



Response

to

Australian Consumers and Money

A Discussion Paper by
the Consumer and Financial Literacy Taskforce

July 2004

Introduction

The Brotherhood of St Laurence welcomes the Taskforce's focus on the consumer or demand side of economics. We appreciate the opportunity to give a voice to people on low-incomes and their experiences in the market for financial services.

The Brotherhood of St Laurence was established during the Great Depression and has experience across a broad range of services. This includes getting people into work; assisting people to access affordable credit and savings, affordable housing and quality lifelong education; caring for older people; helping families with early childhood programs and carrying out research and advocacy for change in service and government policies.

The Brotherhood operates a range of programs that assist people on low-incomes with their financial needs. These are detailed as follows:

- Saver Plus – In partnership with ANZ, the Brotherhood assists low-income people to save for their children's education. Each dollar saved is matched with a further two dollars by ANZ up to a combined limit of \$3,000. There is a financial literacy component to this program which was developed with the assistance of the Victorian Schools Innovation Commission.
- Interest Free Loan program – The Brotherhood provides loans of up to \$1,000 for household goods to people on low-incomes.
- Advance Personal Loan - In partnership with Bendigo Bank, the Brotherhood of St Laurence provides personal loans of \$500 to \$2,000 to people on low-incomes. The program was developed in response to the limited sustainability of earlier interest free loans programs. Access to the mainstream financial sector is also considered an important aspect of social inclusion and economic development.
- Business Loans - Studies have shown that self-employment is an important solution for people experiencing barriers to the labour market, such as mature aged job seekers and people from a non-English speaking background. The Brotherhood of St Laurence and Fitzroy Carlton Community Credit Cooperative provide loans of around \$2,000 to small businesses to promote self-employment.

We would be happy to further share specific details and lessons regarding the above programs.

2.1. Are economic and government factors sufficiently understood in information provided to consumers?

The Brotherhood of St Laurence observes that many people do not make what an economist would consider “rational decisions”. In this regard, we support the Taskforce’s view that financial decisions are based on a more complex range of factors than simply economic concepts of utility and price. Many people’s decisions are also influenced by low self esteem, desperation, lack of opportunity and other factors. However, this complexity of decisions is often not considered in economic analysis of consumer behaviour. In this way, the model of bounded rationality is useful as it acknowledges that decisions are more complex than presented by traditional economic theory. However, as with many economic models, assumptions that enable analysis on an aggregate basis often lead to models that are irrelevant for some groups of people, such as low-income consumers.

Rather than using an economic model, the Brotherhood of St Laurence believes that any solution to the problem of low levels of financial literacy needs to be people centred. We believe that people on low-incomes are experts in their own situation and are able to identify their needs on an individual basis. In the Brotherhood’s provision of financial literacy training, we found that people want to learn from each other, not from a “so-called expert”. They want to learn from someone independent, neutral and with the ability to listen. Our participants have supported this approach and evaluations have shown 95% rated the courses “good” or “excellent”.

In addition to insufficient understanding of economic factors, the Brotherhood also believes that there is a lack of understanding of the impact of government forces on people on low-incomes’ access to the market for financial services. We do not agree with the Taskforce’s assertion that technological change and more competitive markets have always brought about benefits to consumers. Whilst there have been many efficiencies from improved technology, this has also brought about an impersonal and inflexible service, whereby people who do not fit into computerised models, such as low-income consumers, are denied access to services. For instance, the credit scoring models used by banks and the policies accompanying them are unable to recognise the complexity of needs of people on a low-income. As a result, they generally serve to exclude these people due to the models’ assumptions about capacity to repay loans. Frontline bank staff rarely have the discretion to override computerised decisions if an applicant appears to have a capacity and willingness to repay a loan but the computer produces an automatic decline. Whilst deregulation of credit unions may have brought some benefits in increased consistency and prudential safety, we would argue that this market is now

over-regulated, which has resulted in a mission drift away from the movement's traditional ethos of mutual help. This has reduced the opportunities for people on low-incomes to participate in the market for financial services. However, these difficulties are often not acknowledged in information provided to consumers, which speaks more of the efficiency benefits from technology and lower prices resulting from competition.

2.2. Are socio-economic and demographic factors that important? How should they be factored into what information providers produce?

Socio-economic and demographic factors are important in analysis of opportunity to embrace consumer and financial information. However, the Brotherhood of St Laurence does not support the use of these variables in an economic model and instead believes that many unsuccessful financial and consumer decisions are a symptom of other problems in our society. We do not believe there is a direct casual relationship between financial literacy and socio-economic status or demographic factors; rather it is caused by other social factors. For instance, whilst research indicates that low levels of financial literacy are prevalent amongst people of low socio-economic status, the low financial literacy may be a result of a range of other social factors (related to low socio-economic status). Some of these factors include family breakdown and a lack of role models who can show others how to manage money well, or how to resolve household disputes over money. Unemployment is another significant problem, as it is difficult for people on low-incomes to access financial services, and therefore many would not feel motivated, or have the opportunity to improve their levels of financial literacy. Other factors such as drug addiction, consumerism and gambling reflect much greater social problems than a lack of education about money management. People may also be capable of managing their finances, but arrears or other financial problems may be due to inadequate income. A participant supported this saying, "I've tried financial counselling, I've tried a budgeter, it's the lack of money that's the problem". People on low-incomes have a diverse range of backgrounds, education and causes of their poverty. Given that they are not a homogeneous group, their reasons for having poor financial literacy cannot be easily explained by the model suggested.

Despite difficulties in including this as a variable in a model, socio-economic status is important in understanding the impact of poor financial decisions. Adverse decisions are more acutely felt by people on a low-income. For instance, many would not have a network of friends and family to help out in a difficult time, they may not easily be able to find alternative employment if a job is lost and they are unlikely to have a buffer of savings, or income from asset holdings to fall back on. One Brotherhood client recently commented "I get it [money] in my hand and it's gone

after rent and food”, supporting the view that people on low-incomes are on such a tight budget that they are vulnerable if there is an unexpected expense or loss in income. If an unexpected event occurs, such as a car accident, illness, relationship breakdown or unemployment, people on a low-income may be unable to cope with this shock to their household budget. For instance, relationship breakdown often results in people being unable to pay rent expense or bills, which can cause a downward spiral in falling into arrears and unpaid bills being listed on a credit record. This is supported by a client who recently advised she understood the implications of going bankrupt due to unpaid debt from a previous relationship, but felt she had no other option as she could not afford repayments. Overall, it is important to consider the vulnerability of people on a low-income and the role financial services can play in managing this. Financial literacy training or advice, coupled with improved access to savings, credit and insurance products could have a powerful impact on reducing vulnerability.

There is however capacity for socio-economic factors to be considered in information produced. If a coordinating body were created, we would recommend increased attention to the information needs of people on low-income. Whilst the discussion paper is a good starting point, too many generalisations are made which ignore some of the needs of people on low-incomes. For instance, the consumer and financial literacy report comments on the problem of compulsive shopping. However, this is less common amongst people on a low-income, as they rarely have sufficient leeway in their budgets after paying bills, rent and groceries. One Brotherhood client supported this and commented “I never buy the first thing I see – I’ve learnt to shop around” and another commented “I’ve never had a credit card, everything in my house is second hand – but it’s mine”. Another general assumption that does not easily apply to people on a low-income is that consumers need to improve their knowledge of superannuation, home purchase and bank finance. Whilst this may be true for other income groups, low-income consumers are unable to participate in most of these areas: they are not paid superannuation as many are long term unemployed; they are unable to purchase their own home, as they cannot access bank finance and they have very low debt to income ratios. Many low-income consumers also realise they are forgotten in much analysis and assumptions. In our research to develop the financial literacy course, one person commented “Utility companies assume everyone’s got what they’ve got (insurance, home, car). They make you feel like you want to crawl under a rock.” The Brotherhood ran focus groups to determine participants’ preferences for financial literacy. Some areas where people nominated gaps in knowledge were in coping with unexpected costs, saying “no” to children when finances were inadequate, or generating additional income. The Brotherhood’s financial literacy courses were designed to address needs identified by participants, and responses so far have been positive.

2.3. Is a broader understanding of human behaviour useful in addressing consumer and financial literacy? How do we best discern the different personal characteristics of people in the community?

A broader understanding of human behaviour is certainly important in addressing consumer and financial literacy. The Brotherhood of St Laurence agrees that much more than socio-economic status, gender, cultural background, health status or location is needed to understand the financial decisions people make. For instance, some people are unwilling to learn and would prefer another person to make decisions and take responsibility over their financial matters. Other people are in a short-term, subsistence mindset and need a circuit breaker for them to consider a change. Many people's decisions are dominated by depression, desperation and hopeful thinking. If we could develop a better understanding of the basis for decisions, people may be able to manage their own behaviour. For instance, if someone who shops when they feel depressed, it could be useful for them to understand this behaviour. Overall, the Brotherhood believes more research is needed in the links between human behaviour and consumer and financial literacy and the different personal characteristics of people in the community.

2.4. Is an appreciation of needs and aspirations useful?

We believe an appreciation of needs and aspirations is important, however opportunity needs to be enhanced before many people on a low-income can start to have realistic aspirations. The Brotherhood often observes a feeling of hopelessness amongst people on a low-income, which results in them sustaining themselves from week to week, without clear aspirations. This leads to a lack of interest in longer term issues, such as saving or building a credit record. A change of mindset needs a more powerful circuit breaker than improved financial literacy. Therefore, the Brotherhood advocates for savings and loan programs to be offered in conjunction with education. These programs may serve as a circuit breaker that would result in a higher likelihood of people retaining information.

2.5. Understanding the life event triggers behind the big decisions that consumers make assists information providers in targeting information at the times and places in people’s lives when they most need it. Does this help? How can the Taskforce’s understanding of life events be enhanced?

The Brotherhood agrees that information should be provided when it is timely and relevant. However, many people on a low-income do not experience some of the events listed in the report’s life cycle, such as finding stable employment or buying a house. As a result, it would be irrelevant for someone who was long-term unemployed and renting Ministry housing to be educated in superannuation and home equity lines of credit in their 20s and 30s because this is the usual time for purchasing a home and contributing to superannuation. However, unplanned life events, such as relationship breakdown and unemployment can throw low-income people into crisis and it would be useful for advice to be available at those points. It would also be useful for this to be accompanied by financial products to help people to manage this vulnerability.

2.6. Learning consumer and financial skills is all about building our capacity to make better decisions through our lives. What skills are important to consumers? Do the consumer and financial skills presented in this section capture all relevant skills? How can we benchmark these skills over time?

The Brotherhood argues that decisions are a product of not only consumer and financial skills, but also of a more complex range of emotions and individuals’ previous life events. However, we agree that maths and literacy are important basic requirements for good financial and consumer decisions. We also agree that planning and budgeting are important, however these skills are not easily taught and are more likely to be developed by trial and error or exposure to a parent’s money management strategies. This view is supported by a client who had declared bankruptcy and felt part of the reason was that his father died when he was aged twelve and that nobody else taught him to be careful with money. This experience demonstrates that it is difficult for some people to develop money management skills without exposure to a parent or mentor. Another client supports this, commenting “My kids are used to getting what is given so they are appreciative when they get new things”, suggesting that the children may also grow up to appreciate the importance of living to a budget. These views suggest a parent or other mentor could play a significant role in building capacity to develop good consumer and financial skills. All skills could be benchmarked over time in a similar way to ANZ’s study of financial literacy, however solutions to poor budgeting and planning may be complex.

2.7. What information sources do consumers trust? Are consumers confused by different information on the same issue? Are consumers confused by different information on the same issue? Is information tailored to the learning style of the target audience?

What information sources do consumers trust?

The Brotherhood of St Laurence believes that low-income consumers mistrust many information sources. This means people accept information from friends or family members who are trusted, but not necessarily expert in dealing with financial matters. In preparing our financial literacy course, the Brotherhood obtained feedback that supports this – people stated they “don’t want to hear from so called ‘experts’ or people in ties and suits, want real people who we relate to their situation, who are independent, neutral, able to listen.” People on low-incomes often feel discomfort accessing mainstream information providers and one participant commented “When I go into a bank I sense the feeling of ‘What are *you* doing here?’” These comments suggest that whilst it is important for formal information providers to clearly explain terms and conditions, many of the most disadvantaged consumers will fall through the gaps if this is the primary means of communication.

People generally trust their parents and learn from their means of managing money. It would be useful to increase parents’ awareness of this important role and ways that they can assist their children to develop good habits, for instance through managing pocket money. A good example of this is a client who commented that she encourages her children to live within their means, saying “My son spent his entire \$5 pocket money in 2 days on popcorn and a CD single. I told him he wouldn’t be getting any more so that he could learn there is a thing called a rainy day. He needs to understand that if there is a problem, you can’t run, have to stay and fix it.” However, many people have not had proper role models to assist them through difficult financial decisions and it would be important that unbiased and trustworthy mentors or coaches are available for advice at these times.

The Brotherhood also believes that teachers are trusted. We consider that the teaching of financial concepts would be useful in a school environment and build greater awareness and confidence later in life. Yet, as acknowledged in the Taskforce’s report, there is the difficulty of an already overcrowded curriculum. We would thus support consumer and financial literacy being allocated to existing subjects, such as English and maths. However, there should be acknowledgement that for some people, school is not a successful learning experience. Many people fall through the gaps at school and leave early with sometimes poor literacy. Therefore,

the Brotherhood would support introducing consumer and financial issues in schools, but not solely relying on this avenue.

Centrelink may not be an appropriate body for information to be channelled to people on low-incomes, as many of these people do not trust Centrelink. Many find their experience with Centrelink degrading and try to minimise their dealings with the agency.

Community organisations have much experience in understanding the plight of people on a low-income. Community organisations are visible and trusted in this sector of the community. Brotherhood of St Laurence research, *Credit to the Community*, indicated that clients of financial services felt community organisations provided a more personalised or appropriate service compared to mainstream institutions. However, a difficulty in this is that many people on low-incomes do not use welfare services as they find it embarrassing or stigmatising. Despite this, it is considered that community groups have a significant level of goodwill which is important for building trust and they could have a role as information providers.

Are consumers confused by different information on the same issue?

We believe that people on low-incomes are confused, as they do not know who to trust. As a result, they tend to trust people who they have a relationship with, who may not be the best informed source.

Is information tailored to the learning style of the target audience?

Often information is too technical and not understood by consumers. Whilst the report indicates that there is more information available due to regulations, this can actually be disempowering and overwhelming. Alternatively, consumers may find other information sources simplistic and condescending.

How important are intermediaries such as financial advisers in delivering outcomes for consumers?

People are often not interested in learning about financial management until a crisis. Therefore, it is difficult to promote proactive financial management. Given that many people only learn from their own experiences and mistakes, financial advisers would be useful to guide them through major decisions. However, the Brotherhood has concerns about the reactive nature of financial counsellors and the vested interests of financial planners. Financial planners do not generally target people on low-incomes, but given their sales targets, may not provide unbiased information. Fringe lenders target people on low-incomes and may provide advice which is again motivated by sales targets. Whilst many financial counsellors provide valuable advice, it is considered that some others often only address short-term problems in response to a crisis.

For instance, we find many recommend declaring bankruptcy too early, or are unable to provide support that is more preventative prior to crisis point. A client recently commented that he had been sent several credit card offers, accepted them all and spent more money than he could afford to repay. He advised that a financial counsellor's recommendation was to wait until the sheriff contacted him and then declare bankruptcy as these credit cards never should have been issued initially. The Brotherhood does not consider this advice assists the client to improve their capacity to manage money or understand rights and responsibilities over the longer term. Part of the reason for this type of advice may be low levels of resources, long waiting lists and the resulting crisis level situations by the time people reach financial counsellors. In addition, many financial counsellors work independently, or as part of an emergency relief agency, with minimal support and guidance. Whilst it is acknowledged that financial counsellors' advice is given in good faith, we would recommend government regulations or guidelines for the provision of any financial advice and appropriate review and development training. We would recommend further research into this area.

3.1. The extent to which Australians' needs are met by the currently available consumer and financial education programs needs to take account of a number of factors including the following:

- **The availability of information – are there some topics where there is insufficient information?**
- **Awareness of the available information and information sources – Do consumers (or teachers and other intermediaries) know what is available?**
- **Access to the available information – Do consumers know how to access information? Are all consumers able to access information?**
- **The quality of information provided – is the available information clear and consistent?**

The availability of information – are there some topics where there is insufficient information?

There is limited information on the credit reporting system and considerable misunderstanding. People do not realise that an unpaid bill could be listed on a credit record, or that defaults and bankruptcy eventually drop off their record. They do not know how to access their credit records, or that companies can only run a credit check with the individual's permission. There is also insufficient information on the impact savings has on receipt of Centrelink benefits, many believe they will lose their income if they save. Recently, a client (mistakenly) asserted "If you have over \$112 in bank account, you lose 50c of \$1 from Centrelink". This view creates a culture whereby people spend their entire income each fortnight and are therefore vulnerable to

unexpected events, such as illness, relationship breakdown or unemployment. Overall, more research should be done into areas where there is insufficient information.

Awareness of the available information and information sources – Do consumers (or teachers and other intermediaries) know what is available?

Most people in the community sector are unaware of information sources. Many report providing advice based only on the management of money in their own household. Clients have reported that others are paternalistic. Low-income consumers seem generally unaware of information sources.

Access to the available information – Do consumers know how to access information? Are all consumers able to access information?

Many low-income consumers would be unsure of how to access financial information. Given that the Taskforce's stocktake finds that most services are web-based, this would exclude many people on low-incomes who do not have a computer or do not know how to use the internet. We would promote a service whereby people are assisted on an individual basis and this can be tailored to their particular needs. Overall, the Brotherhood of St Laurence's experience is that it can be difficult to reach people on low-incomes who are not experiencing a crisis, but could benefit from more mainstream, proactive advice.

The quality of information provided – Is the available information clear and consistent?

There is a wide variety of information available. Some information is presented in a biased and judgemental way, suggesting credit is destructive; big businesses bad and savings virtuous. This ignores the reality of our modern society and does not help develop a sufficient basis for informed decisions. In contrast, other information is well-considered, clear and useful.

Efficient allocation of resources – Is consumer education delivered efficiently?

The Brotherhood does not believe that consumer education is delivered efficiently. There seem to be several people and organisations independently exploring financial literacy and education. We welcome the Taskforce's suggestion of a clearinghouse and believe this would be an important contribution to the field.

3.2. What elements from overseas approaches should the Taskforce recommend in the context of the Australian environment?

As in USA, we agree that many people acquire their financial knowledge haphazardly and through trial and error. This is the way that much learning occurs in life and would need to be

acknowledged when developing any program. In particular, financial literacy could be particularly useful if provided in conjunction with savings or credit programs, such as the case study of the Campuscard in USA. The clearing house organised by Jumpstart in USA is also supported, as this reduces the resources needed for each organisation to conduct research or prepare courses. We would promote a research body such as Personal Finance Education Group in UK to develop a better understanding of Australians' financial needs. We also support the idea of Consumerdirect in UK, whereby information is available by phone as people need it.

4.1. Is a coordinating body necessary? Should it be government or industry funded? What functions should it perform?

A coordinating body would be important given the current duplication of efforts in producing information. We would recommend a combination of government and industry funding. However, funding should also be tied to misconduct from finance providers to ensure they have a motivation to provide accurate and clear information. This could be done in a similar way to the Consumer Credit Fund in Victoria which comprises of fines for misconduct, or the Banking Ombudsman whereby banks pay each time a consumer contacts the ombudsman.

Conclusion

The Brotherhood appreciates the Consumer and Financial Literacy's discussion paper as we believe financial difficulties are a significant aspect of poverty. However, the Brotherhood would recommend a broader focus on other financial issues, rather than just financial literacy. Most people on low-incomes are excluded from mainstream financial services and thus financial literacy needs to be accompanied by improved access. We would also recommend broader research into the needs and barriers for people on low-incomes in accessing financial services. Whilst we acknowledge individuals need to take some personal responsibility for managing their money, it is also important to research structural issues that affect individuals, such as government regulations, marketing and bank policies. We would welcome the opportunity to have further input into improving consumer and financial literacy in Australia.