability, chronic health conditions, and caring responsibilities.

This approach can help guide and prioritise initiatives under the strategy. In addition, understanding risk factors for financial hardship could help define what is meant by 'financial capability'.

A life course approach to financial vulnerability, such as the 'Life events' information on ASIC's Money Smart website,⁸ is a good example of how information can be developed for a broad range of groups. This information focuses on known 'pressure points' in people's lives that can cause financial stress and require informed financial decision-making and support.

We also recommend the strategy builds the capacity of individual organisations to use research and evaluation measures to target their services. For example, under the 'Money Minded' program, the Brotherhood of St Laurence has used program analytics to target service delivery and develop programs in response to changing needs, such as the difficulties faced by people on variable and insecure incomes.⁹

⁸ Zuleika Arashiro, *Money matters in times of change: Financial vulnerability through the life course*, Brotherhood of St Laurence, 2011; <https://www.moneysmart.gov.au/life-events-and-you>.

⁹ Consultation with VCOSS members.

Elaborate on the concept of financial capability

Recommendation

Develop the concept of 'financial capability' in consultation with stakeholders

The current strategy has focused on improving Australians' financial literacy, defined as:

a combination of financial knowledge, skills, attitudes and behaviours necessary to make sound financial decisions, based on personal circumstances, to improve financial wellbeing.¹⁰

ASIC has proposed changing the language of the strategy to 'financial capability', which the consultation paper states is:

generally understood to be an ongoing and dynamic process that takes into account personal circumstances, as well as cultural, societal and structural factors which can affect the way people interact with, and make decisions about, money.¹¹

We support the proposed shift to 'financial capability' under the strategy, but recommend ASIC develops this concept further in consultation with stakeholders, and ensures the strategy as a whole is consistent with the financial capability objective.

Several VCOSS members are already pursuing a financial capability approach, which recognises that personal circumstances and cultural, societal and structural factors affect financial wellbeing. For example, VCOSS members report that organisations delivering the 'Saver Plus' programs are focusing more on financial capability, and Good Shepherd Australia New Zealand pursued a financial capability objective under its 'Firmer Foundations' program, which was developed and implemented by Good Shepherd between 2012 and 2016.

¹⁰ Australian Securities and Investments Commission, *National Financial Literacy Strategy Consultation 2017*, October 2017, 9.

¹¹ Australian Securities and Investments Commission, *National Financial Literacy Strategy Consultation 2017*, October 2017, 11.

Financial capability in action: the Good Shepherd ‘Firmer Foundations’ program

The Firmer Foundations program aimed to increase women’s financial capabilities and minimise their vulnerability to economic abuse, using four main services: individual support using a financial capability approach; financial capability groupwork programs; community education sessions on finance-related topics; and brokerage to assist clients to achieve financial capability goals. Under this program, ‘building financial capability involves assisting women to gain financial skills and knowledge, but it also means facilitating access to financial resources, providing support to implement positive financial strategies, enabling economic participation, challenging gender stereotypes about money, and working towards relationships and societal structures that support women’s financial wellbeing’.¹²

We support conceptualisations of ‘financial capability’ that go beyond traditional financial literacy objectives, such as improving financial skills and behaviour, and place equal weight on the effect of social and structural factors in achieving financial wellbeing. Appropriately crafted, a financial capability approach can recognise, and seek to address, issues such as:

- income inadequacy: financial capability programs can help people access government supports, education and employment pathways, and boost incomes in innovative ways, such as the Saver Plus payment matching program
- access to safe, affordable financial products and services
- external barriers to exercising financial management skills, such as economic abuse, income inadequacy and complex consumer markets and the need to reduce shame around financial hardship in the face of these barriers
- the social and personal context of financial behaviours and attitudes, for example, gender and socio-economic stereotypes about financial management abilities
- the ‘poverty premium’ as a barrier to financial wellbeing, as people on low incomes can be forced to pay more for goods and services if they cannot buy upfront, buy in larger quantities or pay on time or online, or cannot afford higher priced but more affordable products, such as energy efficient appliances¹³
- exploitative market practices and a lack of trust in consumer goods and services.

We therefore welcome ASIC’s understanding of financial capability. However, elsewhere in the consultation paper ASIC states the 2018 strategy will focus more clearly on behavioural change,¹⁴ which could run counter to a financial capability approach. An over-emphasis on individual behaviour could neglect broader risk factors, and hinder efforts to increase financial wellbeing.

¹² Mark Planigale, Celia Clapp, Karen Rosauer, *Quietly Changing Lives: Summary Report of the Firmer Foundations Evaluation*, Good Shepherd Australia New Zealand, 28 November 2016.

¹³ See South Australian Council of Social Service, *Anti-poverty Statement 2017*.

¹⁴ Australian Securities and Investments Commission, *National Financial Literacy Strategy Consultation 2017*, October 2017, 12.

A focus on individual behaviour could also see undue emphasis placed on people to be model consumers, and divert considerable time and resources into this task. While the strategy should foster people's agency in financial decision-making, it should also acknowledge the limits of consumer engagement and empowerment, and people's ability to make 'good' decisions in complex markets. In the face of entrenched barriers to engagement, such as language and communication barriers, digital exclusion, and competing household pressures, spending time and energy improving consumer engagement could be an inappropriate priority or an impossibility.

The strategy should also acknowledge the limits of a financial capability approach and situate itself within a broader range of government actions that help achieve greater financial wellbeing among low-income and vulnerable households, including adequate income support payments.

Promote affordable, accessible insurance

Recommendation

Promote the affordability and accessibility of insurance products for people on low incomes

ASIC proposes to promote three core individual behaviour changes. One of these is 'managing money day-to-day', including protecting assets with insurance.

Having insurance is a protective factor for financial capability.

People on low incomes are the most vulnerable to financial stress and hardship and are the least prepared to respond to cost-of-living pressures and other financially stressful life events. VCOSS member organisations describe people living on low incomes as 'bearing the burden of financial risk on a day to day basis'.

People living on low incomes also have high levels of under- and non-insurance, leading them to face increased vulnerability to sudden financial loss due to unexpected material loss. They have the least resources to recover, but are least able to afford the protection and security that can be provided by insurance.

Affordability, accessibility and trust are overwhelmingly the main barriers to insurance for people living on low incomes. High levels of confusion about insurance, particularly relating to coverage, premiums and claims, combined with a general mistrust of the insurance industry, indicate the need for significant change so all people, including those living on low incomes, can be adequately insured for loss and damage to their assets.

Lower levels of financial resilience and inclusion increase the likelihood that people on low incomes are under- or non-insured. Financial education, access to financial products, and ensuring financial inclusion policies and practices are adopted by the insurance industry can support financial resilience and encourage the uptake of insurance among people living on low incomes.

In addition, the insurance products available to this group are largely unaffordable and inaccessible. The lack of appropriate, targeted products, including insurance for individual items or goods, alongside the increasing cost of insurance and the lack of flexibility in payment options, puts this protective mechanism out of reach. Increasing affordability and accessibility can ensure that products are fit for purpose and ensure that people are protected against loss.

VCOSS recommends that to increase the affordability and accessibility of insurance products for people living on low incomes, a range of products, payment options and mechanisms should be made available to make premiums easier to manage, including:

- increasing the number of targeted products through more insurance companies
- providing options for small amounts of cover
- improving promotion of existing products targeted to people on low incomes
- expanding new products such as renters' insurance
- considering exempting people on low incomes from insurance stamp duties
- offering fortnightly or weekly payment options
- offering Centrepay payment options
- providing information in Plain English as well as in other languages
- offering free and impartial advice about insurance
- partnering with community organisations to develop trust and deliver appropriate products.

Some of these measures can be pursued through initiatives under the National Financial Literacy Strategy, including improving promotion of targeted products, assisting people to access more manageable payment options, and offering free and impartial advice about insurance.

Flexibility in responding to challenges and opportunities

Incorporate flexibility into a longer-term strategy

Recommendation

Incorporate evaluation and review mechanisms into a longer-term strategy to respond to emerging issues and consumer market changes

We note ASIC has proposed an extended timeframe for the 2018 strategy, from three years (under the current strategy) to up to 10 years under the 2018 strategy. We are open to this proposal, as it would allow VCOSS members to embed programs over a longer period, potentially develop more ambitious programs, better respond to situations where support is required over the long-term, and evaluate programs over a longer timeframe.

However, if the strategy is to operate for up to 10 years, it will need to have the flexibility to respond to emerging issues faced by people in financial hardship, and changes in consumer markets. We request further consultation on how evaluations, reviews and other mechanisms could be built into a longer-term strategy to achieve this flexibility.

Emerging challenges

We agree that social isolation arising from digital exclusion and loss of in-person services, and financial abuse, are emerging challenges for the strategy to help address. Other emerging challenges include the introduction of the NDIS, and the consequential difficulties faced by people with disability in exercising meaningful choice of service providers. These challenges are particularly acute given people with disability are grappling with a legacy of disempowerment and limited choice and control in service provision.

Another challenge is the use of data to segment customers, which can affect the price people pay for goods and services, and their ability to access goods and services. Recent proposals to introduce comprehensive credit reporting for lenders could result in higher loan costs for people

with a history of late payments and other ‘faults’.¹⁵ There is a risk comprehensive credit reporting could extend to other industries. VCOSS members also report poor credit records are impairing people’s ability to access essential services, such as energy, at an affordable price.

A further change is the move to a cashless economy. This will affect financial capability advice, given people are commonly advised to use cash rather than debit or credit cards to manage expenditure,¹⁶ and may have to pay additional fees for card-based or online transactions (though this is becoming less common). For people on low incomes, cash purchases may be a way of getting a better deal. People in rural and regional areas may face increased financial exclusion if cash transactions decline and access to online banking services continues to be constrained by poor internet coverage and unaffordable telecommunication services.

Another consideration yet to be explored fully is the effect of the cashless economy on people with personal safety concerns, including where these concerns arise from economic abuse. For example, women experiencing family violence may not want certain transactions recorded, or may need to build a cash reserve if they are preparing to leave the relationship and the abuser is controlling access to banking accounts.

Emerging opportunities

We agree that financial inclusion and financial resilience are key issues aligned with the strategy. VCOSS supports the development of Financial Inclusion Action Plans, and suggests the strategy complement FIAPs.

Other opportunities include further developing linkages and partnerships. VCOSS members report these can be very important in developing financial capability. For example, seeking help about financial matters is a key point of entry into the family violence support sector. It is important to build the capacity of different sectors to undertake financial capability work, such as family violence workers, in order to reduce vulnerability to wider social problems. For example, the new Respectful Relationships program under the Victorian curriculum is a significant opportunity to educate young people about the role of money in personal relationships and reduce vulnerability to economic abuse and other forms of family violence.

VCOSS stresses that any partnerships pursued under the strategy, whether with government, business or community organisations, should ensure truly independent, impartial financial information is provided, particularly to people with vulnerabilities.

New and emerging referral pathways represent another opportunity under the strategy, including the pathways provided by the health sector and other trusted professionals.

¹⁵ Consumer Action Law Centre and Financial Rights Legal Centre, ‘Penalised for poverty: consumer groups say Morrison announcement will make the poor pay more’, media release, 2 November 2017.

¹⁶ For example: <https://www.moneysmart.gov.au/managing-your-money/budgeting/spending/impulse-buying>.

Health services as a pathway to financial capability support

The 'Mortgage Wellbeing Service' is the first collaborative response to mortgage stress in Victoria, operated by Brimbank Melton Community Legal Centre and Djerriwarrh Health Services. The service is located within the Djerriwarrh Community Health Service, after practitioners identified the health sector as a key entry point for people in mortgage stress. It provides free financial counselling, legal and social work services to address mortgage stress among people living in urban growth corridors. The service focuses on early intervention and tackling the underlying causes of mortgage stress, such as personal injury and unemployment. The service is very successful, allowing most people to stay in their home, access hardship relief, negotiate with other creditors, and reduce personal stress.¹⁷

VCOSS members also identify a number of other opportunities under the strategy, including:

- maximising opportunities for recipients of financial capability services to pass on skills to peers and family members
- using the power of storytelling to educate and inform people, which could be pursued through the life events section of the Money Smart website, and through financial capability workshops.

¹⁷ <https://www.comm-unityplus.org.au/legal-services/our-projects/71-mortgage-wellbeing-service>.

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