A REPORT ON FINANCIAL EXCLUSION IN AUSTRALIA

November 2004

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1. EXECUTIVE SUMMARY

This report aims to present, for the first time, an overview of the current literature, available data and expert opinions on financial exclusion in Australia. The report was commissioned by ANZ as a first step in a research program aimed at measuring and understanding financial exclusion in Australia, so that policies and programs to address it could be better informed.

This summary comprises four parts:

- Literature review findings;
- Stakeholder views;
- Relevant quantitative results from the Roy Morgan Research “Finance Monitor” data collected in the 12 months to March 2004;
- Implications for future quantitative measurement of financial exclusion in Australia.

This is Volume 1 of a two volume report. The second volume deals in more detail with the results of analysing quantitative data from the Finance Monitor series.

1.1 Summary of Literature Review

Financial and Social Exclusion: Financial exclusion is seen in the literature as both a cause and a consequence of social exclusion, although the latter term is sometimes criticised in Australian sources, it being difficult to separate from poverty.

Who is Writing? The main writers on the subject of financial exclusion have been governments and government authorities, university based research and policy centres and independent non-profit organisations with a focus on social policy. Publications are predominantly independent reports and not in the peer-reviewed literature. In Australia, unlike other countries like the UK, there is no strong evidence of a formal network or “clearing house” forum for study and debate on financial exclusion.

Definitions of Financial Exclusion: Definitions of financial exclusion in the literature vary from broad definitions (eg processes that prevent poor and disadvantaged social groups from gaining access to the financial system) to narrow definitions, defined by absence of ownership of particular types of (sometimes “essential”) financial products.

Fairness and equity in access for all is an underlying assumption of much of the literature.

Relative and Dynamic in Nature: Some of the literature stresses that financial exclusion is a relative concept, in that it is continually to be contrasted with "hyper-inclusion", and should be seen in the context of unprecedented expansion in the use and levels of consumer credit over the past decade. Short-lived financial exclusion (work and life transitions) is contrasted with long term, even inter-generational exclusion. The literature contains underlying assumptions that financial exclusion is growing in importance as a problem requiring resolution, although there is no empirical data claiming or supporting macro-trends in incidence of financial exclusion[1] in identified published sources, either in Australia or internationally. However, there is a general view in social policy literature that the gap between rich and poor (and between included and excluded) is widening.

Alternative Terms, Measures and Constructs: The term "unbanked" is not widely used outside the US. "Vulnerable" consumers has been a term used in Australia and in UK OFT[2] reports. Measures of financial stress and hardship often overlap with or indicate financial exclusion. While UK surveys have explored ownership and usage of bank accounts, and Kempson et al have cited cross tabulated data on ownership of zero, one and multiple financial products by various demographic variables, there has been no relevant published data in Australia beyond income, labour dynamics, and household expenditure patterns[3].

Dimensions & Types of Financial Exclusion: There were two broad themes regarding types of exclusion: various types of physical or geographic exclusion, versus various utility versus cost based exclusion types. The Kempson (UK) classification has been widely used in the literature, including in Australian sources to date, which attempts to distinguish between various drivers of exclusion: access exclusion, condition exclusion, price exclusion, marketing exclusion, and self exclusion.

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[1] Indeed, the fact that financial exclusion is a relative term, in some ways analogous to "the poverty line", means that its incidence may be definable as constant over time, as the bar or "norm" in society is raised.

[2] Office of Fair Trading.

[3] ABS household expenditure surveys do include deprivation, credit and cash management measures of some relevance to financial exclusion.

The shortcomings of this approach, arguably, include a high degree of overlap between these types of financial exclusion, no attention to perceived value of the financial products and services involved, and too little attention to financial illiteracy as a driver of financial exclusion.

UK economists have posited the “exclusion curve” concept, which deploys simple charting of ownership (or non-ownership) of various financial products in the population, against annual income. A steep gradient or discontinuity in such plots indicates “income exclusion” – where the product is either totally/almost totally unaffordable or inappropriate below a certain income threshold.

Gentle gradients on such “exclusion curves”, on the other hand, indicate “price exclusion” is present for increasing parts of the community as income decreases. Later sections of this report apply the exclusion curve concept to Australian data.

Underlying (Macro) Causes of Financial Exclusion: Much of the literature both here and overseas, largely attributes the phenomenon of financial exclusion to global trends and policies in mainstream financial services and consumer credit markets. Increased reliance on “market forces” and full cost recovery (as opposed to regulated access/inclusion), the consequent or associated removal of cross subsidies, increasing complexity both of products and of technologies deployed in emerging channels, and discretionary targeting by mainstream providers are all seen as hallmarks of these trends, culminating in higher, and in many cases unaffordable prices of many financial products.

Associated Conditions: Financial exclusion is most often linked to low income, long term or insecure employment, with a commonly quoted list of other associated “risk factors” (sometimes without empirical evidence) such as disability or long term illness, renting or public housing, ethnicity (although some international studies have shown that income is the key underlying variable rather than race or ethnicity), lone parents, female gender, and age (although age has been shown to have a variety of effects and associations on various types of exclusion). At the community or geographic area level, high levels of financial exclusion have been shown to be linked with “deprived” areas (eg using the UK “deprivation index”).

Consequences of Financial exclusion: While the literature always assumed there were negative financial and social consequences, there was little data establishing a causal linkage between financial exclusion and financial stress or hardship.

The more tangible outcomes of financial exclusion appearing in the literature included cost and security issues in managing cash flow and payments, compromised standard of living resulting from lack of access to short term credit, higher costs associated with using non-mainstream credit providers (eg payday lenders and pawnbrokers) increased exposure to unethical, predatory and unregulated providers, vulnerability to uninsured risks, and long term or extended dependence on welfare (as opposed to savings).

Importantly, the educational and behavioural consequences of financial exclusion are not explored in depth in the financial literature, being more commonly covered in studies pertaining to financial literacy.

Australian Perspectives: While the Australian literature pointed to broadly similar drivers and outcomes of financial exclusion, there was a less consistent thread in the local financial exclusion writing, and no evidence of a widely accepted definition or diagnostic. However, there appeared to have been a greater emphasis in Australia than in other countries, on bank branch closures, remoteness and IT&T[4] themes in relation to rural and regional areas, including the resulting impact on remotely located indigenous people. More broadly, the Australian writing on ethnicity and financial exclusion has only focussed consistently on one ethnic group - indigenous Australians - who are widely thought to be associated with financial exclusion, for complex reasons.

1.2 Summary of Stakeholder Views

A series of interviews was conducted with 23 stakeholders from Australian financial regulators, consumer associations, ombudsman and other EDR[5] organisations, legal and social services academics, consumer credit legal and financial counselling services, and policy oriented community service providing organisations. A rich understanding of financial exclusion in Australia was generated. A few of the main insights are summarised here.

Defining Financial Exclusion: The following Australian definition of financial exclusion emerged from various stakeholder views:

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[4] Information technology and telecommunications.

[5] EDR: external dispute resolution.

Financial exclusion is the lack of access by certain consumers to appropriate low cost, fair and safe financial products and services from mainstream providers.

Financial exclusion becomes of more concern in the community when it applies to lower income consumers and/or those in financial hardship.

Financial exclusion is observable at individual, family, or household level, but can also be heavily concentrated in suburbs or regions, and sometimes among ethnic minorities in a suburb or region.

Financial exclusion can also apply to individual small businesses, NFPs and other community enterprise organisations.

Other main findings included:

Gradations: Consistent with this definition, there are gradations of financial exclusion, ranging from people who are included, but use some "harmful" financial products, through others who have very limited access to appropriate products, to a core group, who operate largely or completely outside of formal financial institution frameworks. Consumers can be drawn deeper towards the core, and many observers appear to confuse these levels.

Type of Financial Exclusion: The main product-based exclusion types were identified as:

- Transaction accounts;
- Savings accounts (with interest);
- Financial advice (financial counselling and investment advice);
- Appropriate credit (affordable fixed term loans, major credit cards);
- Insurance (eg home contents or TPP for motor vehicles);
- Home equity/mortgage loans;
- Superannuation;
- Community enterprise financial support.

Exclusion From Appropriate Credit: Of these exclusion types, exclusion from appropriate credit was seen as a very important issue, comprising three main forms:

- **Major credit card exclusion** (low income or constrained credit record means denial of a card; lack of a card can mean some bill paying options are closed off; belief that high error rates in credit reference agency records reinforces such exclusion).
- **Credit card inclusion and abuse** (many people who abuse cards, arguably should not possess them, providers target those with high revolving balances with their marketing; "credit limit surfing" is now common and involves financially dangerous behaviour).
- **Affordable fixed term loans** (exclusion often occurs when only a small amount of credit is needed by low income good money managers needing to buy basic assets or provisions at a time of unexpected short term financial turmoil; belief that banks will not lend less than $4,000, marketing credit cards in lieu; key virtues of loans compared to credit cards are seen to be their positive financial behaviour impact).

Extent of Financial Exclusion: While there were no accurate estimates of the extent of financial exclusion in Australia, it was now apparent in a wide range of income levels of the population, at unknown incidence levels. Particular groups displaying higher than average incidence of financial exclusion included the unemployed and "the working poor", approximately covering the lowest and second lowest quintiles of income respectively.

Main Drivers of Financial Exclusion: The main drivers of financial exclusion were thought to be:

- Low income (and consequent problems of nil or low savings, and lack of assets, leading to no security for acquiring loans or credit);
- Unemployment, discontinuous or casual work history;
- Policies and marketing of mainstream financial product and service providers;
- Financial illiteracy and poor financial habits.

Of these, by far the most important driver was thought to be low income.

] There were a number of less important drivers, including psychological and disability related issues, a feeling of being excluded, membership of indigenous and other ethnic communities, geographic remoteness, lack of time (eg the working poor), lack of PC/internet access, and the availability of alternative/fringe financial products and suppliers.

Poverty and Low Income – Cause or Effect of Financial Exclusion? While low income is seen as strongly associated with exclusion:

] Anecdotal evidence is available for both causal *and* consequential effect between poverty and most forms of financial exclusion. It is likely that the particular pathway followed by an individual to financial exclusion influences the direction of cause and effect between financial exclusion and financial hardship for that individual or household.

] Irrespective of whether financial exclusion is a cause or effect of poverty or low income, once a person or household is financially excluded, a major outcome is thought to be that movement towards employment, social inclusion, out of financial hardship is severely hindered. This is a key rationale for developing solutions to it.

Impacts of Financial Exclusion: The main impacts of financial exclusion were thought to be:

] Economic, at various levels – individual, community, among mainstream financial providers and at a national level.

However, other impacts included:

] Education, health and social impacts on households;

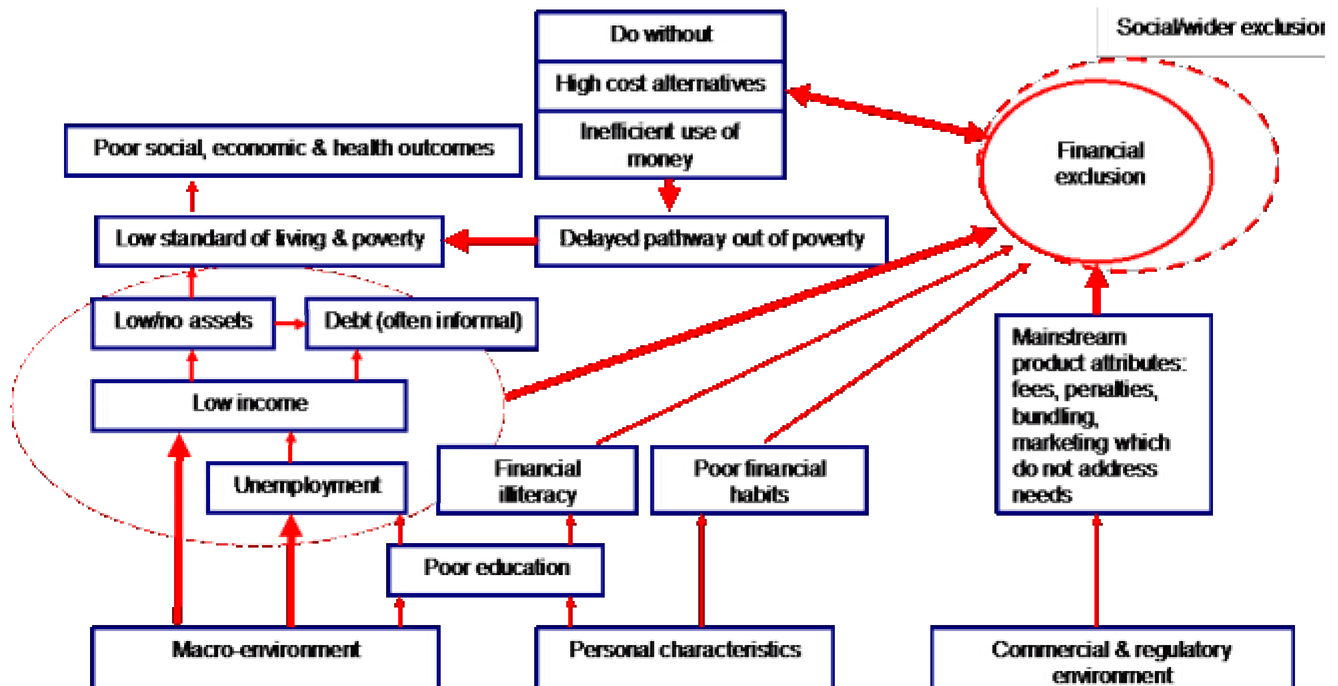
] Safety and security compromised;

] Use of inappropriate mainstream products, including knock-on effects (eg exclusion from a personal loan leading to abuse of credit cards, leading to a constrained credit history, resulting in exclusion from a home mortgage);

] Exploitation/use of fringe products, amounting to inefficient use of money;

] As reported earlier, a prolonged state of poverty and financial hardship often results, whether or not financial exclusion was a cause of poverty in the first instance.

A Model of Financial Exclusion: The main drivers and outcomes of financial exclusion in Australia are summarised in the following **model of financial exclusion.**



The model depicts the primary roles of low income/financial hardship and the attributes of mainstream financial products in driving exclusion, and the main impacts of exclusion, including the inefficient use of money and a delayed pathway out of poverty.

Most Needed Services: A single round of discussions with stakeholders yielded a hierarchy of the services most needed by those who are financially excluded, listed in declining order from highest importance, as follows:

- Small personal loans;
- Financial counselling (eg affordable credit problems);
- Fairer/safer credit card;
- Savings incentive account;
- (Universal) basic transaction account;
- Investment advice (eg for those with a small superannuation benefit);
- Community enterprise financial support;

] Home & contents insurance;

] Third Party Property vehicle insurance;

] Home equity deposit/assisted mortgage program.

It was concluded that stakeholders needed to further consider this list, and provide their further and more considered views on the veracity of this hierarchy of needs of the financially excluded in Australia, given the totality of the findings in this report.

1.3 Summary of Non-Ownership of Financial Products in Australia

A number of tables and charts were compiled from Roy Morgan Research – Finance Monitor data collected from over 50,000 Australian adults in the period April 2003 to March 2004.

Number of Financial Products Owned: Analysis of the number (out of fifteen main products types) owned showed that:

] **Total "exclusion":** Only 0.8% of the Australian adult population owned no financial products.

] **Minimum access:** 6% owned only a transaction banking product.

] **Median number of products:** The median number of financial products owned was six.

] **By age:** The median number of products owned increased with age from 2 products at age 18-19, to 4 products by the age of 20 to 24, 7 products at 40-44, 6 products at 60 to 64, and 5 products at age 70 years and over.

] **By sex:** There was little difference between the sexes, although females owned slightly fewer products than males on average.

] **By country of birth:** Those born in Australia were less likely to have zero products than, say, those born in Asia. However, this may have been an age and income effect caused by the number of overseas students.

] **By aged pension status:** Those with an aged pension did not appear particularly excluded, having a median number of five products, and a similar proportion of them

(compared the total population) had at least one product (5% versus 6% of the population).

] **By income (personal):** The median number of products increased rapidly with income, from 3 products at annual income of $10,000, to 7 products at $40,000 pa, and 8 products at annual incomes exceeding $100,000.

] **By employment status:** Those who were employed had a median number of products of 7, versus 4 for those who were unemployed.

Only 2.5% of employed people had no products (0.5%) or a transaction product only (2%), versus 18% of unemployed people (3% of unemployed people lacked any products and 15% had a transaction product only).

] **By remoteness:** There were no appreciable differences in number of products owned by remoteness (whether in a large city, inner regional, outer regional, remote or very remote).

] **By housing tenure:** Those paying off a home were more likely to have a larger number of products (median 8) than those who already owned their home (6 products). Those renting (29% of the population) had a median number of products of only 3, while those who had other housing arrangements or did not state their housing tenure status, also had a median of only 3 products.

Exclusion Curves: Using personal income level as the X-axis, exclusion curves were constructed for each of the 15 main financial products. It was clearly demonstrable that in Australia, income appears to influence the incidence of non-ownership for many financial products, most noticeably for:

] Deposit accounts;

] Direct investments;

] Home loans;

] Credit cards;

] Personal loans;

] Building insurance;

] Home contents insurance.

Effect of Level of Savings and Investments: Just as level of income appeared to be a key driver of lack of ownership of many financial products, the level of savings and investments was shown, at the low end of the scale, to also be a key driver of such lack of ownership. In a relative sense, very low levels of savings (less than $2,000) is highly associated with lowest incidence of ownership in the population, of the following product types:

- Superannuation;
- Deposit/savings accounts;
- Transaction accounts;
- Major credit cards;
- Home loans.

Personal Loans: While non-ownership of personal loans were not so closely aligned with very low levels of savings and investments, incidence of personal loan ownership, while somewhat affected by income, appeared to be quite low in all income and savings cohorts (9% on average). Despite low income and low savings households not being particularly less likely to own personal loans than their wealthier cohorts, stakeholder interviews pointed to the relatively large impacts that a lack of a personal loan has on low income households, when in need of such a loan.

Fringe/Alternative Product Usage: Little data was available from the finance monitor for ownership of fringe products. Store/finance cards, however, were measured, and the data showed these two forms of credit were owned by only 9% of adults. Ownership was highest in two income ranges: $36,000 to $45,000 pa (at 12%), and $110,000+ income range (at 14 to 16% ownership). Store/finance card ownership was higher among women (11%) than men (7%), among the employed (10%) than the unemployed (7%), and among those paying off a house (13%) compared to those who already own their home (9%) or renting (8%).

House and Contents Insurance: In the overall population of household decision makers, 17% of people who owned their own homes lacked building insurance, and 17% lacked contents insurance, indicating a large group of consumers who potentially needed insurance, and who lacked any cover.

Similarly, 12% of those with a mortgage, lacked contents insurance, and a massive 66% of those with rental accommodation lacked home contents insurance.

The proportion of non-ownership of home and contents insurance was shown to be much higher than these average incidences in the community, for those with very low income, especially for those with low levels of savings and investments, and this effect was particularly exaggerated for those who were in tenancy, rather than owning or buying their own homes. For example, those in tenancy housing (public or private) lacked contents insurance in approximately 50% of cases if savings were over $10,000, rising to 80% for those with less than $2,000 saved. Similarly, 28% of home owners with very low savings (under $2,000) lacked contents insurance.

1.4 Summary of Implications for Future Measurement of Financial Exclusion

Taking all of the findings into consideration, the following conclusions were drawn regarding the need for further primary research on financial exclusion, in order to meet ANZ's overall research goals in this area:

- There will be a need to clearly define the exact purpose of any future research prior to finalising any research design or measurement device.
- There will be a need to agree on a definition of financial exclusion and particularly whether the Chant Link & Associates approach should be used;
- Key information gaps after the preliminary research stage include:
  - Measurement of the nature and extent of financial exclusion in Australia (highly dependant on the definition adopted);
  - Measurement of the extent of need and propensity to participate in particular microfinance initiatives (if this is deemed to be part of the research purpose);
  - Measurement of the incidence of various kinds of impacts and outcomes (partly to address the extent of need mentioned above);
  - Identification and measurement of the most important exclusion needs requiring attention;
  - Validation of the stakeholder research outcomes, especially the definition issues, and the hierarchy of financial exclusion issues requiring attention in Australia today. This would be achieved by providing the results to selected respondents and refining the report based on their views and feedback.

] The unit of measure in future research should be households and the key target respondent should be household decision maker(s).

] Both qualitative and quantitative research techniques are likely to be required in future research. The extent of the need for qualitative research will depend on the purpose of the research and the definition of financial exclusion adopted.

] Quantitative research should be conducted face to face and should target the bottom half of households by income. The ABS would be used to define the sample structure and to help develop the sampling and weighting approach.

] An important measure which should be developed is an attitudinal index of financial exclusion, based on a range of metrics such as level of exclusion felt, self assessed financial literacy skills, and others.

] A series of workshops and brainstorming sessions are likely to be required to design and refine the questionnaire prior to pilot testing.

2. INTRODUCTION

2.1 Background

There is a growing body of research at home and internationally, both driving and in response to an increasing level of concern about people who are "financially excluded". That is; people who, for a variety of reasons, have no access, feel excluded from, or cannot afford basic financial services from mainstream banks and financial institutions. Indeed, one Australian review[6] of existing research and information has provided a useful definition of financial exclusion as follows:

"financial exclusion can best be defined as the lack of access to financial services by individuals or communities due to their geographic location, economic situation or any other 'anomalous' social condition which prevents people from fully participating in the economic and social structures of mainstream society".

ANZ has determined to address this segment of the community in a variety of ways, in order to discharge its felt obligation to contribute to the welfare of Australian society, including:

- Financial literacy initiatives;
- A matched savings program in a joint venture between ANZ and the Brotherhood of St Laurence;
- The provision of services (such as credit or small loans) to the financially excluded, for example - through an appropriate set of channels (eg via selected "Not for Profit" organisations in the community). The Deutsche Bank model works in this fashion.

Thus, ANZ is not viewing this exercise as a commercial or "for profit" opportunity in any way.

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[6] Connolly and Hajaj: Financial Services and Social Exclusion, Financial Services Consumer Policy Centre, University of NSW, Chifley Research Centre

It is noted that the prior research reviews and papers furnished with the brief provide useful hypotheses with respect to:

] Potential causes of financial exclusion;

] Possible segments of the community who may be most affected;

] Likely negative impacts or consequences of being financially excluded.

] Various models of potential ways in which financial exclusion have been, or may be addressed. The term "microfinance' has been used to describe the services and models, which may include microcredit, microbanking, microinsurance, and microenterprise. These services could include:

- Provision of small loans to individuals or very small businesses;
- Acceptance of small savings deposits;
- Provision of insurance;
- Provision of other financial services such as bill payment, money transfer facilities for those without cheque accounts or credit cards of any kind, financial literacy training, and financial counselling or management.

In 2003, ANZ conducted research on the level of financial literacy in Australia. More recently ANZ has committed to taking a leadership role in exploring the potential for microfinance initiatives in Australia.

ANZ therefore asked Chant Link & Associates to conduct a preliminary research project, in order to determine what primary quantitative research may be needed to identify the size and nature of financial exclusion in Australia.

It is intended that the research program will ultimately provide a solid platform of knowledge to assist in the development of appropriate responses.

This Report

This report provides the findings of the preliminary study, carried out by Chant Link & Associates in mid 2004. This is **Volume 1** of the report, and it contains:

] The outcomes of a literature review on financial exclusion;

] The views of a group of 20 stakeholders in Australia regarding financial exclusion;

] Relevant findings generated from analysis of pre-existing data from over 55,000 Australian households, collected between April 2003 to March 2004[7];

] Considerations and recommendations regarding measurement of the extent and severity of impacts of financial exclusion in Australia.

Volume 2 is a more detailed set of charts and tables prepared in the process of analysing the pre-existing quantitative data.

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[7] This data was collected by Roy Morgan Research in their Finance Monitor series, and analysed by Chant Link.

3. RESEARCH OBJECTIVES

3.1 Overall Objectives

The overall objectives for the research program were as follows:

- Identify the size of financial exclusion in Australia, particularly of (but not limited to) credit related financial exclusion which is intended to be a key focus of microfinance initiatives.
- Obtain an understanding of the drivers of financial exclusion, and in particular gauge the extent to which, in the case of credit related financial exclusion, this is driven by the risk management policies of mainstream[8] financial service providers.
- Gain an understanding of the impact of financial exclusion (across the core products and services[9]), the level of need for microfinance initiatives, the elements of such services that could have the greatest impact, and which groups in the community are most affected/most in need of microfinance services.

It was expected that meeting the above objectives would enable ANZ to gauge the level of need in the community for any of the possible responses which ANZ may be considering, noting that a key focus of microfinance initiatives is likely to be credit related.

3.2 Operational Research Objectives

To meet these overall objectives, the operational objectives were as follows, noting that these required refinement and development during the research program:

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[8] Throughout this report, mainstream providers means banks and credit unions supplying a range of products in the deposit/savings, credit and insurance categories.

[9] Core products and services include products such as: "basic accounts, savings accounts, insurance, superannuation, credit, etc".

- Identify the proportion of the population impacted by financial exclusion across core microfinance products and services, some of which are listed in the footnote on the previous page.
- Identify the main causes of financial exclusion across these products and services, (including, for example, risk policies of providers, affordability, physical access, language issues, financial literacy), and their relative influence on financial exclusion.
- Identify the main impacts or consequences of financial exclusion, and their relative effects on those who are financially excluded.
- Identify the groups in the community that are most impacted by financial exclusion across these products and services.

Once the project was underway, a revised set of objectives for this (initial) phase of the research was agreed as follows.

This first phase was to be conducted as a discrete project, aiming to obtain full value from previous research (eg Roy Morgan Financial Monitor) and stakeholder views in deciding:

- Which elements of the overall objectives are adequately met with existing information;
- Which will need primary data collection;
- Exactly how primary data collection should be conducted.

4. RESEARCH APPROACH

There were four main stages in this preliminary research on financial exclusion.

Stage One involved a detailed analysis of a large data set from the Roy Morgan Research – Finance Monitor. Data on the financial products owned and used by over 55,000 people during 2003/04 was analysed in order to identify the extent of lack of ownership of various products, and to identify the characteristics of people who possessed few or no financial products, or who lacked ownership of certain products.

Stage Two was a literature review on the subject of financial exclusion in Australia, which aimed to identify various definitions of financial exclusion and any measures of its extent and nature.

Stage Three involved 20 face to face depth interviews with various stakeholders – people who have studied financial exclusion or areas closely involving financial exclusion in Australia. Some of the stakeholders had been involved in discussions with ANZ regarding its Community Development Finance initiative, which is a project that is proceeding in parallel with this financial exclusion project. Interviews lasted from 60 to 90 minutes, with several exceeding 120 minutes. The subjects covered in the interviews are included in the discussion guide which appears in Appendix A.

The interviewees included the following people, to whom both Chant Link and ANZ are extremely grateful:

- Peter Kell, Chief Executive Officer, Australian Consumers' Association, Marrickville, NSW;
- Catherine Wolthuizen, Senior Policy Officer, Financial Services, Australian Consumers' Association, Marrickville, NSW;
- Greg Tanzer, Executive Director, Consumer Protection & International, Australian Securities & Investments Commission, Melbourne, Victoria;
- Sarah Edmonson, Assistant Director, Consumer Protection & International, Australian Securities & Investments Commission, Melbourne, Victoria;
- Delia Rickard, ACT Regional Commissioner and Deputy Executive Director – Consumer Protection & International, Australian Securities & Investments Commission, Canberra, ACT;

] Christian Mikula, Senior Lawyer, Consumer Protection, Australian Securities & Investments Commission, Canberra, ACT;

] Colin Neave, Banking and Financial Services Ombudsman, Melbourne, Victoria;

] Dianne Carmody, General Manager, Banking and Financial Services Ombudsman, Melbourne, Victoria;

] Elisabeth Wentworth, General Counsel, Banking and Financial Services Ombudsman, Melbourne, Victoria;

] Khaldoun Hajaj, General Manager, Insurance Brokers Disputes Limited, Melbourne;

] Chris Connelly, Faculty of Law, University of NSW, Sydney;

] Dr Ingrid Burkett, Lecturer in Community Development and International Community Development, School of Social Work & Social Policy, University of Queensland, St Lucia, Brisbane, Queensland;

] Mark Lyons, Professor of Social Economy, University of Technology (School of Management), Sydney, NSW;

] Nicole Rich, Senior Solicitor, Consumer Law Centre, Melbourne, Victoria;

] Anoushka Bondar, Senior Solicitor, Consumer Law Centre, Melbourne, Victoria;

] David Tennant, Manager, Care Inc. Canberra, ACT;

] Jan Pentland, Chairperson, Australian Financial Counselling and Credit Reform Association, Melbourne, Victoria;

] Carolyn Bond, Manager, Consumer Credit Legal Service, Melbourne, Victoria;

] Nicola Howell. Director, Centre for Credit and Consumer Law, Griffith University, South Brisbane, Queensland;

] Marilyn Webster. Manager, Social Policy Research Unit, Good Shepherd Family Services, Collingwood, Victoria;

] Catherine Scarth, General Manager, Community Services, Brotherhood of St Laurence, Melbourne;

] Dr Robert Simons, National Manager Strategic Research & Social Planning, The Smith Family, Sydney;

] Sue Martin, Relationship Manager, Saver Plus, Benevolent Society, Campbelltown, NSW.

Stage Four involved analysing all of the information gathered, and developing an approach for further primary market research to fill remaining information gaps.

The information generated in these four stages was extremely rich, and has resulted in the production of this report, which addresses the main objectives of ANZ's overall research program.

5. LITERATURE REVIEW

5.1 Introduction

5.1.1 Focus of This Review

This literature search, review and analysis focuses specifically on the issue and concept of “financial exclusion” and not on a number of related and sometimes overlapping issues that are also the subject of other academic writing, opinions and perspectives, including community development finance (CDF) and microfinance. However, the term “social exclusion” was included as an initial search term in order to capture perspectives on the context in which financial exclusion is considered by various researchers and authors.

5.1.2 Literature Search and Review Strategy

The intention of the literature search and review phase was to identify and source as much relevant International and Australian literature on financial exclusion as possible, and then to review and analyse:

- The relative nature and sources of published research, analysis and opinion on the issue of financial exclusion around the world, and with particular reference to Australia.
- Definitions and “diagnostic” criteria or markers of financial exclusion, noting important consistencies and differences.
- The degree of cross-referencing, consistency and differences of approach, especially as these vary by the discipline and location of the authors and investigators.
- Overall trends and opinions in relation to the prevalence, antecedents, causes, and associations of financial exclusion.

Academic Databases and Catalogues

A natural starting point for a literature search on financial exclusion was the range of searchable academic databases commonly used by researchers in academic and social policy institutions. Such databases index a broad range of academic and practitioner journals in the social sciences (including consumer psychology and behaviour, economics and social policy), commercial disciplines such as marketing and finance, and perspectives from industry journals in financial services, marketing and advertising.

Initial search terms used were "financial exclusion", "social exclusion" and "unbanked", as these were felt to be likely to generate the broadest sweep of resources. Papers and resources located from an initial search were examined for other search terms that might be useful and relevant.

General library catalogues at both the University of Melbourne and RMIT University, both of which were accessible to the authors of this review through current academic affiliations, were also searched for works on "financial exclusion", "social exclusion" and then a range of related topics as the review proceeded.

"Snowballing"

Once relevant articles had been located, the search strategy was extended by "snowballing", that is, by obtaining copies of important papers and searching sources and related concepts mentioned in them. Two such key papers were – Kempson and colleagues' report for the UK Financial Services Authority (FSA) entitled "In or Out" (Kempson, Whyley et al. 2000), and the report entitled "Financial Services and Social Exclusion" prepared for the Chifley Research Centre in 2001 (Connolly and Hajaj 2001) – which proved an important starting point for the snowballing process.

Internet Searches

We conducted a variety of broad web searches utilising primarily the Google Internet search engine, and search terms including "financial exclusion", "social exclusion", "unbanked".

Government and Institutional Websites

Websites of organisations and institutions identified from peer-reviewed and other literature sources were specifically visited and relevant publications.

Literature Identified by Stakeholders

At interview, many stakeholders identified specific reports and publications prepared either by their own institutions or by others working in related fields; in some cases, they were able to provide physical copies of such reports.

5.1.3 Relevant Findings From Literature Search

Searches of academic databases revealed surprisingly little in the way of articles in the peer-reviewed literature on the subject of financial exclusion. For example, a search of the widely-used ProQuest™ database – which indexes more than 1000 journal titles in the social sciences, business and psychology dating back at least 10 years in most cases – yielded only six "hits" for the term "financial exclusion" in citations or abstracts. A similar search for the term "unbanked" yielded only 11 hits, none of which overlapped with the hits for "financial exclusion"; a ProQuest search for articles that used both terms produced a zero result.

Results were similar from searches of other academic databases. For example, a search of the EBSCO Host™ Business Source Premier database, which indexes journals in the business disciplines, yielded only two hits for "financial exclusion" and eight for "unbanked". A search of the Expanded Academic ASAP database by Infotrac™ yielded 26 apparent hits for "financial AND exclusion", but several of these were clearly "off topic".

General library catalogues also carried very few works that appeared to be directly "on topic". Significant among them, however, was the book by Leyshon and Thrift, which was subsequently found to be widely cited in other literature, especially that originating in the United Kingdom (Leyshon and Thrift 1997).

Broad Google web searches revealed "about 6,690" results for "financial exclusion" and "about 14,800" for "unbanked". The term "social exclusion", by comparison, yielded more than 500,000 hits.

Snowballing, visits to specific websites of institutions named in other reports and cross-cited were by far the most productive strategies in terms of uncovering relevant documents. The provision of reports and leads by stakeholders at interview was another important means whereby we were able to gain access to a "web" of knowledge and publication that might otherwise remain relatively inaccessible to outside and "unconnected" researchers.

Authors and Originating Institutions

Overall, the literature available for review consists of far more independently published reports than papers published in peer-reviewed journals. The most common types of institutions, both Australian and overseas, from which these reports originate are:

- Governments and Government authorities, such as:
  - The Social Exclusion Unit of the Office of the Deputy Prime Minister, UK Government;
  - The UK Government Financial Services Authority;
  - The UK Government Office of Fair Trading;
  - The US Government Federal Reserve Bank;
  - Reports of the Australian Parliament (e.g. into "Banking in the Bush").
- University-based research and policy centres, such as:
  - Personal Finance Research Centre, Bristol University, UK;
  - Financial Services Consumer Policy Centre, University of New South Wales;
  - Social Policy Research Centre, Australian National University (ANU), Canberra;
  - Centre for Aboriginal Economic Policy Research, ANU.
- Independent, religious and community groups with focus on social policy, including:
  - Good Shepherd Youth and Family Service Inc.;
  - The Smith Family;
  - The Joseph Rowntree Foundation (UK).

Compared with the UK, there is a far less consistent "thread" of Australian literature on financial exclusion. This seems to be, at least in part, related to the relative lack of formal channels for the communication of research, theory and opinion in this area in Australia, either via refereed journals, a clear academic "centre of excellence" or a central "clearing house", the type of role apparently played by the Financial Services Authority in the UK.

Some Implications of the Search Findings

A clear conclusion from these findings is that the current literature on financial exclusion and closely related topics is dominated around the world by reports developed and published independently by authors working in institutions with a direct interest in financial exclusion and related matters. The study of financial exclusion has not yet produced, and may never generate, a solid vein of literature in peer-reviewed journals. This finding has important consequences that are worth noting here:

- It is relatively unlikely that financial exclusion is an area attracting the interest of academics and potential postgraduate students other than those already working in institutions for which financial exclusion is a recognized field of study.
- Financial exclusion is unlikely to be figuring prominently in undergraduate teaching and textbooks in the disciplines of financial services, economics and social studies.
- It is unlikely that the study of financial exclusion is attracting significant research funding in "mainstream" Australian educational institutions, with the exception of the highly specialized units we have identified.
- This will remain an area of investigation that is relatively closed to outsiders for the foreseeable future. A literature search using conventional academic databases reveals relatively little, and essentially none of the most influential works in the field, yet these are well known among the small group of opinion leaders and researchers.

Limitations of This Review

Conventional literature reviews and meta-analyses rely on the identification of similarities across all published papers in regard to a range of characteristics that allow studies to be compared and, ideally, pooled in order to generate greater degrees of reliability. Such characteristics would typically include structure, definition of terms, shared assumptions, identification and selection of research subjects, sample sizes, levels of evidence and types of statistical analysis.

Firstly, because of the difficulty encountered in identifying papers and sources by conventional means, it should be noted that the authors of this review do not claim to have unearthed all documents that might be relevant to the issue.

Secondly, the almost complete absence of "common denominators" across the key documents unearthed by our search does not facilitate comparison or pooling of data and observations and has made a conventional meta-analysis effectively impossible. This is, therefore, a highly qualitative, not quantitative, literature review.

5.2 Financial Exclusion: Context and Definitions

5.2.1 Origins of the Term

Based on our literature review, the earliest references to "financial exclusion" seem to date from the early to mid 1990s. The vast majority of published works examining financial exclusion, either as the central focus or as a part focus, emanate from the United Kingdom.

Perhaps not surprisingly, the prominence of the term financial exclusion in the late 1990s parallels the rising prominence of the concept of social exclusion in social policy; the notion of "exclusion" is common to both.

5.2.2 Social Exclusion

The term "social exclusion" is said to be part of a contemporary "common currency" of social policy research and debate, and to also be prominent in party political agendas (Burchardt, Le Grand et al. 1999; Saunders and Tsumori 2002). The concept and the term are widely viewed as having originated in continental Europe during the 1970s and 1980s (Burchardt, Le Grand et al. 1999; Rogaly 1999; Parker and Lyons 2003) before being adopted in Britain during the 1990s (Burchardt, Le Grand et al. 1999). It is clear from our literature review that the term is now widely used in academic and socio-political writings.

The election of the Blair "New Labour" government in the UK in May 1997 is said to have signalled the start of "high-level government engagement" with the challenge of overcoming poverty and social exclusion (Rogaly and Fisher 1999); the explicit reference to social exclusion as a focus for policy and intervention is reflected in the establishment of the UK Government's Social Exclusion Unit, which continues in 2004 (Office of the Deputy Prime Minister 2004).

A key theme of writing on social exclusion is that the term encompasses "more than just income poverty" (Rogaly 1999; Office of the Deputy Prime Minister 2004).

Social exclusion is said to be "a more comprehensive formulation" that refers to the ongoing process of being "shut out, fully or partially, from any of the social, economic, political and cultural systems" that determine the social integration of an individual in society (Bridgeman 1999). Social exclusion is used to describe "processes that bring about a lack of citizenship, whether **economic**, **political** or **social** citizenship" (Rogaly 1999).

In particular, **economic citizenship** refers mainly to "…access to work (paid or otherwise) that has the potential to increase an individual's sense of control over his or her life, and his or her capacity to transfer this across generations, partly through increased income, wealth, and spending power, and reduced vulnerability, but also in terms of self-esteem" (Rogaly 1999).

In a less academic or political context, social exclusion has also been defined more broadly as being the result of "…a combination of linked problems such as unemployment, poor skills, low incomes, poor housing, high crime environments, bad health, poverty and family breakdown" (Office of the Deputy Prime Minister 2004). Long-term unemployment, especially when geographically concentrated in certain parts of large cities and in certain rural areas, is most often cited as the common denominator in social exclusion (Rogaly 1999; Parker and Lyons 2003).

However, some authorities note that social exclusion is a "contested term" and that there is continuing confusion as to its definition and use (Burchardt, Le Grand et al. 1999). The concept of social exclusion is also criticised by some writers, including some Australian authors (Saunders and Tsumori 2002) who have described it as "a ragbag concept" that tends to obscure the more basic and fundamental issues of poverty and deprivation.

5.2.3 Defining Financial Exclusion

Definitions of financial exclusion vary considerably across the literature reviewed for this project. This variation can be seen along several dimensions, but the most important of these dimensions are the **breadth** of definition, the **focus** of the definition and the concept of **relativity** or **degree**, that is, whether financial exclusion is defined relative to some standard (that is, "inclusion"). The extent to which a given definition pre-supposes a specific relationship (whether implicit or explicit) between financial exclusion and social exclusion also varies considerably; this relationship is discussed in further detail below.

Breadth of Definition

The broadest definitions of financial exclusion acknowledge that there is a complex interaction between financial exclusion, on the one hand, and social exclusion and disadvantage on the other. Typical of such a broad definition would be that found in the seminal work of Leyshon and Thrift, who define financial exclusion as “processes that prevent poor and disadvantaged social groups from gaining access to the financial system” (Leyshon & Thrift 1995). This may also be seen as a somewhat sweeping definition, with its apparent reference to access to the financial system as a whole, rather than access to specific financial services or products and access to specific channels of distribution.

In examining the Australian context, the authors of the Chifley Research Centre report also offer a very broad, lengthy, and somewhat circular definition of financial exclusion:

> *“… lack of access to financial services by individuals or communities due to their geographic location, economic situation or any other ‘anomolous’ social condition which prevents people from fully participating in the economic and social structures of mainstream communities”* (Connolly and Hajaj 2001).

At the other extreme of definitions of financial exclusion are those that take a very narrow perspective based on a lack of ownership of, or access to, particular types of financial services or products, including forms of credit and insurance. For example, while Rogaly has a broad view of social exclusion, his working definition of financial exclusion is narrow:

> *“… exclusion from particular sources of credit and other financial services (including insurance, bill-payment services, and accessible and appropriate deposit accounts)”* (Rogaly 1999).

Between these two extremes are more moderate definitions which acknowledge that financial exclusion has complex interactions with other aspects of exclusion, but narrow the scope, usually with some practical purpose in mind. Some also encompass a sense of degree of exclusion and/or a concept of “mainstream” financial services (as opposed to complete exclusion from all services). For example, in the context of their attempts to model the characteristics of those who are non-users of financial services in the UK, Meadows and colleagues (informally) define financial exclusion as “the potential difficulty that some members of the population have in being able to use mainstream financial services such as bank accounts or home insurance” (Meadows, Ormerod et al. 2004)

Focus of the Definition: Who is Excluded?

It is clear from our review that not only does the scope of the definition of financial exclusion vary considerably, but the focus of the definition also varies widely, from "social groups" and "communities" to individuals, and frequently both. This is more often implicitly rather than explicitly acknowledged in the literature.

- **Individuals** clearly can be financially excluded, and a range of individual characteristics that may be associated with financial exclusion, or with being at risk of financial exclusion, are discussed later in this report.
- **Households** are commonly referred to as the subject of exclusion, and are frequently the common denominator for comparisons in this area of the literature. This is clearly related to the predominance of the household as the fundamental unit of economic, demographic and statistical measurement in many economies and societies.
- Entire geographic areas or **communities** (and hence all of the individuals and households within the area or community) can be financially excluded. This level of analysis is less common in the financial exclusion literature, but is much more commonly the focus of articles when their principle concern is to examine or review microfinance initiatives, which are generally designed around responses to the financial exclusion of entire communities.
- The financial exclusion of **businesses** receives relatively little coverage in the general financial exclusion literature. However, the issue of bank branch closures and its effect on rural and regional businesses is addressed in the recent Australian Parliamentary report "Money Matters in the Bush: Inquiry into the Level of Banking and Financial Services in Rural, Regional and Remote Areas of Australia" (Chapman, Wong et al. 2004).

Relativity or Degree of Exclusion

Some authors, whether in formal definitions or in more general discussions of the issue, make the point that financial exclusion is a relative concept. For example, Kempson and colleagues note that "the problem of financial exclusion has, ironically, resulted from increased inclusion that has left a small minority of individuals and households behind" (Kempson, Whyley et al. 2000).

Elsewhere, they contrast those who are financially excluded with a growing majority of the population who are "hyper-included", as a result of the steady growth of the use of financial services of all kinds: "more people (have) an ever wider range of financial products, while a minority of people lacks even a bank or building society account". Other authors also point to "unprecedented expansion" in the provision and use of a range of services, particularly credit, in recent decades (Wilson 2002).

5.2.4 Australian Perspectives

There is no clear evidence in the literature of the existence of a widely accepted definition of financial exclusion in the Australian context, nor of the application of any "diagnostic" approach to identifying those individuals or social groups who might be financially excluded or at greatest risk of financial exclusion.

Similar themes to overseas literature are explored; however, most papers and reports focus on specific aspects of financial exclusion, financial exclusion in relation to a specific societal group, or tangentially in the broader context of poverty or disadvantage.

Specific aspects of financial exclusion that distinguish the Australian perspective as represented in the literature, include:

- The financial access and exclusion of indigenous Australians (Hunter and Gray, 1999);
- The closure of bank branches, particularly in small and isolated rural communities;
- The impact of geographical remoteness on access and exclusion;
- The potential role of information technology and telecommunications in overcoming financial exclusion experienced by indigenous Australians and those Australians who live in remote locations.

5.2.5 Product Ownership-Based Definitions

Regardless of the breadth with which they define financial exclusion, most authors must eventually deal with practical or "working definitions" of financial exclusion that focus on the ownership of, or access to, particular financial products and services. More often than not, this definition is narrowed further, in practical terms, to apply primarily to products and services from "mainstream" financial service providers (Meadows, Ormerod et al. 2004).

Overall, where practical definitions or discussions of financial exclusion are based around product ownership, there is a general view across the literature that access to certain types of financial services and/or financial products can be regarded as "essential" in contemporary society (National Farmers' Federation 1997; Rogaly 1999; Kempson, Whyley et al. 2000; Connolly and Hajaj 2001; Kumar 2002). Typical of this general view is the listing provide in the report of the UK Office of Fair Trading (Bridgeman 1999) which describes the four essential types of financial services as follows:

- **Money Transmission**: Individuals increasingly need money transmission mechanisms for storing, saving and accessing money safely, and for making payments to third parties (Kumar 2002). Such services include debit cards, direct debits and automatic transfers; a growing number of goods and services can be acquired only through the use of such means, while others may be bought on better terms than if purchased with cash (Bridgeman 1999). A basic cash transmission banking account is also frequently noted to be a "gateway" through which consumers can gain access to other banking services (Kempson, Whyley et al. 2000).

- **Insurance**: Home contents insurance is considered a very important financial product as it provides the means to replace assets lost in the event of burglary, fire, or other domestic disaster. UK research suggests that those consumers who are least well placed to stand the risks are often those without insurance cover (Whyley, McCormack et al. 1997). Building insurance for those who own or are buying homes, and life insurance are also considered essential services by some authors.

- Short-term **credit** enables consumers to smooth consumption when income or expenditure varies, and to meet emergency needs. Access to credit is thus widely regarded as an essential financial service (Schilling 2003). In modern consumer societies, credit is "not a means of advancement but merely a sign of participation" (Wilson 2002). Leverage through credit is also regarded as a standard but crucial financial strategy for a small business; lack of access to credit may place such a business at a distinct competitive disadvantage.

- Long-term **savings**, which could include retirement savings or, in Australia, superannuation. Maximum gains from long-term savings depend on the ability of consumers to save in ways that allow them to capture the significant premium that comes from investing in equity markets, as compared with risk-free return rates of around 3% in real terms (Bridgeman 1999).

In the UK, the central focus of most studies of financial exclusion, and indeed the explicit focus of most definitions, is access to "basic banking" of the money transmission type. Most statistics have looked at those without access to basic current account banking services (Kempson, Whyley et al. 2000), and the lack of a bank or building society account, either a current or savings account, is described as the "standard indicator" of financial exclusion in the UK (Bain 2004).

However, people who have never had a bank account "are a disparate group and the reasons for them being outside the banking system vary greatly" (Kempson, Whyley et al. 2000), suggesting that use and ownership of particular services are not necessarily sufficient as a single measure of financial exclusion.

Furthermore, the direct relevance of such a definition of exclusion in Australia seems particularly limited. Even though it describes the serious adverse consequences of being without a current bank account, the Chifley Research Centre report notes that "in Australia, access to a bank account is in effect compulsory" (Connolly and Hajaj 2001). A broader definition of exclusion based on lack of ownership of all or most of the four main types of essential financial service is likely to be much more useful.

5.2.6 Alternative Terms and/or Related Constructs

The findings of this literature review suggest that terms other than financial exclusion are sometimes used to convey similar or related concepts. Some of these are briefly described below.

Financial Abandonment

Financial abandonment is a term used in a limited number of instances to refer more specifically to financial exclusion following the withdrawal of financial service providers from certain geographic or consumer segments (Leyshon and Thrift 1995).

The Unbanked

The term "unbanked" is used mainly in the United States, but not widely elsewhere, to refer specifically to those consumers who do not have basic banking accounts (Stegman 2001).

There is a modest number of papers in peer-reviewed and industry journals on the unbanked, but much more is generated by US institutions including Federal Government agencies such as the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve bank, as well as a range of university departments with academic interests in financial services and consumer law.

Much of this literature portrays the issue of the unbanked as representing a "market opportunity" for financial service providers (Stegman 2001); for example, the FDIC recently hosted a symposium on "Tapping the Unbanked Market" (Federal Deposit Insurance Corporation 2003). The vast majority of the unbanked are said to be from "minority" communities. Simple and accessible electronic banking is often portrayed as an important intervention to promote financial inclusion (Stegman 2001; Harris 2004).

Consumer Vulnerability

"Consumer vulnerability" is used by Australian author Kumar in an economic analysis of retail banking transactions (Kumar 2002). While not formally defining the nature or consequences of this vulnerability, Kumar indicates that "vulnerable" consumers are those whose capacity to access "affordable and appropriate" banking services is "not guaranteed". Thus, some "vulnerable" consumers may not be absolutely financially excluded but relatively so; that is, they may have to search harder in order to gain access to relevant services, or may have to pay more than other consumers to access the same. In Kumar's view, the "essence of consumer vulnerability is the inability to exercise choice".

The concept of consumer vulnerability is also raised in the context of the report of the UK Office of Fair Trading (Bridgeman 1999).

Financial Stress and Hardship

While financial exclusion is widely believed to have negative financial and social consequences (as discussed later in this review), its direct relationship to financial stress and hardship is not well delineated in much of the relevant literature. Some measures of financial stress and hardship may be related closely to aspects of financial exclusion. For example, an Australian study using data from the national Household Expenditure Study (HES) included budgeting and savings ability, the ability to raise $2,000 in emergency funds, and sources of those funds among a range of indirect measures of financial stress and hardship (Bray 2001). Overall, however, this review did not identify any study of financial stress or hardship that provides direct measures of financial exclusion.

5.2.7 Financial Literacy, Financial Management Behaviour and Financial Exclusion

The contribution of financial literacy to financial exclusion is discussed in greater depth in section 5.6.2 below, where we address individual characteristics associated with financial exclusion.

However, it should be noted at this point that much of the US-based literature on financial literacy often views aspects of what UK and Australian researchers would call financial inclusion and exclusion in the broader context of financial knowledge, decision-making and behaviour.

Hilgert and colleagues, for example, analyse data from regular surveys of US consumer households for evidence regarding what they call "financial practices" (Hilgert, Hogarth et al. 2003). This concept combines measures of financial management behaviours and financial product ownership; the authors note that "the decision to own a financial product can itself be considered a financial behaviour". From the data collected in surveys of this type, they are able to associate ownership of specific products (such as savings accounts, emergency funds, retirement investments and credit cards) with relevant behaviours, such as "saving or investing money from each paycheck", "paying credit card balances in full each month", and regular budgeting.

5.2.8 Relationships Between Financial Exclusion and Social Exclusion

A significant conclusion from our review of the literature is that conceptualisations of the nature and directionality of the relationship between poverty, social exclusion and financial exclusion depend to a significant degree on how financial exclusion is defined.

When financial exclusion is defined relatively narrowly (i.e. in terms of access to basic banking and other financial services), financial exclusion is often seen as one of many causes of, or contributors to, social exclusion. For example, according to Kempson and colleagues, financial exclusion "pre-dates the social exclusion concept" and "…has become an increasingly prominent aspect of the social exclusion debate in the UK" (Kempson, Whyley et al. 2000).

Using an "operationalised definition" of social exclusion, Burchardt and colleagues identify five dimensions that they consider represent "the activities in which it is most important that individual participate" (Burchardt, Le Grand et al. 1999). Of these dimensions, those which the authors called **savings activity** – "accumulating savings, pension entitlements, or owning property" – and **consumption activity** – being able to consume a minimum level of goods and services considered "normal" for society – could be seen as being consequences of financial exclusion, depending on how financial exclusion is defined.

In the Australian context, the Chifley Centre report concludes that "the more an individual or community is marginalised from financial services, the more likely it is that they will also be socially excluded, which exacerbates their overall civic marginalisation" (Connolly and Hajaj 2001). Discussing financial exclusion among indigenous Australians, authors from the Centre for Aboriginal Economic Policy Research at ANU note that "…financial exclusion is one of the key aspects of the social exclusion of low income groups in Australian society" (McDonnell 2003).

However, when financial exclusion is more broadly defined, and especially when it is viewed as a series of inter-related processes having numerous inter-related causes, financial exclusion is intertwined with social exclusion and poverty, and the issue of cause and effect is difficult to untangle. Based on a range of opinions and some empirical evidence, our review suggests that there is ample opinion and evidence, supported by the apparent circularity of some definitions, that financial exclusion may be either a cause or a consequence of social exclusion, or both, as follows:

- Some people or groups are excluded from "normal" social participation because of their exclusion from various financial services;
- Some people or groups are excluded from access to financial services because of their social, economic or political exclusion or disadvantage;
- For some individuals and communities, these two aspects may be linked in a "spiral".

5.3 The Nature of Financial Exclusion

Financial exclusion is often acknowledged as a somewhat dynamic or fluctuating phenomenon, at least in respect of some people. That is, a given individual and household may experience financial exclusion, as defined strictly by ownership of a particular financial product or service, for perhaps a short period of time only. For example, McDonnell and colleagues note that "some people experience short episodes of financial exclusion such as closing a bank account after becoming unemployed only to re-open it when becoming employed again" (McDonnell 2003).

Because of this potentially fluctuating nature with respect to product ownership, any measure of financial exclusion should ideally take into account both current status and directional trends.

That is, simply measuring an individual's or household's usage of particular financial services at a given time may not reveal whether exclusion is short-term or the result of a long-term process, nor whether access is diminishing or improving.

Authors who see financial exclusion as an ongoing process – and especially those whose concept of financial exclusion takes in the notion of vulnerability rather than simply a state of having or not having certain financial services – are more likely to point to the long-term nature of the process, or to the long-term risk of financial exclusion. In particular, financial exclusion may be a long-term reality for many consumers or even a life-long process (Connolly and Hajaj 2001). For families with particular constellations of socio-economic characteristics, it may extend beyond the lifetime of an individual family member and become inter-generational. For example, research with children from financially excluded families suggests that such children have limited opportunities to learn about the mainstream financial world and may fail to acquire basic financial knowledge and skills (Loumidis and Middleton 2000).

5.3.1 Different Typologies

In the same way as definitions of "financial exclusion" differ considerably, a review of the literature also reveals different attempts to classify types of financial exclusion.

"Dimensions" of Financial Exclusion

In common with other authors, Kempson and colleagues discuss a range of physical and geographical barriers to financial inclusion and a broad range of other factors that can contribute to financial exclusion – for different products, for different individuals and under certain circumstances. However, they claim to have identified a number of "dimensions" or "forms" of financial exclusion (Kempson and Whyley 1999; Kempson, Whyley et al. 2000). These are also described in the Chifley Research Centre report as "critical dimensions" of financial exclusion (Connolly and Hajaj 2001), as follows:

- **Access Exclusion**: The restriction of access through the process of risk management (by financial services providers);
- **Condition Exclusion**: Where the conditions attached to financial products make them inappropriate for the needs of some people;
- **Price Exclusion**: Where some people can only gain access to financial products at prices they cannot afford;
- **Marketing Exclusion:** Whereby some people are effectively excluded by targeted marketing and sales;

- **Self Exclusion:** Where some people decide that there is little point applying for a financial product because they believe they would be refused.

While many of the factors raised in this attempt to define “dimensions” or “forms” of financial exclusion can also be seen in the work of other authors, we believe that this typology can be criticised on a number of grounds:

- It primarily describes a mixture of causes of, and contributors to, financial exclusion rather than distinct “types” or “dimensions” of exclusion;
- Some of these “dimensions” are the direct result of actions of financial service providers (such as market segmentation and targeting) while others are the result of a consumer’s beliefs or interpretation of circumstances. For example, “affordability” is presented as an absolute rather than as a relative concept linked to consumer’s perceptions of the value of different services – the benefits gained and the relative monetary and non-monetary costs;
- A consumer’s belief that he or she will be refused when applying for a particular financial product is the result of a complex set of factors that reflects a mixture of perception and reality as well as cultural beliefs and education;
- The impact of issues such as financial knowledge and literacy as a contributor, especially to consumers’ perceptions of value from different financial services, is not acknowledged at all;
- The classification does not assist in identifying or predicting which consumers or households will be financially excluded. For example, it is impossible to identify “self exclusion” without asking each individual about his or her perceptions of the likelihood of rejection.

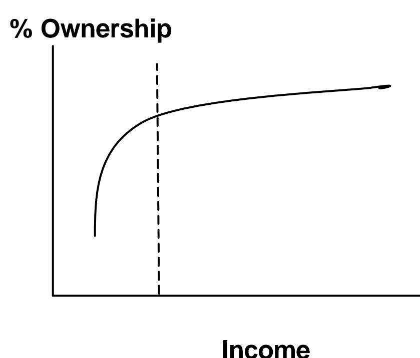
While Kempson and colleagues do raise a much broader range of issues in their 100-page report than are encapsulated in the Chifley Research Centre interpretation, they do so in a way that, to our analysis, is not based on a clear typology of financial exclusion.

Economic Approaches

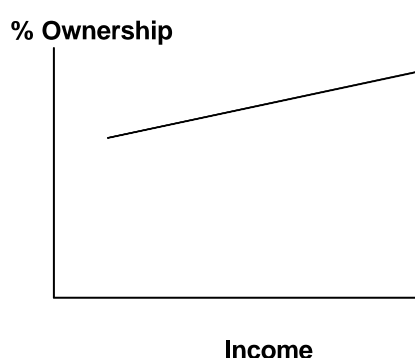
In analysis commissioned by the UK Office of Fair Trading (Bridgeman 1999), economist Richard Vaughan of University College, London, describes two (related) forms of financial exclusion based on relatively simple economic concepts as depicted via an “exclusion curve”, which plots the proportion of the population in a particular income band that consumes a particular financial service:

- **Income exclusion:** A steep rise in the exclusion curve around a particular income band suggests the likelihood that there is an income threshold for acquisition of the service, below which most consumers will be completely unable to afford the service, or below which the product is inappropriate. See Example A in Exhibit 1.
- **Price exclusion:** A relatively even rise in ownership of a given service across income bands suggests that consumers are able to choose whether they will purchase a service based on their own perception of its value and their willingness to pay, which is only partly influenced by their income level. See Example B in Exhibit 1.

Exhibit 1. Exclusion Curve Examples



Example A: This product displays income exclusion below income X.



Example B: This product displays price exclusion at all income levels.

While this economic analysis is simple and appealing, it does not entirely categorise or satisfactorily explain financial exclusion on its own, although it has been used to show that bank transaction accounts in the UK demonstrate income exclusion characteristics. A later section of this report[10] usefully applies this analysis to fifteen Australian financial products.

[10] Section 7.5.

5.3.2 A Suggested Typology

In the absence of a clearly agreed and consistent approach to the typology of financial exclusion, our review of the broader literature on financial exclusion, as well as a number of key papers on financial literacy, suggested an alternative approach. It involves a relatively simple, two-part typology of financial exclusion, which has more in common with the Vaughan economic classification than with the Chifley Research Centre "dimensions".

For any given financial service, the two broad types of exclusion can be usefully thought of as:

- **Access Exclusion**: Barriers of various types, including physical and social, commonly prevent some individuals from accessing financial services, or make their access significantly more difficult; and
- **Utility Exclusion**: While some financial services and products may be physically accessible to a given consumer, the consumer's particular circumstances may make such products much more valuable to him or her.

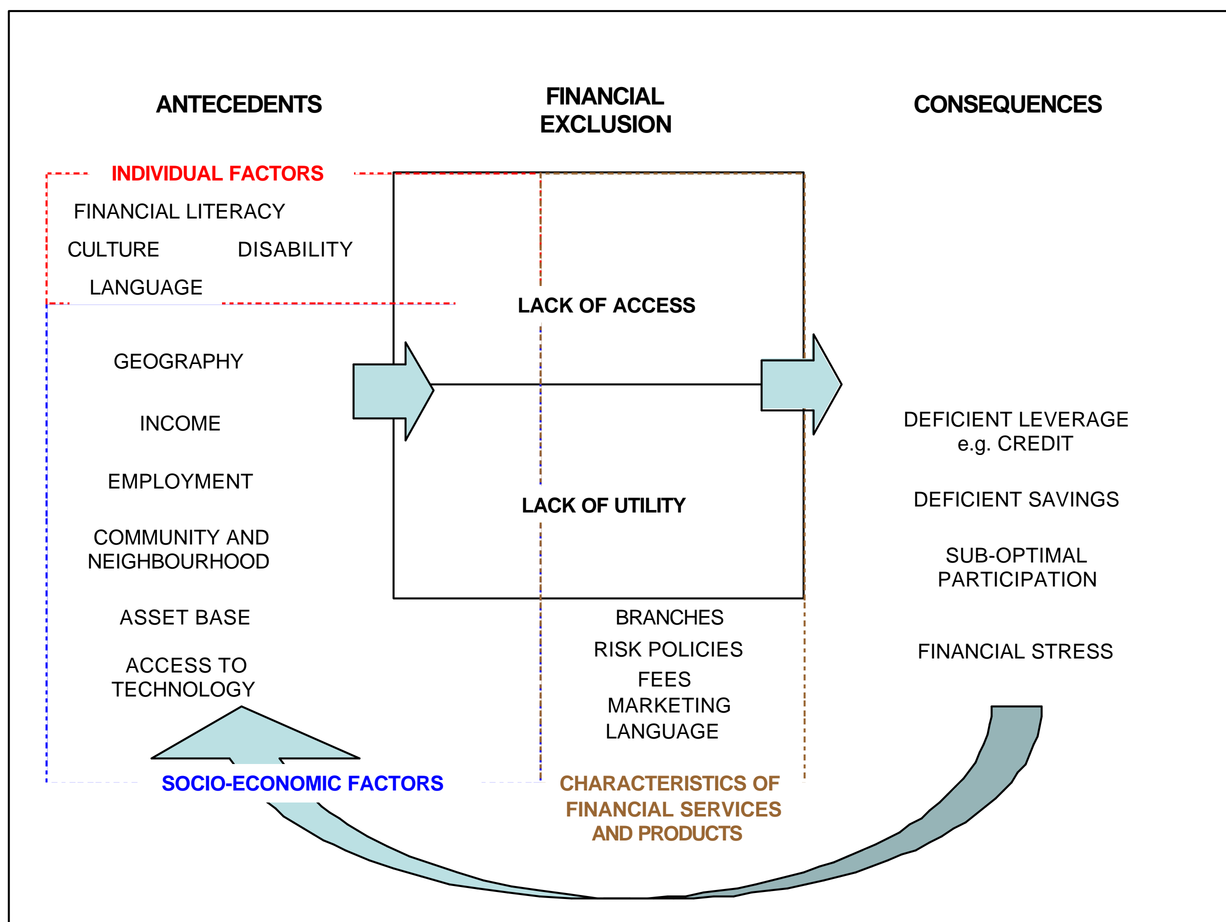
This is illustrated in Exhibit 2 overleaf.

5.3.3 "Access" Exclusion

All authors writing on the subject of financial exclusion cite examples that represent access exclusion; this is a very common theme in the literature. Barriers to access may include:

- Geography (e.g. remoteness or lack of a physical presence of the financial service provider);
- Physical factors (e.g. disability);
- Communication (e.g. lack of access to online facilities; language barriers);
- Education and information (e.g. lack of financial literacy);
- Lack of requisite forms of identity;
- Credit history and reporting and risk assessment issues;
- Market segmentation and targeting by financial service providers.

Exhibit 2. Suggested Model of the Antecedents and Consequences of Financial Exclusion



Numerous examples of access-type exclusion can be found throughout the literature. Access exclusion through geographic barriers is raised in the context of bank branch closures and rationalisations in inner urban areas in the UK, Europe and Australia, as well as in remote areas of Australia (Chapman, Wong et al. 2004).

In the case of market segmentation and targeting, certain products and services may not be advertised, offered, or physically available to certain consumers based on their geographic location and access to distribution channels.

5.3.4 "Utility" Exclusion

Many authors and authorities cite examples of exclusion that are based not on physical or other barriers, but on what can be characterised broadly as the lack of utility of financial services/products for those who are said to be excluded. In this case, utility can be conceptualised as the **perceived** benefits of a product or service weighed against its costs (both monetary and non-monetary) and the trade-offs the consumer must make in order to enjoy those benefits (e.g. forgo a benefit provided by a competitive service, give up some aspect of perceived financial control). People with low incomes must therefore "often… pay more for financial services than others that are better off" (Kempson, Whyley et al. 2000).

The issue of customer perception is important, as this acknowledges that awareness of, and attitudes towards, financial products (both of which shape perception) may affect utility. Such consumers may thus be excluded because they believe that no appropriate product is available that meets their needs cost-effectively.

The Chifley Research Centre report attributes much utility-type exclusion to the strategies and behaviour of financial service providers, when the authors state that "the majority of people without financial products are excluded by a combination of marketing, pricing and inappropriate product design" (Connolly and Hajaj 2001).

Examples of "Utility Exclusion"

The literature abounds with examples and anecdotes of consumers who confront what could be described as utility-type exclusion:

- Authors from the New Policy Institute in the UK cite "limited choices" for low income consumers without bank accounts. Options currently available in the marketplace, they say, do not actually meet the needs of all low income consumers, such as concerns about overdrawing, loss of control or simply lack of awareness of "the advantages of having a bank account" (Donovan and Palmer 1999).
- Psychological barriers and mistrust of banks represents a form of utility exclusion. Consumers are discounting the benefits of banking because of the costs and risks they perceive in dealing with a bank (Kempson, Whyley et al. 2000).
- Findings from research with "community select committees" in the UK suggest that people on low incomes generally make little use of bank accounts for day-to-day money management. The researchers conclude that this is largely because these people feel that a cash budget gives them more financial control.

"Inappropriate" bank products and lack of knowledge and trust of financial providers also play a part (Collard, Kempson et al. 2003).

- The imposition by financial service providers of pricing or conditions that make certain products less attractive to certain consumer segments – whether intentional or otherwise – represents a utility-type exclusion.

5.4 Characteristics of Those Who Are Financially Excluded

The desirability of identifying individual characteristics that might distinguish those who are financially excluded or otherwise vulnerable or at risk of financial exclusion, from those who are included, is a consistent theme in the literature. Ideally, knowledge of such characteristics could be used to predict exclusion and/or to assist in the design and implementation of interventions and preventive strategies.

Of publications that offer views on these characteristics, the majority are based on personal experiences, observations and case studies, or else extrapolate from indirect data such as those on financial stress or hardship, poverty or social exclusion. Relatively few provide lists of characteristics associated with financial exclusion or vulnerability that are validated, at least in part, by empirical data.

5.4.1 Overview and Opinion

There is broad agreement in the UK literature with the assertion by Kempson et al that "the likelihood of being on the margins of financial services is concentrated geographically and among certain groups of people". Financial exclusion is overwhelmingly linked to low household and/or personal income and long-term unemployment or insecure employment (Bridgeman 1999; Rogaly 1999; Kempson, Whyley et al. 2000; Connolly and Hajaj 2001; Bain 2004), although it is sometimes noted that not all those with low incomes are financially excluded (Rogaly 1999). Geographically, financial exclusion is also said to be linked to indices of deprivation, which are derived for local authority areas across England according to a standard formula (Office of the Deputy Prime Minister 2004).

Beyond low income and unemployment, many authors provide lists of individual characteristics said to be associated with higher risk or prevalence of financial exclusion. For example, Kempson and colleagues say that those "most likely to be on the margins" include:

- The unemployed;

- Those who are unable to work through sickness or disability;
- Lone parents;
- Single pensioners;
- Members of some ethnic minorities (in the UK, Afro-Caribbean, Pakistani and Bangladeshi).

Similarly, Kumar's report for the Good Shepherd Youth and Family Service asserts that relative "vulnerability" of consumers may be increased through "limited income, low literacy or information levels, age, ethnicity, disability or a combination of these factors" (Kumar 2002).

Citing other work by Kempson and colleagues in support, the authors of the Chifley Research Centre report state that the following groups are most likely to fall outside of the financial services system (Connolly and Hajaj 2001):

- Households and individuals who have never had a secure job;
- Elderly people who are part of a cash only generation;
- Young people and households who have not yet made use of financial services;
- People on low incomes;
- Women who become single mothers at an early age;
- People and communities from non-English-speaking backgrounds.

These lists of individual characteristics associated with financial exclusion are said to vary little with the choice of any particular financial service or product as the focus for definition of financial exclusion.

However, there is some controversy about whether ethnicity, gender and age are independently associated with financial exclusion, as they are commonly related themselves to income, employment and other variables, and this could explain their apparent association with financial exclusion.

5.4.2 Evidence From Empirical Studies

Some key empirical studies of financial exclusion in the UK have used various forms of analysis in an attempt to identify individual characteristics associated with financial exclusion (Bridgeman 1999; Kempson, Whyley et al. 2000).

However, while a number of the "explanatory variables" identified in such research have been shown to be statistically significant in explaining financial exclusion as defined for the purposes of the study, the overall power of the models derived from these studies in predicting which individuals do or do not have particular financial services has been described as "rather weak" (Meadows, Ormerod et al. 2004).

In a very comprehensive and recently published (July 2004) analysis of two different data sources, researchers based at the UK National Institute of Economic and Social Research found that the differences between non-working people who do not use financial services and those who do were "not sufficient to enable users and non-users to be distinguished" (Meadows, Ormerod et al. 2004). The model they constructed through regression analysis generated a large number of false positives; that is, there were some members of the survey sample who did not have bank accounts even though the predicted probability of not having them was very low. These findings suggest that, within specific population groups, non-users of financial services are likely to have a similar risk profile to users. Moreover, the authors note, this suggests that current financial service products "may be able to meet the needs of many non-users".

Social Networks

Meadows and colleagues found that the use of financial services by members of an individual's social network has a strong influence on behaviour. When all other factors are taken into consideration, the factor with the greatest impact on the odds of having a bank or building society account is whether someone else in the household has one:

> *"If another member of the household has a current account, this reduces the likelihood that an individual will not have an account by a factor of almost twenty-five."*

They conclude that non-users of financial services are disproportionately drawn from social networks where few or no members have these financial services.

5.4.3 Factors Associated with Financial Exclusion – Australia

This review was unable to identify any empirical Australian data directly relevant to the identification of individual factors associated with financial exclusion. Some measures that may be indirectly related to financial exclusion have been included in recent household surveys such as the Australian Bureau of Statistics Household Expenditure Survey (HES) 1998-99, and the ongoing Household Income and Labour Dynamics in Australia (HILDA) survey conducted by the Melbourne Institute on behalf of the Federal Government Department of Family and Community Services (Melbourne Institute 2003).

For example, in analysis of HES data, low-income tenancy (public housing and low income private renting) has been found to be associated with an inability to raise $2,000 in emergency funds (Burke and Ralston 2003). The most common sources of emergency funds were said to be a loan from family or friends (13.8% of public and 29.9% of private tenants) or their own savings (11.7% and 16.8%); only about 10% and 20% respectively said they would get loans from a bank, credit union or finance company, or raise funds via an advance on a credit card, while 3.6% and 9.6% respectively said they would sell something to raise the money.

Schilling also cites HES data as the source of a series of statistics regarding credit card use and ownership in Australian households (Schilling 2003). These data indicate that 33% of households had no credit cards, and that 58% of such households had household taxable incomes of less than $20,000 per annum. Households without credit cards were much more likely to report cash flow problems, difficulty paying utility bills and pawning or selling goods to generate short-term cash. They were also more likely to rely on Government benefits and to be based around a single parent.

Researchers at the National Centre for Social and Economic Modelling at the University of Canberra have also used HES data to estimate the total wealth of Australian households by assessing a combination of interest-bearing deposits, equities and other investments, housing and mortgage values, rental property investments and superannuation assets. While these data provide some aggregate and average estimates of household wealth, they do not provide direct information about access to financial services.

A substantial report on "financial barriers to participation among low-income Australians" published by The Smith Family and also based on HES data examines how families living on low incomes allocate their spending but does not specifically address the ownership or use of financial services (Harding, Lloyd et al. 2003).

Indigenous Australians

Indigenous Australians are said to be among the most financially excluded members of Australian society. Indigenous Australians have higher than average overall rates of unemployment and overall average income 30 per cent less than that of the total Australian population (Hunter and Gray 1999). They are placed at further risk of financial exclusion through lack of physical and geographical access to banking and financial services, and through low levels of financial literacy (McDonnell 2003).

5.5 Underlying (Macroeconomic) Causes of Financial Exclusion

5.5.1 Globalisation and Competition Effects

Most commentators acknowledge that financial exclusion is a complex issue with multifactorial causes. However, many such authors appear to attribute the cause of financial exclusion primarily to the behaviour and policies of financial service providers. For example “most commentators… conclude that it is a natural symptom of the larger forces of change affecting the financial services industry – globalisation and competition” (Connolly and Hajaj 2001). These changes are seen as having taken place worldwide and simultaneously.

The demutualisation and corporatisation of many previously mutual organisations like building societies, that traditionally offered basic banking and savings accounts as well as housing loans, is also said to have led to their operating “more like mainstream banks”. (Meadows, Ormerod et al. 2004)

5.5.2 Trends in Financial Services in Australia

The authors of the Chifley Research Centre report assert that financial services products essential for low income and disadvantaged consumers – such as bank accounts for daily transactions and basic consumer credit and insurance products – “have generally become more expensive” (Connolly and Hajaj 2001). They cite the removal of cross-subsidies and a “drift towards full cost recovery on certain (financial) products” and attribute this to the desire of banks to:

- Change customer behaviour;
- “Cherry pick” profitable customers;
- Exclude certain types of customers by discouraging them through high prices (Connolly and Hajaj 2001).

Authors from the Good Shepherd Youth and Family Service name “trends in the mainstream financial services market and specifically consumer credit” as being associated with increasing numbers of low income and otherwise vulnerable customers being “excluded from participation” (Densley and Ayres-Wearne 1997). These authors also cite “recent developments in banking policy”, an increased reliance on “market forces” at all levels of Government, and a growing “user pays” mentality as contributing to a growing number of Australians being reliant on regular loans from pawnbrokers to meet essential household financial needs (Ayres-Wearne 2000).

The high cost of obtaining credit via means other than a credit card when consumers have been “denied the opportunity of a credit card due to financial circumstances” is said by one author to be “another example of a regressive banking industry” (Schilling 2003).

Market Segmentation

The rise of segmentation as a basic business strategy employed by financial service providers is noted by several authors. Banks are commonly accused by both international and Australian authors of having redirected credit away from socially disadvantaged groups and towards wealthier consumers who are perceived to present less risk and yield higher profit margins (Kempson, Whyley et al. 2000; Connolly and Hajaj 2001; Wilson 2002). Products designed to meet the needs and profiles of particular (attractive) segments do not necessarily provide utility (benefits versus cost) sought by other consumers, leading to their relative (utility-type) exclusion from such products. Conventional financial institutions “do not address the full range of credit needs of disadvantaged communities or small business enterprises” (Parker and Lyons 2003). “Relationship banking” services are also seen as having been enhanced for “attractive, higher potential customers” (Kempson, Whyley et al. 2000); hence, those customers to whom these services are not offered experience a relative increase in exclusion.

Branch Closures

Bank branch closures receive particular attention in some discussions of the activities of financial service providers that may lead to increased rates of financial exclusion. Patterns of branch closures in the UK are said to have been “spatially uneven”, and skewed towards deprived urban areas populated by people on low incomes (Kempson, Whyley et al. 2000). Branch closures, particularly in rural areas, has also been a particular focus of Australian publications and reports (Connolly and Hajaj 2001; Chapman, Wong et al. 2004).

Risk Assessment Policies

Various technological advances, together with changes in policy by financial services providers, are said to be responsible for greater sharing and more precise measurement of customer risk information mong institutions (Kempson, Whyley et al. 2000). Some financial service providers are said to have adopted pre-emptive risk assessment policies and procedures based on identification of postcodes and of other profile parameters rather than individual records.

5.6 Prevalence and Consequences of Financial Exclusion

5.6.1 Prevalence of Financial Exclusion

It is difficult to make comparisons and draw conclusions about the relative prevalence of financial exclusion in Australia as compared with other economies, particularly the UK from where the majority of relevant literature appears to derive. Key studies in the UK have found, variously, that up to 7 to 10% of individuals lack a basic current account; rates of non-ownership of other financial products are relatively higher.

It is generally agreed that Australia “does not have the same proportion of persons without access to a bank account” as many overseas countries. Furthermore, compared with overseas countries, Australia does not experience the same extent of problems associated with large sectors of the community who are “unbanked” (Connolly and Hajaj 2001).

5.6.2 Consequences of Financial Exclusion

While our literature review shows few data regarding any direct relationship between financial exclusion and financial stress and hardship, financial exclusion is widely believed to have negative financial and social consequences. The authors of the Chifley Research Centre report divide the consequences of financial exclusion into three categories (Connolly and Hajaj 2001):

- Personal consequences, the most important of which they note are the high cost of personal banking and consequent “financial strain” on low income earners;
- Business consequences;
- Community consequences.

Social Equity Considerations

An important finding of this review is that many of the relevant papers and reports – and particularly those from the UK and Australia – are predicated on an underlying (but often not explicitly stated) assumption that there should be “fairness” and equity of access to financial services for all citizens. Overall, access to financial services is seen as an essential requirement for participation in modern society. Where financial exclusion is not explicitly associated with adverse financial consequences, the absence of access or choice in itself is seen as undesirable, unfair or contributing to social exclusion (Burchardt, Le Grand et al. 1999; Kumar 2002).

This is perhaps understandable, given the social policy, political and social justice perspectives of the organisations that are most often responsible for the studies and papers.

Banking Facilities

Being without basic banking facilities makes money management more complex and time consuming, more costly and less secure (Connolly and Hajaj 2001). Life is also said to be becoming more difficult and relatively more expensive for those without a bank account (Donovan and Palmer 1999); certain routine transactions such as bill-paying are becoming increasingly inconvenient or costly for those without more advanced forms of access such as EFTPOS, direct debit and online banking.

The lack of basic banking facilities also imposes costs and security issues in managing cash flow and payments and leaves excluded individuals to rely on informal providers of such services as cheque cashing and "payday lending" (Wilson 2002), and thus open to exploitation (McDonnell 2003). Indigenous Australians in particular must often rely on informal credit providers such as hotels, stores, hawkers and taxi drivers (McDonnell 2003).

Banking status – even at the level of the "unbanked" – is said to have "profound implications for long-term family self-sufficiency" (Stegman 2001). The unbanked have lower family assets and lower levels of access to other financial services, strongly supporting the notion that a basic banking facility is a "gateway" to other financial services and products.

The specific consequences of bank branch closures in Australia are said to include (Beal and Ralston 1997):

- Reduced savings;
- Increased size of cash withdrawals;
- Reduced investment income;
- Reduced access to and increased cost of finance;
- Reduced access to financial planning;
- Increased travel requirements;
- Increased security risks;
- Increased need for credit from local businesses.

Credit

Lack of access to short-term and longer-term credit leads to a range of problems associated with non-mainstream credit providers such as pawnbrokers and payday lenders (Ayres-Wearne 2000). These include higher prices and effective interest rates, as well as increased exposure to unethical and "predatory" lending practices (Ayres-Wearne 2000; Connolly and Hajaj 2001; Wilson 2002; Schilling 2003).

Perhaps more importantly, lack of access to the leverage in the form of credit places business customers at a considerable disadvantage.

Educational and Behavioural Consequences

While lack of financial literacy is commonly mentioned as an individual characteristic associated with financial exclusion, relatively few authors and researchers suggest that financial exclusion may have adverse behavioural consequences, for example, in limiting the opportunities for consumers to acquire financial management knowledge and skills. Hilgert and colleagues in the US note the opportunities and incentives to learn that are created when a consumer encounters financial management problems (Hilgert, Hogarth et al. 2003); UK researchers also note the lack of learning opportunities for children growing up in financially excluded households, with its potential consequences of entrenched, inter-generational exclusion and disadvantage (Loumidis and Middleton 2000).

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6. STAKEHOLDER VIEWS

6.1 Importance of Financial Exclusion

There was unanimous agreement among the stakeholders consulted, that the topic of financial exclusion is a key area requiring study and attention in the community. There is concern in the welfare and financial counselling sectors that exclusion from appropriate mainstream banking products is significant because of:

- The large number of affected consumers;
- Growth in these numbers over time, due to a variety of factors (market forces and regulatory effects making some products unaffordable for the poor);
- The increasing complexity of the financial system and the technology deployed at the consumer interface, both of which were thought of as creating higher barriers to inclusion for some consumers;
- Increasing gap between rich and poor;
- Negative effects and outcomes of financial exclusion among those who suffer from it.

All stakeholders were aware of the community development finance paper which ANZ had issued earlier in 2004, and welcomed its contribution to the debate about potential solutions to financial exclusion. A few felt that the paper had not properly distinguished between the community development finance (CDF) solutions for individuals and households on the one hand, and community based enterprises on the other, and that the nature and potential role of community development finance institutions (CDFIs) had not been clearly highlighted.

Most stakeholders observed not only the lack of a universally accepted definition of financial exclusion in Australia, but also a lack of comprehensive and authoritative data on the exact nature and extent of financial exclusion in Australia.

Provided the proposed measurement exercise was followed by effective and timely policies and programs to address the issue, there was a great deal of support from the body of stakeholders for such quantitative research.

6.2 Defining Financial Exclusion

6.2.1 No Accepted Definition Currently Exists

Many stakeholders had never tried to define financial exclusion, since they tended to be more interested in finding ways to assist those in either financial hardship or having difficulty dealing with various providers. They had observed the characteristics of financial exclusion (see next section) and in some cases had heard overseas definitions that appeared inappropriate for Australia.

Many stakeholders felt that financial exclusion was not about the unbanked, since most Australians were thought to own a bank account, but instead was about people who lack financial products and services that they need, and which society should expect all citizens to own.

Finally, many stakeholders attempted to discuss financial exclusion in a social exclusion context.

There was broad agreement that a universally shared definition of financial exclusion would be helpful to those wishing to address the issue, whether at national or state policy level, at financial institution level, or at local community level.

6.2.2 Towards A Working Definition

While few stakeholders had attempted to define financial exclusion, they observed that financial exclusion could have one or more of the following characteristics:

- **True exclusion:** Many people were ***unable to access certain mainstream products***, for a variety of reasons (eg don't meet income or other risk qualification criteria for a loan, or insurance not available to any/many people in that neighbourhood – so called red-lining or pink-lining. Disabled people were thought to feel excluded from life insurance and related products).
- **Cost exclusion:** Since at least some of the reasons seemed to involve cost issues (eg the cost of basic deposit accounts was thought to be discouraging their acquisition and use and hence harming savings behaviour, insurance of various kinds is often seen as unaffordable by some low income consumers), many stakeholders added the notion of lack ***of access to low cost mainstream products***.

] **Unfair prices or conditions:** Stakeholders felt that while some products were available to all or most people, at least some unfair products were the only versions of the product category that were available for certain people. Examples included high interest (second tier provided) credit, and transaction accounts now carrying high fees, no interest, a low number of free transactions per month, and high fees for being overdrawn or for dishonoured cheques. ***Lack of access to fair products*** – meaning products that higher value customers of a mainstream provider might expect, was therefore introduced to the definition by many stakeholders.

] **Poor financial habit reinforcing:** A number of stakeholders observed that mainstream financial providers and alternative providers marketed many products to low income earners (among other segments) that did not encourage responsible purchasing or good credit management. One example was the marketing of credit cards when a fixed term personal loan requiring regular payments of principal and interest would encourage better credit management. On the other hand, one of the stakeholders called for solutions from mainstream suppliers, which incorporated tools as well as products that helped people manage their money more efficiently[11]. Thus, ***a lack of access to positive financial habit reinforcing products*** was added to the definition by some stakeholders. A less awkward term was ***safe products***.

Thus, a basic working definition of financial exclusion in Australia, at the level of individual consumers, was thought to be:

> ***The lack of access by certain consumers to appropriate low cost, fair and safe financial products and services from mainstream providers[12].***

] **Mainstream Providers?** Some stakeholders felt that specifying mainstream providers was unnecessary, since second tier or alternative (even informal) provision of some services may display the desired characteristics of low cost, fairness or safety/positive financial behaviour reinforcement.

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[11] Examples of such "tools" included the use of one or more suitable savings accounts to steadily move towards a set of life goal or purchase objectives, and a credit card designed to help the user to limit their credit and pay off the balance.

[12] Mainstream providers includes regulated and accessible larger providers offering a wide array of financial products in savings, credit and insurance areas.

Many simply felt that current and future non-mainstream provider offers were responses to financial exclusion, and thus, the term - mainstream - should remain in the definition of financial exclusion, at least for the present[13].

- **Positive Behaviour Reinforcing?** Similarly, many stakeholders did not necessarily agree with the "positive financial behaviour reinforcing" element in the definition. Some supported its inclusion or did not object to its inclusion, but many preferred the term "safe" denoting a non-exploitative and responsible behaviour inducing product.

There were several other dimensions of the definition, however, to be considered, including:

- **The Poor Pay More (and Hurt More):** Financial exclusion can apply, at least in some of its forms under the above definition, to consumers of any income level, in any socio-economic strata of the community. However, stakeholders felt that financial exclusion only really damaged those in financial hardship, or on relatively low incomes. It was argued that some consumers on higher incomes and those unlikely to be in financial hardship may well be technically suffering from financial exclusion. However, such exclusion did not materially harm many higher income consumers, who can afford and may willingly choose to use higher cost or "unfair" products (such as store cards, credit cards and higher fee deposit or transaction accounts). In addition, of course, many higher income consumers could avoid high cost products, for example by qualifying for fee exemptions. Therefore, some stakeholders said that financial exclusion can be defined as a lack of a level playing field, implying that the major concern was that the financially disadvantaged pay higher fees and the bulk of dishonouring and other banking penalty fees.

- **Individuals or Households?** Stakeholders considered whether the definition should be couched in terms of individuals or households.

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[13] This definition needs to evolve as CDF and other solutions to financial exclusion are implemented, since a mature CDF and CDFI environment such as that existing in the US may require dropping the term "mainstream" from this definition. Alternatively, it can be argued that even then, mainstream provision is important to enable consumers to develop a mainstream track record to encourage and facilitate inclusion to the mainstream, where a more complete array of financial services will always be available.

Most stakeholders felt either and both were appropriate, since behaviour among individuals within many households was similar, or was influenced by the financial behaviour of the main financial decision maker in the house. The rise of shared households however, made many stakeholders lean towards a definition addressing financial exclusion at the individual level.

- **Financial Exclusion of Whole Communities:** There was no consensus on whether the definition should be limited to the context of individuals and households or should also include communities (whether locale-defined or ethnic group defined, or by a combination of locality and ethnic group). However the existence of concentrated pockets of financial exclusion (and hardship) in certain locations was observed as discussed in other parts of this report. In addition, the dynamics of various locale-defined populations can vary, according to some stakeholders, and at least part of this was attributed to a Darwinian-like evolution of philosophy and behaviour, in addition to ethnic culture differences between such communities.

- **Community Enterprises:** In addition, it was observed that housing cooperatives, for example cannot obtain a home loan, and arguably should be able to. Thus, exclusion of communities and community groups was considered important to include in the definition. A few of the stakeholders were particularly involved in studying and promoting the potential of community development finance institutions (CDFIs) to assist community enterprises. They tended to support the view that a definition of financial exclusion should include community financial exclusion. They argued that CDFIs can assist communities experiencing general financial hardship by pooling investor funds and making loans primarily in non-profit, but also in some commercial enterprises (community development organisations), as has been done overseas. Whether CDFIs are needed or appropriate in Australia was not a given, according to some stakeholders, although financial exclusion of community enterprises was a known problem. A hypothetical example was given based on overseas community enterprises, in which a social or community enterprise social invests in slum housing. It employs the unemployed, trains them to rebuild and refurbish the housing. At the end of the process there is better housing and those that work on the project come away with the skills they have learned while working on the project. Obtaining funds to establish and grow such enterprises was thought to be difficult, and a key role of CDFIs in addressing this was involved with the delivery of ongoing management and financial advice and assistance, resulting in both sustainable and more highly skilled community enterprises.

It was also pointed out that CDFIs do exist in Australia, despite the models being much less well entrenched than in the USA. Examples included: Catholic Church community development fund, Brotherhood of St Laurence community development fund, Social Ventures of Australia, Smith Family (which has partnerships with Microsoft and Cisco, and owns Onkaparinga – the largest blanket manufacturer in Australia). In some of these cases, the named organisations act as CDFIs as well as operating community enterprises, and in others, simply as CDFIs.

- **What About Small Business?** It has been argued that SMEs are excluded from affordable transaction banking services, and that the costs of depositing cash, for example are rising for them. Credit Unions do not service SMEs and most SMEs are forced to obtain finance from family, friends and in some cases, fringe credit providers, since they find extreme difficulty in obtaining an overdraft facility or loan[14]. The self employed were seen as particularly excluded in this way.

Thus, various extensions can, arguably, be added to the basic definition, along the following lines.

> ***Financial exclusion is the lack of access by certain consumers to appropriate low cost, fair and safe financial products and services from mainstream providers.***
>
> ***Financial exclusion becomes of more concern in the community when it applies to lower income consumers and/or those in financial hardship.***
>
> ***Financial exclusion is observable at individual, family, or household level, but can also be heavily concentrated in suburbs or regions, and sometimes among ethnic minorities in a suburb or region.***
>
> ***Financial exclusion can also apply to individual small businesses, NFPs and other community enterprise organisations.***

6.2.3 Financial Exclusion and a Broader Context

Social Exclusion: Some of the stakeholders saw financial exclusion as leading to, or a part of social and other forms of exclusion.

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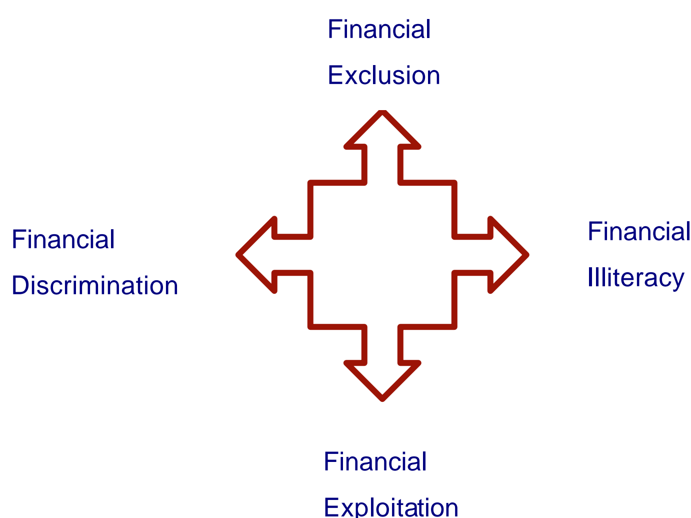
[14] See for example: Connelly & Hajaj., Small Business Banking – Options for Reform, Financial Services Consumer Policy Centre, Faculty of Law, University of NSW, 2002

"There is a large overlap between poverty and permanent financial exclusion. People in poverty can be between 1.2% and 8% of the population depending on who and how poverty is measured. Both poverty and financial exclusion result in a reduction in choices which affects social interaction and leads to reduced participation in society."

Financial Discrimination and Exploitation: One stakeholder felt that financial exclusion was interlinked with three other concepts as shown in the diagram below, and these underlying issues were echoed by sentiments from a number of stakeholders.

Exhibit 3. Financial Exclusion and Allied Phenomena in Australia



Thus, the proponents of this model felt that the four phenomena are interrelated, presenting a more realistic understanding of financial exclusion than the single term – financial exclusion. Supporting ideas were that in a modern post-industrial society, access to financial systems is an entitlement for all citizens, without exploitation.

6.2.4 Gradations of Financial Exclusion

Discussions with stakeholders showed that there are various levels of financial exclusion, such as:

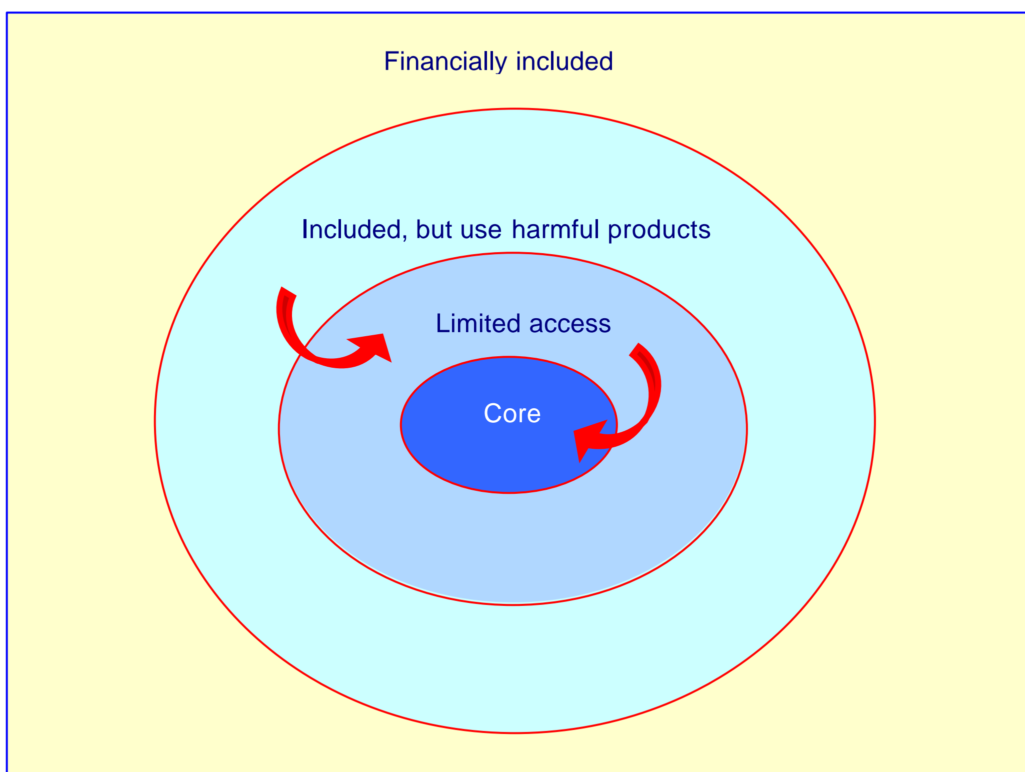
- **Core exclusion:** applying to those who are likely to be socially excluded and in extreme poverty, who operate their financial affairs completely outside the regulated financial system.

] **Limited access:** a term applying to those who may have a basic bank account, but who may have poor financial habits, and little advice. They may, for various reasons find difficulty evolving to more positive financial behaviour.

] **Included, but using inappropriate products:** a group of consumers who may be starting on a downward spiral if no intervention occurs. Some stakeholders referred to at least some consumers in this category, as *victims* of inappropriate products, implying blame rests with those who supplied them.

This gradation is depicted in the following diagram, which emphasises that consumers on low levels of financial exclusion can be drawn into deeper levels of exclusion under certain circumstances, and in the absence of intervention. Failing to differentiate between these levels can confound financial exclusion discussion.

Exhibit 4. Levels of Financial Exclusion



6.2.5 Definitions Based on Microfinance Solutions

A number of stakeholders tended to define financial exclusion in terms of the various microfinance solutions that could be provided to the community (eg microcredit offers via not for profit / mainstream bank partnerships, community finance development institutions, and a host of other solutions).

The current research avoided this approach, since it offers little in describing the nature and essential elements of financial exclusion, its drivers or effects, and leaps straight into possible solutions.

6.3 Main Types of Financial Exclusion

Some stakeholders described the main forms of financial exclusion in terms of the *main drivers* (eg poverty driven exclusion, exclusion due to financial illiteracy, bank/supplier driven exclusion, phobia, disability or other health drivers of exclusion).

Others discussed the main types in terms of the *parts of society* in which financial exclusion was most often found (eg among indigenous communities, other cultural groups and in certain suburbs of cities and regions).

However, the main types of financial exclusion were normally discussed in terms of the various products or *product types* that were most often "denied" or otherwise inaccessible to consumers who needed them. For this reason, and because a product driven framework is considered most useful to solution providers, this report mainly uses a product-type framework to further describe and measure financial exclusion in Australia.

The main product-categories of financial exclusion included:

- Transaction accounts;
- Savings accounts (with interest);
- Financial advice:
  - Financial counselling (eg managing credit);
  - Investment advice (eg for super);
- Appropriate credit:
  - Affordable fixed term loans;
  - Major credit cards;
- Insurance (eg home contents or TPP for motor vehicles);
- Home equity/mortgage loans.

There were others mentioned, including lack of access to:

- Superannuation;
- Community enterprise financial support.

These are now discussed in turn.

6.3.1 Transaction Accounts

There were a number of stakeholder comments suggesting that a lack of a freely available basic low cost transaction account for those in financial hardship, was still an unresolved issue in the Australian marketplace.

Although it was known that few people in Australia lack an account, partly driven by a Centrelink requirement that social security payments be made into such an account, the critical issues were:

- **Some Still Lack an Account**: A few people (around one percent) still lack an account, due to various exclusion drivers. It was believed that most of these comprised remotely located, indigenous or homeless people. Particular challenges for such people included:
  - Establishing 100 points of identity proof for those who do not drive;
  - Finding the right (low or no cost) account as bank staff were widely thought not to actively identify and then push deserving consumers to the right account.

  In some cases, it was known that Centrelink unofficially provides an alternative payment method for these people (eg Centrelink staff are officially authorised to pay emergency cash advances up to $200, a provision that can be used unofficially for fortnightly payments to some financially excluded people. Centrelink were known to also unofficially provide a credit facility at the local store at some indigenous communities). Centrelink staff were also known to be assisting people to acquire a bank account, since remote indigenous people experience significant difficulty meeting the 100 point identity check criterion.

- **Unaffordable/Can't Use:** Many low income people find it difficult to obtain and use an **affordable** transaction account. While there is generally no minimum balance requirement to open an account in Australia, there are difficulties such as:
  - The largest retail bank (Commonwealth Bank or CBA) still lacks an affordable bank account except via EzyBank (a limited retail supermarket channel). And some stakeholders felt that since the CBA is the most accessible and most recommended bank by Centrelink to first time seekers of social security support (because it has the greatest number of branches nationwide) many people were effectively excluded from a cost effective transaction account, taking instead a high cost CBA transaction account at a branch;

- Many low income consumers who have an account cannot effectively use it as the wanted features are too expensive (eg withdrawals and account balance inquiries are costly). Some try to use their account and find it difficult to do so cost effectively (eg reaching their limit of free transactions quickly, incurring direct debit dishonour fees, cheque overdrawn fees, often due to funds shown in the account not being cleared).

- **Lack of Universal Basic Banking Account:** It was observed that the ACCC did not accept the ABA's authorisation application for a universal basic banking account because it wanted to foster competition – a result that was seen as counter-productive to the needs of those on social security and/or in low income circumstances.

6.3.2 Savings Accounts

A number of stakeholders felt that there were few, if any, affordable interest bearing accounts suitable for low income consumers. It was felt that low income consumers who were excluded from such accounts needed more incentives to save, instead of using credit. Even those who felt that the key issue was often debt management, agreed savings could be an important part of a debt management system for those in financial hardship.

"Banks have withdrawn Christmas Club accounts and the like. Many people would prefer one or more of these to save for different goals they have, rather than relying on credit and worrying about how they can pay it back, let alone the interest bill."

Lack of access to a convenient and safe savings account was seen as reinforcing a cultural shift from savings to credit in the community generally, and this was potentially a problem for those on low incomes.

Nevertheless, stakeholders felt there was a range of ways in which some low income consumers do save, including informal savings schemes via family, sporting clubs and other groups. Others save money "in the teapot" for a rainy day. However, these less formal savings devices, it was argued, are not as safe or as "positive savings behaviour inducing" as an interest bearing savings account, where savings progress against objectives, for example, can easily be monitored, and a savings record established with a potential mainstream lender.

6.3.3 Financial Counselling

There are many financial counselling services in the not for profit sector dispensing assistance to those undergoing financial hardship of various kinds. A typical agency involved in the stakeholder interviews listed the most frequently occurring issues presented to them by consumers as follows in a recent six month period:

- Budgeting/financial management 37%;
- Consumer credit - credit card 25%[15];
- Consumer credit – loan contract 19%;
- Responding to collection activity 17%;
- Requiring/seeking hardship relief 17%;
- Bankruptcy information & assistance 14%;
- Illness/injury/death in family 13%;
- Separation/divorce related issues 11%.

There were many other financial issues upon which advice was given from time to time. For example, access to preserved superannuation benefits was an issue for some consumers, with APRA only releasing such funds prior to retirement age if the primary residence was under threat[16].

All of those involved in financial counselling services claimed to have been experiencing increasing demand on their services. It was also thought that for every client of such services there were many others in need (eg with unmanageable debt or heading towards it), who were not receiving sound financial counselling because they were unaware of its availability, overload of agencies, or lack of time (working long hours).

"There are not enough financial counsellors.. all of the current ones are totally over-worked and still cannot meet demand."

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[15] It is instructive for the discussion of credit cards later in this chapter that one quarter of cases presenting this typical agency were due to credit card debt causing hardship.

[16] It was also stated that APRA will release superannuation benefits before retirement age for the non-preserved part of the benefit, to address credit card debt.

Some stakeholders rated insufficient financial counselling as a very important financial exclusion issue which now needed addressing in Australia.

Staff in many financial counselling agencies mentioned that consumers in financial hardship liked the polite and considered treatment they received from financial counsellors, which they often saw as being in marked contrast to the impersonal and dismissive approach taken with them by banks, government agencies and most other financial services providers.

6.3.4 Investment Advice

A number of stakeholders observed that financial planners cannot make a profit from consumers with limited superannuation or investment funds. A figure of $50,000 was considered the minimum required to attract assistance from a financial planner. Consumers in this category could turn to agencies such as NICRI[17], Centrelink FIS[18], or the ATO[19], however, to date, it was thought that low awareness and difficulties in accessing these services was the norm for those in greatest need of advice.

In a climate of choice of superannuation fund, this was expected to become an increasingly important issue. While super choice would create a need among a large number of people across all parts of the wealth spectrum, those with small superannuation benefits and limited investment funds were thought to be not only the most excluded, but also the most vulnerable if they were excluded, for any reason, from high quality investment advice.

"Even low income people have super benefits from the Super Guarantee Charge. A recent research exercise by ASIC and the Australian Consumers' Association showed that a large number of people with benefits in superannuation of around $30,000 or $40,000 could not find an adviser interested in dealing with them. So these people get bad advice from rogues or acquire a single product. They may even be sold a bogus 'early release from super' style of scheme and use the money incorrectly as a house deposit."

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[17] National Information Centre for Retirement Income.

[18] Financial Investment Services.

[19] Australian Taxation Office.

6.3.5 Appropriate Credit

Appropriate credit was often cited as a key issue or form of financial exclusion. Indeed, this issue received the most mentions and was often assigned the most importance of all financial exclusion issues in Australia, by stakeholders. This may have resulted from the consumer credit orientation of many of the stakeholders participating in this research. However, even those who had other agendas and involvement with the research agreed this was a vital issue.

Discussion surrounding appropriate credit centred on three issues: major credit card exclusion, inappropriate access to or abuse of credit cards, and exclusion from personal loans. As the following discussion indicates, the last two issues were often seen as inter-linked.

Major credit card exclusion

Some stakeholders felt that a lack of access to a major credit card was an exclusion issue of concern for some consumers. For example:

- If a person's income, employment or living arrangements were considered too unstable to gain approval for a major credit card, it had been observed that such people may be denied monthly payment options for some products (eg vehicle insurance payments);
- If annual income is less than $35,000 then there were more difficulties experienced on obtaining a major credit card;
- Those with a constrained credit history (even if over $35,000 to $40,000 annual income) were thought to find difficulties in obtaining a credit card;
- Stakeholders believed that that approximately one third of people with a credit file at either of Australia's credit reference agencies (Baycorp Advantage and Dun & Bradstreet) have errors contained in such files, thus creating serious financial exclusion issues, not simply for credit card access, but also for any loan or credit applications.

Credit card inclusion & abuse

However, almost all stakeholders felt that the potential misuse of credit cards made them more of an "inclusion" problem, than an exclusion problem, since:

- A large proportion of financial hardship cases reaching financial counsellors stemmed from credit card debt becoming unmanageable.

The causes of such debt becoming unmanageable usually revolved around a limited income, and one of more of the following:

- Multiple credit card debt;
- Large underlying debts (including in some cases a mortgage);
- Gambling;
- Mobile phone debt (especially in the younger demographic).

- Innovations in bank marketing have been observed to include targeting those with high revolving balances, which can include consumers undergoing financial hardship or grappling with unmanageable debt.

The term "credit limit surfing" has recently been coined to describe an increasingly observed behaviour in which consumers use multiple credit cards to pay their debts, often using one card to pay debt on another[20], while at the same time taking advantage of increases in credit limits offered by the card issuers (eg from $3,000 to $4,500, then $5,000 and so on, over time). Thus, stakeholders pointed out that the exclusion issue here was not lack of access to a major credit card, but lack of access to appropriate credit, or in some cases, a lack of a savings mentality (the latter recognised as more of a cultural shift issue that has occurred over the past half century than an exclusion issue).

Affordable fixed term loan

The above discussion of credit cards was often tied to a closely related issue – exclusion from personal loans.

It was argued by many stakeholders, based on a very large number of consumer cases presenting to various counsellors and other agencies, that banks actively market credit cards, where often a personal loan would be far more appropriate. This was particularly so where people only needed a small loan (up to a few thousand dollars, but often less than one thousand dollars). This type of loan requirement was said to be unavailable from a mainstream bank, and this has been the case for several years now.

"At least three of the major banks won't offer a loan of less than $4,000, although a policy to that effect may not be written anywhere. They tell customers it is easier to use a credit card, use it over the phone, get loyalty points and so on…

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[20] While credit card issuers may not allow direct use of credit cards for revolving credit from card to card, balance transfers associated with changing cards can be used, and cash advances ca be used from one card to pay another.

.. However, a low interest fixed term loan is a far better product for low income people – it is the discipline of repaying capital and interest that is as important as the lower interest rate, compared to a credit card. Once a loan is paid off, this may qualify the consumer for a car loan, whereas having a credit card with a $4,000 credit limit will be detrimental to getting a car loan."

Typically, low income consumers who needed a small loan, needed the money for one of the following:

- Basic bill paying due to an unexpected or crisis expense occurring (eg illness, household appliance or vehicle breakdown);
- Basic asset building (eg furniture items, whitegoods, a car to travel to employment, or clothing to attend a job interview);
- Children's or own education needs.

It was thought that a number of consumers in need of such loans were careful and responsible money managers suffering only from very low incomes and a financial shock of some kind. It is common, for example, for such consumers to "let the phone go" when the household budget is under extreme pressure.

Exclusion from such loans due to apparent (though not publicly stated) withdrawal by banks of such personal loans in favour of credit cards, had resulted in one of the following outcomes for relevant consumers:

- Higher costs associated with credit cards;
- Greater (and sometimes imprudent) spending, and in some cases credit card abuse and unmanageable debt;
- Lower standard of living due to denial of products and services which would have been purchased with the loan. Often this meant less food, going without desired clothing or a household appliance until sufficient money had been saved.

Savings characteristics of personal loans: A broader issue of the relative economic value of credit versus savings was also mentioned. Some stakeholders strongly advocated the promotion of savings approaches (eg encouraging savings rather than loans and credit cards) as a means of addressing financial shocks and building household capital/assets.

Stakeholders strongly felt that personal loans that required a steady repayment of principal and interest, which had a fair (and possibly fixed) interest rate, and which encouraged repayment rather than revolving credit balances and extending credit limits were far more appropriate for low income consumers. Indeed such loans displayed many characteristics of saving, as opposed to credit.

Thus, not only was the need for personal loans widespread, but also they were seen as inaccessible/not offered any more in small dollar amounts from mainstream suppliers, and their absence to those who most needed them (on low incomes) was causing considerable hardship in the Australian community.

6.3.6 Insurance

Insurance exclusion was seen as a widespread and serious problem for those who could not afford it or were denied insurance due to their income, health status, location or for other reasons. A general rise in insurance premiums in recent years was thought to have pushed insurance beyond the reach of a wider group of consumers than was previously the case. While some providers have lower premiums and allow payments by the month, there are high excesses to offset the lower premiums.

In general, stakeholders tended to feel that the insurance industry has addressed its problems in the last few years, partly by not addressing its social obligations. In contrast, banks were perceived to have acknowledged their social obligations and were now attempting to address them. One stakeholder went further, suggesting a solution:

"A forward thinking bank could perhaps tie up with an innovative insurer and start offering third party property for low income consumers, and contents cover for public housing tenants."

The most cited insurance products involved in financial exclusion were home and contents, and motor vehicle third party property. These two categories of insurance were seen as important for all consumers to have access to affordable mainstream products.

Home & Contents: Recent Canberra (and other) bushfires and other available information had convinced many stakeholders that there was a large incidence of under-insurance and no insurance for home and home contents. While those with a mortgage loan are required by their lenders to have the building insured, many low income consumers who own their homes outright were known to drop their home and contents insurance, or dramatically under-insure as a cost saving. Those renting often decide not to insure or to underinsure their home contents due to perceived unaffordability.

Some low income consumers were known to believe that community relief will be available to the uninsured in the event of a catastrophe, and thus, a reluctance to devote scarce dollars to insurance premiums. The working poor who lose contents due to theft or fire, risked having to go onto charity and Centrelink relief if they had to replace lost or damaged goods.

The major driver of home/contents insurance exclusion was lack of affordability (due to a combination of low income, high and rising premiums).

Instances of apparent red-lining or pink-lining[21] were also now being noticed in Australia, as has been common practice in some poor neighbourhoods in other countries.

Vehicle (Third Party Property): Many financial counsellors observed that in the under 21 year old male category of their clients, the largest single issue prompting a visit to a financial counselling service was related to a lack of third party property (TPP) insurance for vehicles. A collision involving blame attached to the young driver lacking TPP cover triggers a demand for sums up to tens of thousands of dollars or more.

"If the other driver or their insurance company presses the issue, I usually have to tell them to tough it out with the other party or declare themselves bankrupt. It is a serious issue."

Other Insurances: A few other forms of insurance were mentioned as being needed, but which were effectively priced too high for the market in general. Therefore these types of insurance were seen as well out of range for low income earners, or considered bad value for money by stakeholders. These included income protection, consumer credit insurance, and unemployment insurance.

6.3.7 Home Equity/Mortgage Loan

A large proportion of Australian society was thought to now find home equity beyond their grasp, due to low affordability of property and lack of access to a home loan. Stakeholders felt that a mortgage was forced savings, and therefore a safe and responsible financial product for consumers.

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[21] Red-lining occurs when an insurer refuses applications from consumers living in "high risk" localities for home/home contents/vehicle insurance. Pink lining refers to geographic price discrimination reflecting differential risks involved for the insurer, or refusal of certain applications from certain suburbs based on income, employment, or other criteria.

"That's why mortgages are popular and wealth creating. A mortgage is in tune with human nature and is a better product than, say, revolving credit, which encourages greater spending and debt, rather than reinforcing debt reduction and equity building."

One of the stakeholders saw lack of home equity as the key financial exclusion issue, with all others less important, since consumers found ways to deal with the other exclusion issues.

"I want serious solutions and that's why addressing consumer credit cards and small loans with NILS like loans and so on – is just band aids, not a complete solution. Home equity exclusion is a large problem and getting larger. … It could be solvable if banks take a long term view and be creative."

6.3.8 Superannuation

The relatively low participation rate of certain segments of the community with superannuation was seen as a significant exclusion issue. Particular groups most affected were known to be many women, older generations, and the long term unemployed, due to absence from the workforce, pre-dating the SGC[22], and unemployment respectively.

6.3.9 Community Enterprise Financial and Management Support

All of the preceding forms of exclusion have been product-defined. While mainly discussed in the context of low income consumers and households, many forms of financial product exclusion are apparent in the small business sector and especially among self employed consumers.

Another category of financial exclusion, according to some stakeholders, concerns community enterprises (whether government or welfare funded), which face increasing needs to develop commercial arms to their operations for their long term financial viability. Many such enterprises feel a community need to provide employment and inclusion opportunities for the long term unemployed, people with a disability or others facing financial or social exclusion.

[22] Superannuation Guarantee Charge.

It was argued by stakeholders that many community enterprises lack access to certain needed financial services from mainstream providers, such as overdrafts, loans and in particular, financial and management skills needed to create and develop sustainable business models.

While certain NFP organisations act as pseudo-CDFIs assisting this sector, it was argued that there is a large potential for this sector to address the collective needs of people in regions displaying high levels of financial hardship (and personal financial exclusion), if the community enterprise level of financial exclusion can be addressed.

Because of its two-tiered or leveraged exclusion status, community enterprise financial exclusion assumed a very significant importance to some of the stakeholders.

6.4 Who are Financially Excluded and Who are Most Affected?

6.4.1 Consumers With Low Income or Low Savings

Stakeholders believed the most excluded consumers were those on low incomes or with low savings. Typical comments illustrating this belief included:

"The most financially excluded people are those in the bottom five to ten percent of income. For example a woman with six kids and no partner. She has an income of $500 per fortnight and pays $90 per week rent. She has little chance to avoid poverty and is likely to be financially excluded."

"Another group is a step up – and may be employed on a low income. These may be the next ten to twenty percent or so, called the working poor. These are not doing it as hard as those in real poverty, but they are often excluded from a loan they may require for a short term cash problem. They are the focus of Step-Up loans and the ANZ CDF program, I think."

"All of the lowest quintile are affected, we think. Also, nearly all of the second lowest quintile – for example a lot of them are going to Harvey Norman and signing up for high cost credit purchases. So the lowest 40 percent of consumers by income, will have a significant potential for some sort of exclusion or inappropriate product use issues that may really hurt them."

Most stakeholders believed that there were high levels of financial exclusion among those in the bottom quintile of income (and/or savings), and still significant exclusion of concern, in the second quintile – in summary that people in the bottom 40 percent of income were potentially subject to financial exclusion of one kind or another.

Several stakeholders from financial counselling services argued that, judging by the profiles of consumers seeking their assistance, the incidence of financial hardship and probably exclusion, was creeping over time into higher income and older people than has previously been the case.

"We used to see mainly Centrelink social security recipients. Now we see an increasing number of higher income and older people coming in. They have got into trouble using a high cost banking service, inappropriate credit cards or providers and in some cases have too much debt. Some are directed to NILS, but we have insufficient capacity to address everyone who meets the conditions."

The issue of low income, low assets, low savings, unemployment, and debt being drivers of financial exclusion is discussed in more depth in Section 6.7.

6.4.2 Multiple or Single Product Financial Exclusion?

Stakeholders were asked to comment on the extent to which consumers who suffer from financial exclusion are affected by single or multiple product exclusion. Putting this another way, are those who are excluded from a small personal loan the same ones who are excluded from an appropriate savings account, or third party property vehicle insurance, and so on?

Discussions with stakeholders showed there was a belief that there is substantial overlap in these product-defined forms of exclusion, with many consumers excluded from a number of services they need from mainstream providers. Of course, asset based product needs (eg buildings insurance, car insurance) are only present for those who own such assets. Similarly, some people do not need credit – managing tight budgets extremely efficiently and having adequate savings for most of the potential but unexpected financial shocks. Thus, stakeholders believed there was considerable (although far from complete) incidence of “multiple product” financial exclusion.

Readers are also referred to the concept of various levels of exclusion as discussed in Section 6.2.4, which implies that even where a consumer may not suffer from multi-product exclusion right now, they may move into such a state if they move towards the state of core financial exclusion described there.

6.4.3 Consumer Segments Displaying High Levels of Exclusion

Stakeholders had observed (or assumed) higher proportions of the population of certain consumer segments suffered from financial exclusion, including:

- Indigenous people;
- Certain other ethnic groups;
- Disabled people;
- Those in poverty;
- Those on social security benefits;
- Sole parents, especially single mothers if not working;
- Early school leavers;

] Those who simply feel excluded.

In addition, some argued that overall, women were more financially excluded than men.

While there was no hard evidence for some of these assertions, and any quantitative research on this topic will need to test the implied hypotheses, the following comments seemed likely to be true, according to most:

] For those in poverty, low income, unemployment and those on social security benefits, there is likely to be a strong association with higher than normal financial exclusion;

] Wherever such an association may be established (statistically or anecdotally) there may or may not always be *causal* links between such hypothetical drivers and exclusion. For example, as argued elsewhere in this report, poverty may be a cause of financial exclusion rather than the reverse; some remote regions may have high incidences of financial exclusion not because of remoteness, but because of poverty and low savings; and so on.

6.5 Extent of Financial Exclusion

6.5.1 No Accurate Estimates

Stakeholder interviews revealed that there were very few, if any, references available to research which has quantified the extent of financial exclusion in Australia.

The only available data appeared to be:

- Data on product ownership (and lack of ownership) as presented, for example in ANZ's own research[23];
- Limited size survey results on usage of particular alternative products and services, such as pawnbroking and payday lending, as reported in the literature meta-analysis.

Perhaps as a consequence of the dearth of data on financial exclusion, most stakeholders were unable to provide accurate (or indeed, any) estimates of the extent of financial exclusion.

6.5.2 Financial Exclusion is Widespread

Several stakeholders who did venture an opinion however, felt that the phenomenon was quite widespread, being common among the lowest decile of income and savings, and perhaps in the lowest quintile.

Comments from most stakeholders indicated that the extent of exclusion varies greatly by type of exclusion, in this case meaning by type of product that is not owned by the consumer.

Further, a number of comments segmented those affected by financial exclusion according to broad descriptors of level of affluence according to the chart shown overleaf.

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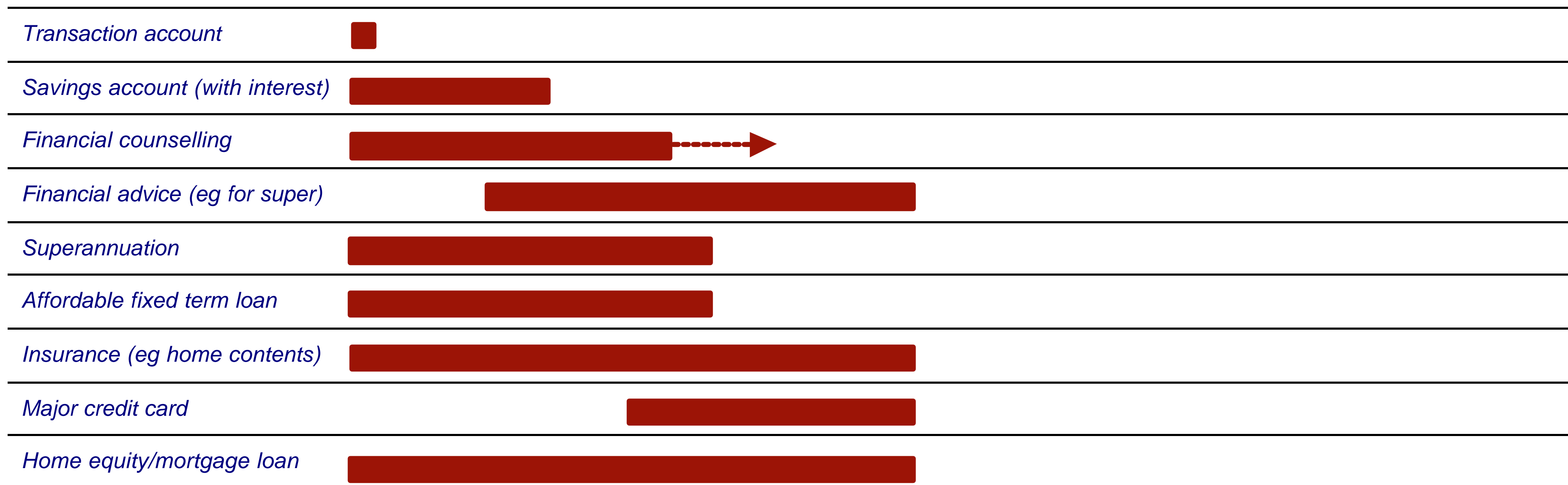
[23] See, for example, Community Development Finance in Australia – A Discussion paper, May 2004, ANZ.

Exhibit 5. Hypothesised Relatively High Incidence of Various Kinds of Financial Exclusion by Wealth Segment

Exclusion Type	Unemployed in Poverty	Working Poor – Very Low income	Employed Mid income	Double income	Affluent
	First Quintile of Income or Savings	*Second Quintile of Income or Savings*	*Third Quintile of Income or Savings*	*Fourth Quintile of Income or Savings*	*Fifth Quintile of Income or Savings*



The arrow next to the financial counselling bar in the above chart denotes the view expressed by financial counsellors, that the need for their service was increasing, driven by credit card abuse, unmanageable debt, and a growth in numbers of unfunded retirees reaching retirement age and becoming dependent on social security.

It is stressed that this chart is a very approximate set of hypotheses based on stakeholder interviews, and that the incidence of exclusion, though thought to be high in the indicated areas of the chart, is of unknown exact incidence.

In particular, the descriptors shown above each quintile of income are only very approximate indicators of at least some of the kind of consumers who fit in this category.

Further, in some instances, subjective assessments of the merits of certain products for specific consumer segments were made. For example, stakeholders generally felt that:

] **Credit card:** A credit card was often not an appropriate product for consumers with no savings and very low income. A low or no interest fixed term loan was seen as a more appropriate from of credit for these consumers, and therefore the red bar for financial exclusion does not, in the case of a major credit card, extend to the lowest income quintile of consumers;

] **Superannuation** was thought to be relatively rare or extremely low in terms of benefit balance for the very poorest segment of consumers, and thus, was more relevant, although lacking in availability for part of each of the second and third quintiles.

Although the chart may have a limited degree of accuracy, it serves to illustrate that stakeholders believe financial exclusion is experienced in some forms by many people in the bottom two quintiles of income and savings.

This accords with their opinions that income is a key driver of financial exclusion. Several also commented that in relation to the need for credit or a low interest loan, a commonly used test among financial counsellors involved asking the consumer if they could easily raise $2,000 in the event of an unexpected urgent bill of that size. If not, then the consumer was likely to face financial hardship and was likely to be suffering from financial exclusion of one or more kinds, and may qualify for a no interest loan or other assistance.

The above chart derived from stakeholders' views may not be too inaccurate, since its main elements are supported in many ways by the available quantitative data on the incidence of a lack of ownership of these product categories. (See section 7).

6.6 Temporary Versus Permanent Financial Exclusion

Stakeholders tended to believe that financial exclusion can be permanent or temporary, depending on:

- The circumstances of the consumer leading up to, and during the state of exclusion, and;
- The availability, nature and timing of any potential intervention events.

6.6.1 Temporary (Acute) Financial Exclusion

For example, many forms of financial exclusion are heavily driven by low income. Thus, if a person is temporarily on low income, due to illness, family break-up or the presence of young children preventing either or both partners from working, then exclusion may be temporary, pending a return to paid employment.

Young people are often seen as more susceptible to financial exclusion. Moving into employment and a rising income stream can quickly lead to financial inclusion.

Other examples of temporary exclusion included:

- Recently separated women with children;
- Temporary visa holders;
- Recent immigrants, if low income.

6.6.2 Permanent (Chronic) Financial Exclusion

Some people are more permanently financially excluded because of **financial illiteracy**, the presence of **learned dysfunctional credit and savings behaviour**, **long term unemployment** and/or depression and phobia related drivers.

In some instances, it was observed that such permanent exclusion can lead to or be caused by intergenerational financial exclusion, which is considered more difficult to address than temporary exclusion.

Other forms of more permanent financial exclusion mentioned were:

- Indigenous groups;
- Other communities lacking income or employment opportunities for any reason.

6.6.3 Intervention Effects

Some stakeholders argued strongly that some forms of financial hardship related exclusion (eg abuse of credit) are the result of not one, but several sequential poor decisions. If too many such poor decisions have been taken, then bankruptcy and/or permanent patterns of financial exclusion were likely to develop. Intervention (eg a visit to a financial counsellor, with follow-up guidance) can break this development, but only if it occurs early enough.

6.6.4 Financial Exclusion Effects on Financial Hardship

For people in temporary financial hardship, it was felt that financial exclusion, where also present, has a significant delaying effect on those attempting to pull out of their financial malaise. Effectively, most stakeholders felt that financial exclusion contributes to a longer than necessary period of financial hardship, for those on a low, but rising income.

6.7 Main Drivers of Financial Exclusion

Stakeholders showed a high degree of consensus on the main causes of financial exclusion. The most frequently mentioned and the major contributors were thought to be:

1. Low income and the consequent problems of:
   - Nil or low savings that would insulate a low income household from financial shocks;
   - Lack of assets and of security for acquiring a normal (low cost) loan;
2. Unemployment (which leads to low income);
3. Discontinuous and casual work history;
4. Various product and promotion policies of mainstream providers, which have resulted in either lack of access or use of inappropriate products by people on a low income;
5. Financial illiteracy/lack of understanding of products owned, or products available;
6. Poor financial habits.

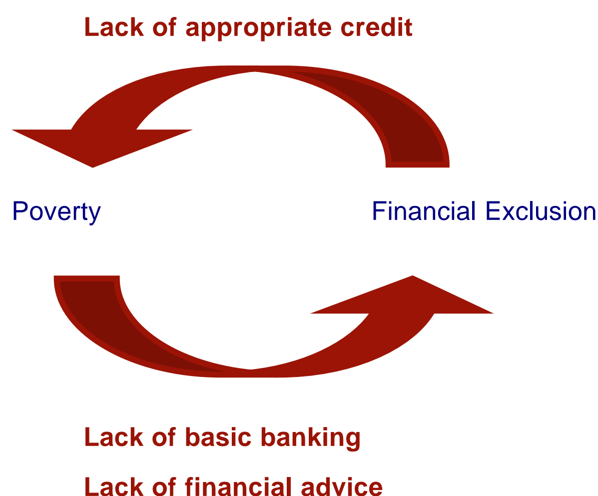
Less frequently mentioned, but sometimes seen as important drivers were

7. Psychological, and disability related issues;
8. Feeling of being excluded;
9. Indigenous and other ethnic communities (sometimes involving cultural and language related issues);
10. Geographic remoteness;
11. Lack of time;
12. Lack of PC/internet access;
13. Availability of alternative products and suppliers;
14. Youth.

6.7.1 Low Income

Low income and the consequent problems of nil or low savings that would insulate a low income household from financial shocks, were seen as the primary drivers of financial exclusion.

In some stakeholder discussions, the issue of cause and effect between poverty and financial exclusion was canvassed, as per the schematic below.



As indicated in the above figure, it was generally felt that exclusion from basic banking and especially financial advice may be mainly an effect of poverty, whereas exclusion from appropriate credit may be more of a contributor to poverty. However in all types of financial exclusion, there appeared to be cases available to support the fact that poverty drives financial exclusion in some cases and vice versa in others.

A lack of assets and of security for acquiring a normal (low cost) loan were other outcomes of a low income that contributed strongly to various forms of financial exclusion.

Affordability and/or conditions attached to mainstream services are therefore considered by a number of low-income or low-asset consumers, to be beyond them.

There is also a related issue of esteem and dignity which prevents some low income consumers from attempting to use mainstream providers' products in certain categories, since they believe they have been treated with less courtesy and respect when dealing with such institutions, than has been the case with alternatives[24].

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[24] Alternatives, such as payday lenders are discussed in Section 6.8.5.

6.7.2 Unemployment

The obvious linkage between unemployment and low income was thought to explain why unemployed people appeared to be, on average more affected by financial exclusion.

6.7.3 Discontinuous and Casual Work History

Consumers lacking a steady history of stable employment were often excluded from certain products, including mortgage loans, and mainstream personal loans. The increasing casualisation of the workforce was also seen as contributing to credit exclusion for some consumers.

"The mainstream providers are less interested where income is uncertain, particularly for low income earners and casual workers."

6.7.4 Mainstream Provider Policies

Various product and promotion policies of mainstream providers were said to have resulted in either lack of access or use of inappropriate products by people on a low income. The most frequently mentioned forms of this exclusion driver included:

- **Product withdrawal:** Banks have simply withdrawn some products from the market which provided basic services to the poor (and in some cases to all income level consumers). Key examples often cited included:
  - A "Christmas Club" style of account has been taken off the market, removing a basic form of positive reinforcement for savings;
  - Small personal loans (under $4,000) were thought to have been withdrawn or actively de-marketed;
- **Fee increases:** Some bank products are thought have become too costly for many low income consumers. Interest earning deposit accounts were an example. In addition, basic transaction accounts often now include high direct debit dishonour fees, cheque overdrawn fees and other similarly high fees;
- **Bundling:** Bundling of some low cost products with high value products, making them unavailable to low income/low asset consumers;

- **Inappropriate products marketing**: Marketing of inappropriate or sub-optimal products that may be harmful in the sense of encouraging poor credit habits has been seen as a cause of credit abuse and higher costs of financial services for some users of credit cards. In some of these instances, stakeholders had observed that banks had marketed credit cards in applications where overdrafts or personal loans would have been appropriate (eg to farmers and to low income earners respectively);
- **Branch closures**: Some stakeholders commented that branch closures have led to financial exclusion for consumers who cannot use PCs/internet or phone banking, and therefore need to resort to less attractive forms of banking or other financial service provision. In essence, it was argued that branch closures and exclusion from PC/internet banking tend to exacerbate each other, where both apply to a consumer. Those affected by this are not restricted to some regional and remote consumers, because many city dwellers have also been subjected to local branch closures.

6.7.5 Financial Illiteracy

Lack of understanding of products owned, or products available was seen as the result of a poor education or more general failing of the education system, often exacerbated by lack of employment and social exclusion due to poverty. Financial illiteracy was seen as a contributor to, and in part a result of financial exclusion, however it was not as important in driving exclusion as low income, low savings, excessive debt (informal or formal) and credit abuse.

6.7.6 Poor Financial Habits.

Credit abuse, gambling and other forms of poor financial habits were thought to be at least associated with, and often a cause of people being financially excluded. For example, credit abusers frequently present to financial counsellors with multiple credit card usage, including using one credit card to obtain a cash advance to pay off another, ultimately incurring large debt burdens, late payment fees and default instances, leading to exclusion from loans and credit from mainstream providers.

Importantly however, stakeholders stressed that many low income consumers were exceptionally good managers of money, driven by the necessity to balance their household expenditure with limited income, as well as attending to cash flow timing.

Well financially managed low income households were sometimes subjected to financial exclusion too (eg unplanned and unavoidable shocks occur, such as illness, accident or household appliance breakdown). Thus, it was considered important to acknowledge that poor financial habits, while a contributor to some cases of financial exclusion, were not always present in exclusion situations.

6.7.7 Psychological and Disability Related Drivers

Stakeholders pointed out that a proportion of the community suffers from depression or exhibits phobias preventing social and financial inclusion.

"Many people show a general social disconnectedness – particularly 18 to 30 years olds. This is a major driver but it comes in a number of layers.

For example if they are psychologically disconnected, then finance is on the peripheral. For example depression in Australia – People with depression don't have a chance. They can undertake financial literacy education but it is pointless if they have depression. For others, there is an unacceptable level of complexity concerned with the interrelatedness of bank products, and new access points for the financial system. Some have technophobia."

"This is very complex. If people have psychological issues, or don't have good role models, are not educated when they are young, then they face a lifetime deficit."

6.7.8 Feeling of Being Excluded

Several stakeholders pointed out that for some people, a feeling of being excluded, either from the community, workforce, family, neighbours or mainstream financial service providers, was sufficient for them to avoid banks and other mainstream financial institutions, leading, in many cases to poor financial outcomes.

6.7.9 Indigenous and Other Ethnic Communities

Although geographic remoteness was assumed by some of the stakeholders to be a driver of financial exclusion, none knew a lot about this first hand. Most felt that indigenous communities were likely to be more financially excluded than others, often allied with poverty and/or cultural drivers.

Some ethnic groups were also seen as more financially excluded than others in Australia for cultural or income related reasons.

For example, it was observed that Vietnamese immigrants had a tendency to avoid financial institutions.

Gender issues were more pronounced in some ethnic groups (eg Vietnamese women were thought to be marginalised in financial matters, and Somalian women, being traditionally responsible for income stabilisation and control are ill-equipped to play this role in a modern country like Australia).

6.7.10 Geographic Exclusion and Remoteness

Again, there was less certainty surrounding location as a potential driver of exclusion. There were in effect two elements to this issue:

- **Exclusion pockets:** Stakeholders were sure that there were pockets of financial exclusion in certain suburbs and areas displaying low average household income and low levels of investment, employment and community infrastructure. The communities involved in those areas exhibited a higher than normal degree of financial exclusion, and thus a lack of role models for breaking the cycle of debt and other outcomes of financial hardship and exclusion;

- **Remoteness:** There were assumptions that those in remote or very remote locations may also suffer some forms of financial exclusion irrespective of their income or savings. Rural bank branch closures in recent years were mentioned as a driver of community financial exclusion, and ultimately of killing country towns.

  "Rural branch closures and a lack of ATMs in some regions is an exclusion issue, as it forces people to drive further for banking, or carry more cash with them and other 'work-arounds'. But there is more to this – if a branch closes, people migrate all their business to the next centre that offers banking, and the small towns die. A few years ago attempts were made to establish rural transaction centres, with $500 million of government investment into 19 such centres containing banking, Medicare, internet access points and so on…

  …Some of these may still exist but the concept was expensive and ran into trouble gaining cooperation between all the involved agencies. They also did not offer what businesses needed from them. Thus whole rural communities have become excluded."

6.7.11 Lack of Time

This was thought to be a significant issue for those who are employed, but on a very low income. In many cases such people were working very long hours and lacked time to find cost effective products or approach a mainstream institution they perceived would be unsympathetic to their needs (eg short term or micro-credit needs).

6.7.12 Lack of PC/Internet Access

While this was seen as prevalent among older consumers and many very low income consumers, stakeholders were divided as to the relative negative impact this may have on consumers' ability to access safe, reasonable cost and positive behaviour reinforcing products. Overall, it was seen as most important for those who had little physical access to for example, a bank branch or ATM machine, since they were likely to be forced to access larger amounts of cash when they were at a branch, and this led to various risks (eg over-spending, gambling losses, security risks).

In addition, it was argued that lack of PC access was excluding many people from a low cost banking channel, and was inequitable, in that face to face banking consumers could be seen as subsidising those who used the lower priced electronic channels.

Particularly excluded segments from such channels were those with technophobia, and those who lacked familiarity and confidence to deal with such technology.

GiroPost/Post Offices were not seen as a real substitute for bank branches, since people needed a full advisory service when conducting much of their banking, according to stakeholders.

6.7.13 Availability of Alternatives

Some stakeholders argued that a raft of alternative (non-mainstream) products are now more accessible to some consumers than mainstream products. Examples include payday lending, "low doc" loans, and a range of other services thought to be high cost or otherwise unfair or exploitative. The growth of alternative suppliers and their products have resulted in the desires of financially excluded people being met to some degree, but at a greater cost, with an exploitative element. It was argued that their mere market presence and marketing approaches have also increased the incidence of financial exclusion, as many low income people have moved to these alternatives, seeing them as more open and friendly to them than mainstream suppliers. A discussion of alternative suppliers and their services can be found in Section 6.8.5.

6.7.14 Youth

Younger consumers, especially marginalised youth (eg those who are early school leavers, from broken homes, subject to domestic violence, substance abuse or poverty) were vulnerable to financial exclusion, according to several stakeholders.

6.8 Effects & Impacts of Financial Exclusion

6.8.1 Economic Impacts

Individual & Household Level: At the individual and household level, there were many impacts of financial exclusion, although a number of them could be attributed mainly to poverty or financial hardship generally, rather than specifically to financial exclusion.

The list of personal and household impacts attributed to financial exclusion included many outcomes that are mainly poverty, gambling and underlying debt-induced:

- Unmanageable debt;
- Bankruptcy;
- Disintegration of the family, and consequent financial diseconomies.

Financial exclusion is seen by stakeholders as a contributor to financial hardship (rather than the main cause) and also as a cause of prolonging financial hardship.

Longer term, there is a potential problem of the financially excluded consumer never obtaining equity in a home, and in some cases, never being able to build up assets such as furniture, appliances and a motor vehicle.

Where uninsured or under-insured (usually due to lack of affordability), consumers risk major financial impacts if the insurable event actually occurs. A few stakeholders felt that this form of financial exclusion was not as important (not as severe in its effects) as other forms of financial exclusion, since the local community would usually support such people in their time of need.

Low income families including those with very limited savings (eg less than $2,000) often felt locked out of potentially better investment opportunities, such as shares and property, because they have insufficient funds to invest, and in some instances have found stock brokers are not interested as they would not be profitable clients for them.

Community level: A failure to foster community enterprises in disadvantaged areas is argued to have a significant economic opportunity cost for affected regions.

National Level: The problems of poverty and the impacts of poverty (lack of assets/reliance on public housing, ongoing poor health/related reliance of the public health system and general welfare dependence, entrenched unemployment) have obvious negative effects on the national economy.

Some stakeholders believed that financial exclusion plays only a small part in driving poverty, but a fairly strong part in exacerbating or prolonging poverty, thereby damaging the national economy.

Effects on Mainstream Financial Services Providers: Some stakeholders argued that by definition, financial exclusion results in people not using mainstream services. Thus mainstream providers are effectively cut off from a part of the market that could potentially become profitable customers for them. For example, many stakeholders observed the scenario involving a potential customer excluded from obtaining a loan from a major bank due to low or unstable income. It was often claimed that if and when the circumstances of such a consumer changed, mainstream providers often failed to take this into account in reassessing credit worthiness (because of past defaults or other reasons). If the consumer can become profitable over time, then it was argued that mainstream providers may be losing profitable client opportunities.

6.8.2 Education, Health and Social Impacts

Whilst poverty is the more important driver of social exclusion, financial exclusion was seen as a contributor to social exclusion.

For example, inability to obtain credit in a tight cash week can result in non attendance at a range of functions, lack of a personal loan can jeopardise a job interview (no suitable clothes or no transport) thus perpetuating low income and poverty, resulting in social exclusion.

A lack of savings (to some extent driven by exclusion from a fair interest bearing deposit account) has the effect in many low income households of limiting educational opportunities for children, and a lack of savings or ability to raise a loan for further training of the bread winner, can also lead to permanent financial hardship, ongoing or broadening forms of financial exclusion in the household, and exclusion from community due to working long hours and lack of cash to fund inclusion in social pursuits.

Some stakeholders saw the interrelationship between financial exclusion and social exclusion as an outdated paradigm.

"It used to be - if one or two basic financial services are missing, it pushed the low income household into social exclusion. Nowadays, it is more relevant to talk about financial exclusion from mainstream products, because if you are using a fringe product you have a higher cost, you lack regulatory protection, and you are unlikely to be considered for a home loan. Fringe products provide no benefit in generating a positive credit history… indeed the opposite is more likely."

Adverse effects on health in families with very low income were commonplace – children missing breakfast, no money to visit the doctor, and loss of work due to ill health were all part and parcel of being in or close to poverty.

To the extent that financial exclusion extended the time that a consumer may take to emerge from poverty, then it was seen as a contributor to adverse health outcomes.

6.8.3 Safety & Security Impacts

Some financially excluded consumers resort to using loansharks who have been reported in some locations to use strong arm tactics in recovering due payments.

6.8.4 Use of Inappropriate Mainstream Products

A key outcome, by definition[25], of financial exclusion is often the use of inappropriate mainstream products. Major examples given are usually the inappropriate use of credit cards, where a small personal loan would be more appropriate, or the use of any form of credit, where a savings oriented approach to insuring against a future short term need for cash would be more prudent than lines of credit.

Mainstream Products – Knock-On Exclusion Effects

Another major consequence of financial exclusion (from mainstream providers) was often claimed to be a consequent or "knock-on" exclusion effect. An example was the inappropriate use of credit cards leading to a default and consequent impairment of credit record resulting in loss of access to a personal loan.

Low income consumers who are unable to access a home mortgage, often lack any asset that can be borrowed against to cover for a crisis, or to take up opportunities.

And being in rental accommodation often means frequent moves of the household when rented property is sold, or becomes unsuitable. This can have a major impact on a low income family's budget. Low income renters also face a rising cost of housing, compared to those paying off a home, where mortgage costs stay constant or drop over time. Thus, exclusion from a home mortgage has a dual "knock-on" effect – no assets to borrow against, and lower disposable income making other mainstream financial products less affordable too.

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[25] The definition used for financial exclusion in this report is given in full in Section 6.2.2. Key elements include lack of access to appropriate, fair, low cost and safe services from mainstream providers.

6.8.5 Exploitation - Use of Non-Mainstream/Fringe Financial Products

Alternative products mentioned by stakeholders, included the following. All of these services were thought to involve at least some element of exploitation of those on low incomes:

- Loan sharks;
- Pawnbrokers;
- Payday lenders;
- Cheque encashment services;
- Debt consolidation;
- Store debt;
- Second tier card credit;
- "Low-doc" or automatically approved loans;
- High cost car loans/high cost cars;
- "Wrap Loans" High cost home loans/high cost low end homes;
- Solicitors "interest only" loans;

Each of these products and services are now briefly discussed in turn.

Loan Sharks

Loan sharks (jnformal lenders, offering loans with no collateral on a short term basis at high rates of interest) were known to operate in all states. There were often attendant safety issues and a great deal of pressure involved in dealing with such providers, who were often used as a last resort.

Pawnbrokers

Consumers who dealt with pawnbrokers were thought to be in the bottom quintile of income. Pawnbrokers were also used for urgent needs, and were thought to be reluctantly used, due to the conditions and attendant charges involved, together with a stigma surrounding their use.

Payday lenders

Research conducted by the Consumer Law Centre in Melbourne has shown that usage of payday lenders involved extremely high annualised rates of interest (600 to 900%), but that those who use the service do so because they have a temporary financial shock and lack access to credit or a suitable loan from mainstream sources. The extent of use of payday lending however, appeared to be fairly low in the research, with one 2001 estimate at 100,000 to 150,000 customers annually[26]. Victorian research in 2002[27] indicated approximately 800 payday loans were transacted weekly from 16 payday lending businesses in Melbourne and Geelong, representing $10 million over a full year, where multiple sequential loans to a single consumer are double counted.

Almost 40 percent of customers of payday lenders in the Victoria 2002 research were aged between 26 and 35, with other significant age cohorts being 36 to 45 and 18 to 25. There was an even split between men and women, with half in full time employment, 12 percent in part time or casual employment, and 38% on Centrelink payments. The bulk of payday lending customers had weekly incomes in the range $200 to $600 (ie annual income of $10,000 to $30,000 – the bottom two quintiles).

A key reason people use payday lenders has been shown to be a feeling that consumers are respected and obtain good service in clean and professional looking surroundings.

Cheque encashment services: Stakeholders noted that there are several storefronts in each of the poorer suburbs of main cities, offering cheque encashment. This is thought to address a small level of consumer demand for immediate cash, but involves high commission fees. Its use is assumed to be associated with financial exclusion, in the sense that consumers who use this service could/should be using cash savings accessible from an ATM, or cash advances from credit cards, to avoid the high commissions associated with cheque encashment.

Debt consolidation: Stakeholders saw this as a "semi-rogue" industry, in which some operators offered to consolidate a number of loans which may each carry interest of 12 to 14%, into a single loan to be repaid over 20 years, at 16%. The consumer feels better off as the repayments are lower, but the length of the loan means the consumer is paying far more than would have been the case with the original loans.

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[26] Consumer Law Centre Victoria, July 2002: Payday Lending in Victoria p 34.

[27] Consumer Law Centre Victoria, July 2002: Payday Lending in Victoria. P 51.

Store debt: This normally applied in more remote areas, such as in indigenous settlements, but was also in evidence in poorer parts of major cities, according to stakeholders. In some instances, the person's credit card and PIN number were given to the store owner in return for goods supplied on credit, pending a social security or other deposit into the consumer's transaction card account. Interest rates of various levels were thought to apply.

Second tier card credit: This kind of credit is typically marketed "aggressively" according to many stakeholders. By this, is meant that the retail stores who sell this credit market their products on a buy now and pay later basis. Stakeholders suspected the price would be higher on this basis than a cash price. Once signed up for a delayed payment purchase, the consumer must sign up for a finance card, and once approved, is normally offered more credit than needed and encouraged to buy other goods to use the available credit. Once the interest free period is over (up to one or two years), the higher than mainstream interest rate is payable (rates of 22% pa up to 33% pa apply), often resulting in financial hardship. It was felt that those who become involved in second tier card credit are low income employed or dual benefit families, rather than those in poverty[28].

"Low-doc" or automatically approved loans: These loans were thought to have entered the market when banks began to move customers from personal loans to credit cards for smaller amounts of money (eg up to $4,000). There is no collateral required, no prequalification; however high interest rates apply. It was believed that such loans were first offered by second tier providers, but that the National, Westpac, Aussie Loans and Wizard all provide them now, with many such loans marketed via finance brokers.

"A big issue is tax, I am told. Many small business people cannot disclose tax returns proving income, where their tax returns show low or no profits in their businesses, resulting in failure to qualify through a mainstream fully documented loan application process."

High cost car loans/high cost cars: Several stakeholders mentioned they knew of instances where car dealers had sold cars at an inflated price, with high interest rate finance packages.

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[28] The very poor were thought to be in more or less constant financial crisis, and tended to go without items for which the working poor may seek second tier credit. The elderly, like the very poor, also tended to go without, since they had been brought up during the depression and had a culture of living within their means.

"Wrap Loans" High cost home loans/high cost low end homes: Wrap loans was a term used by part of the market to describe a fairly common practice at the low end of the real estate market – where low value properties, often just outside regional centres, are sold at inflated prices on finance terms which involve high interest rates, interest only and short terms (eg one or two years). When the principal payment falls due, the real estate promoter becomes one of the few lenders who will take on the consumer for another loan, again at high interest rates. Alternatively, the original property owner or promoter offers to repurchase the property at a lower price than the original purchase.

Solicitors "interest only" loans: These were often supplied at higher than bank interest on a very short term. Again, once the term expires, the only refinancing source is usually the same source, again at a high interest rate.

All of these alternative products and suppliers involve alternative sources of credit, which indicated to many stakeholders that a key need to be addressed was the provision of more suitable loans and mortgages to those who are financially excluded or largely excluded from mainstream credit.

6.8.6 Use of Community Based Financial Services

Major NFP initiatives: Stakeholders mentioned a number of financial products and programs designed to assist financially excluded consumers, and those in financial hardship, with savings or credit products which they could not otherwise obtain. A few of these included:

- **NILS loans** – are no interest loans up to $1,000 to low income families. The program offering these loans was initiated by the Good Shepherd agency, and now is also offered in 200 programs around Australia via a wide group of agencies including the Salvation Army, Anglicare, Uniting Care, Smith Family, Brotherhood of St Laurence and smaller community groups. Financial support for the program is from philanthropic trusts and the National Australia Bank. Recipients must have lived at their current address for at least six months, hold a current health care card, and use the loan to pay for an essential household item, medical products or services. According to several agencies involved in administering NILS loans, people who even get considered for a loan under this scheme say it is the first time they have been treated with dignity and respect in their financial dealings. Even if they don't qualify, they receive valued advice about how to represent their interests next time they may apply, or more generally in their dealings with financial services suppliers.

- **Step Up loans** – another initiative of the Good Shepherd Youth and Family Service, this time with the National Australia Bank. This program is in trial or pilot stage only in limited geographic regions of Victoria and NSW. It addresses the unmet needs of low income families for a loan at mainstream interest rates (currently 6.9%) for amounts from $800 to $3,000 required for purchasing necessary household goods and services. Applicants must have been resident in a location for at least 6 months and hold a Centrelink Health Care Card.

- **Saverplus** – is a savings based initiative of ANZ, Brotherhood of St Laurence and Berry Street[29]. It enables families with children attending secondary school, who have a Health Care Card or Pension Card, and/or who have a regular income from paid employment, with the ability to save after paying regular expenses to obtain two dollars for every dollar saved up to $1,000 (ie support of $2,000) towards education related expenses. The program aims to assist such families reach a savings target, become regular savers and enhance their money management skills. There are 250 families enrolled in the program to date[30].

In commenting on such programs, stakeholders showed:

- They generally believed these to be beneficial programs;

- There was a belief by some stakeholders that mainstream suppliers should be offering such services in order to ensure integration of otherwise financially excluded consumers with broader mainstream services. For example, obtaining a loan from a main bank was seen as more likely to count towards a favourable credit history than having a NILS loan;

- The same stakeholders often felt that social inclusion would only occur if those requiring these programs were quickly integrated with mainstream suppliers, rather than relying on programs which were offered by welfare agencies, which may be seen as charity and therefore reinforcing exclusion from mainstream financial services. For the same reasons, some saw the community welfare organisations as a "turn off" for some low income people, who were adverse to accepting "charity";

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[29] Berry Street is an agency in Shepparton, Victoria.

[30] ANZ: Community Development Finance in Australia – A Discussion Paper, May 2004.

- Against this, others argued that successful customers of NILS, Step Up loans or Saverplus were more likely to be accessed by those in need, since some low income and excluded consumers were particularly adverse to mainstream channels, having been rejected by such providers in the past;

- It was observed that many applicants at the NILS agencies were turned down because there was no discernible reason for the loan. Thus, some stakeholders felt that such loans should not be too easily available, fearing uncontrolled access to low or no interest loans may hinder some consumers experiencing financial hardship (by simply increasing debt) as opposed to their intended purpose – to assist those in a short term crisis to purchase a necessity.

Overall, stakeholders felt that such programs were needed, and were finding many more prospective and deserving customers than the available funds could cope with. In addition, those close to such programs advised that the success rates (eg with savings goals met or loan repayments made) was very high with these programs.

Informal Programs: Some stakeholders were aware of grassroots savings plans delivered by sporting and social clubs, in which money is contributed on a weekly or monthly basis, with a gift or dollar amount returned to each club member at Christmas time. While an unregulated activity, this was seen by stakeholders as a moderately widespread activity addressing a need for savings activity by people who may otherwise not save, or not save sufficiently to meet certain needs.

6.9 Models of Financial Exclusion and Inclusion

The views of stakeholders and the meta-analysis of literature on social exclusion can be summarised in the following model of financial exclusion in Australia (Exhibit 6). For clarity, we also hypothesise a financial *inclusion* model (Exhibit 7).

The exclusion model does not distinguish between the various forms or types of financial exclusion. Instead, it attempts to encompass all forms of financial exclusion for simplicity, in a single model.

In both the exclusion and inclusion models, the lower half of the model deals with some of the drivers of exclusion/inclusion, and the upper part deals with the consequences or outcomes.

For example, Exhibit 6 shows:

- Financial exclusion as being a part of the wider phenomenon of social exclusion.
- The main drivers of financial exclusion (the thicker arrows) being:
    - Low income (and related states shown in the oval at the left hand side of the chart), as well as;
    - The policies of mainstream financial product providers.
- Other (lesser) drivers include financial illiteracy and poor financial habits.
- The circularity of cause and effect between financial exclusion (however occurring) and financial hardship or poverty is shown by arrows:
    - From financial exclusion to inefficient use of money;
    - From inefficient use of money towards delaying a movement away from poverty and financial hardship;
    - From there to low standard of living/low income;
    - From low income back to financial exclusion.
- The primary role of the macro-environment in driving low income and poverty is highlighted.

As may be expected, the financial inclusion model (Exhibit 7) is almost the obverse of the exclusion model.

Exhibit 6. Model of Financial Exclusion

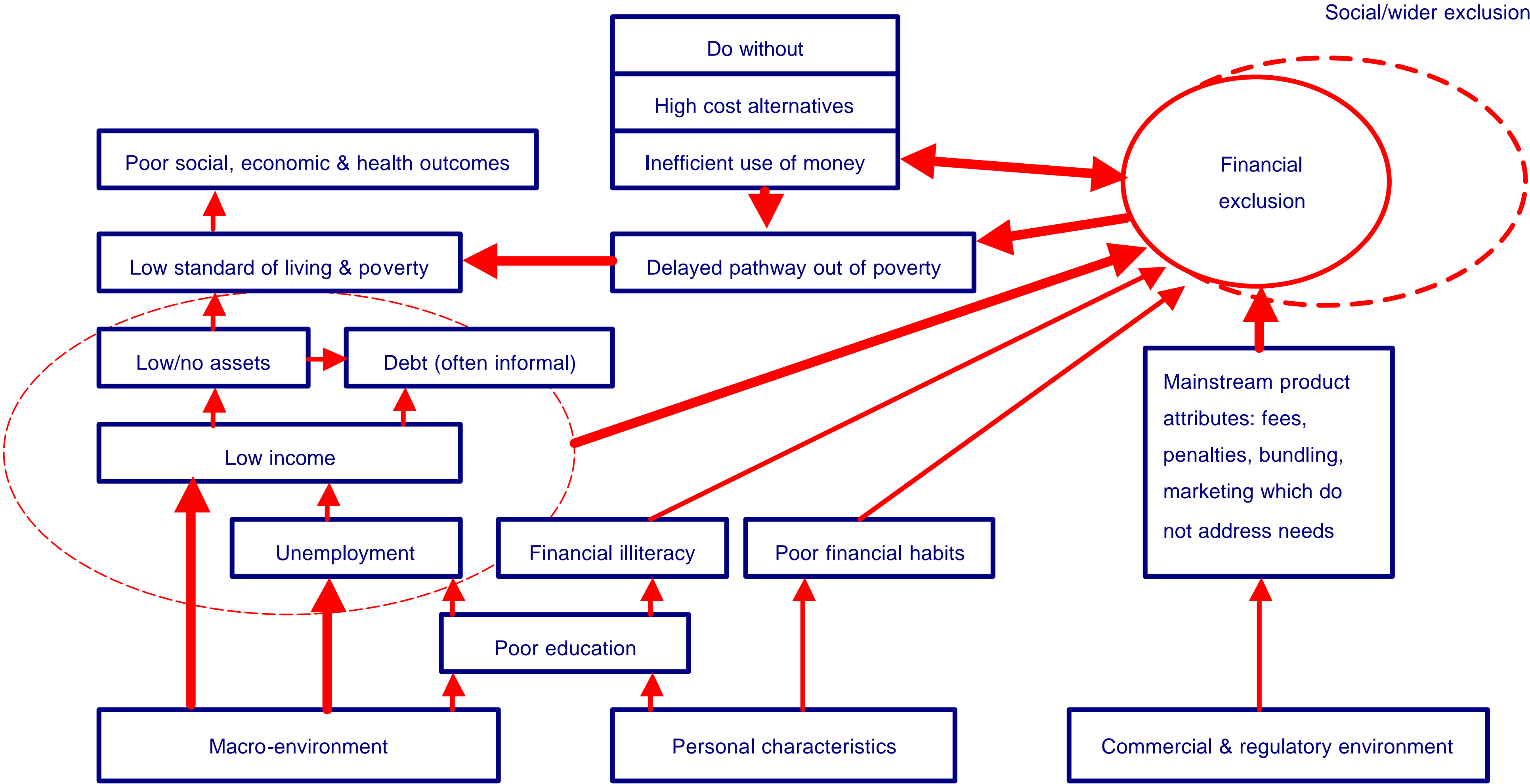
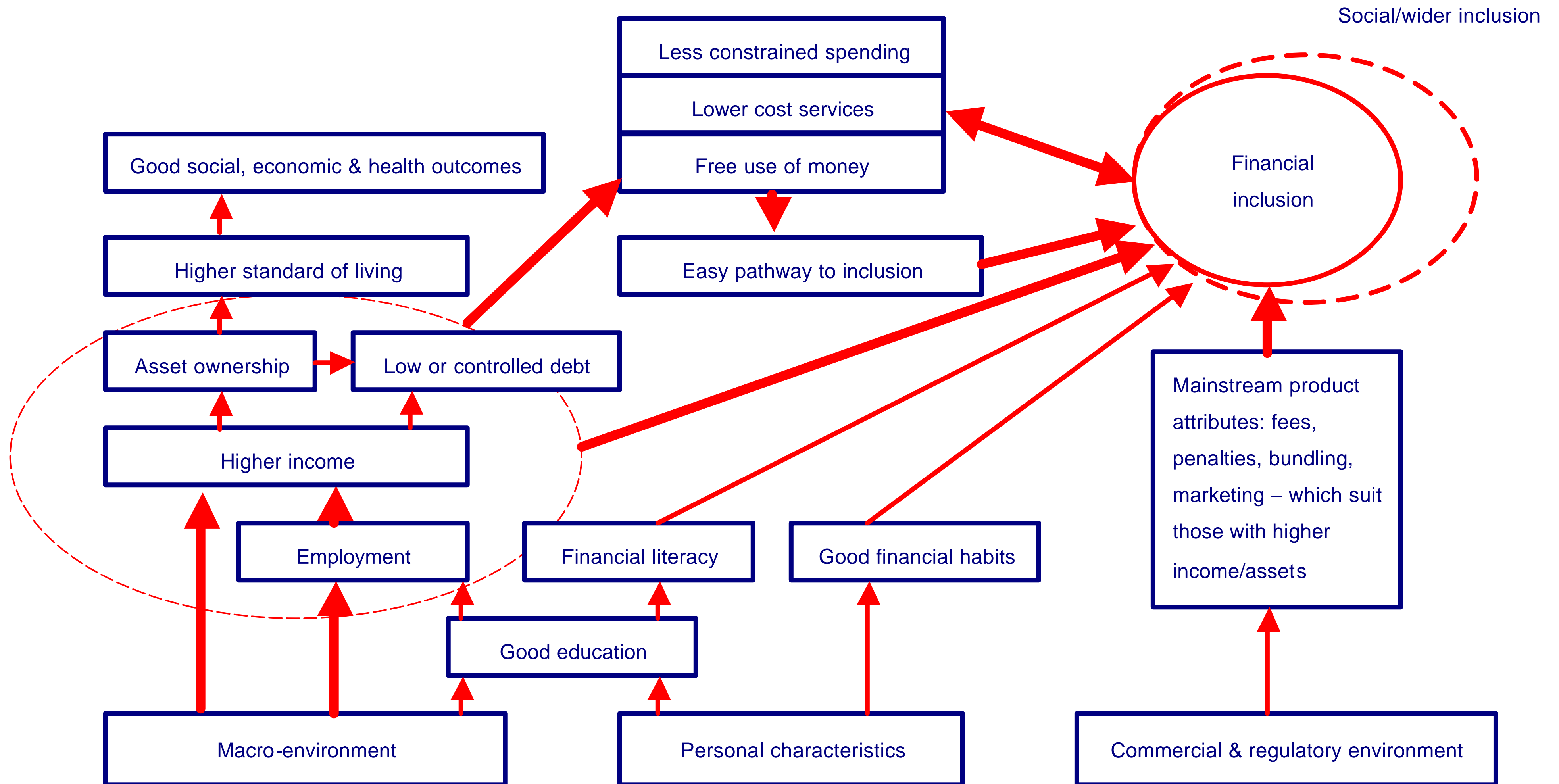


Exhibit 7. Model of Financial Inclusion



Not shown on the financial exclusion model are several other drivers, assumed by some stakeholders to play a role in causing or exacerbating the effects of financial exclusion, although to a lesser extent than those depicted in the model. These included the following, all of which are discussed in more detail in Section 6.7 above.

- Indigenous communities;
- Geographic and remoteness effects;
- Lack of time;
- Lack of PC/internet access.

6.10 Most Needed Services for the Financially Excluded

Stakeholder discussions on the most needed services for the financially excluded naturally tended to focus on the people most dealt with by the stakeholder's particular organisation. Such discussions also took place within the context of the particular definition of financial exclusion that the individual stakeholder felt was appropriate.

Part of the identification of "most needed services" for financially excluded people involved (an often unconscious) process of setting criteria upon which the "importance" judgement would be based, and then evaluating a number of unmet need categories on the most important criteria.

The main criteria mentioned, included:

- Extent of the underlying access problem, measured by the number of people thought to be affected by that type of financial exclusion;
- The severity of consequences for the people most affected by the particular form of exclusion. If those in poverty were severely impacted or exploited as a result of being excluded from a product, for example, then a service that addresses that need was seen as highly important;
- The degree to which the exclusion issue was seen as something that ANZ (or any bank) could reasonably be expected to attempt to solve, or have a reasonable likelihood of making a positive difference by tackling. Thus, the issue of lack of access by some consumers to superannuation and retirement savings, while thought to affect many people and result in quite severe hardship, was not widely seen as being of high importance as a financial exclusion issue for ANZ to tackle.

The most frequently cited "most needed services" for the financially excluded in Australia, included, in approximately declining order of frequency of mentions and perceived importance, is shown in the table overleaf.

Although this research did not focus on identifying solutions to financial exclusion, stakeholder discussion of the most needed services among those who are excluded could not avoid collecting some opinions on solutions related issues. Such elements appear, for example in the following description of the most important "exclusion driven" needs in the community. In particular, stakeholders saw the main needs displaying three key characteristics:

] **Product changes:** They require certain changes in bank product structures or offers;

] **Delivery channels:** They require careful attention to delivery channels and systems. For example, NILS loans have been successful because of the one to one introduction of the loan concept by NFP channels to hand picked consumers suffering exclusion, mentoring and the establishment of new financial behaviours;

] **Behaviour change:** Some types of exclusion ideally require permanent behaviour change, and thus require products and channels that are well thought out to achieve lasting change in the community and in the individual consumers at whom the solution is targeted.

Exhibit 8: Most Important Needs as a Result of Financial Exclusion

Needed Service or Financial Exclusion Issue	*Total Number of Mentions[31]*	*High Importance*	*Medium Importance*	*Low or No Importance*
Small personal loans access	*19*	*16*	*3*	*0*
Financial counselling (especially on credit/debt management)	*13*	*13*	*0*	*0*
Fairer major credit card access, safer credit cards	*17*	*10*	*4*	*3*
Low fee interest bearing savings account access	*15*	*9*	*5*	*1*
Basic transaction account with low fees, plenty of free transactions for those in need	*8*	*7*	*1*	*0*
Home contents insurance (and buildings insurance for those owning property outright)	*13*	*3*	*9*	*1*

Continued overleaf…….

[31] There were 23 interviewees altogether. This table reports mentioned needs. For example, only 19 of the 23 mentioned small personal loans, of which 16 regarded this need as highly important.

Needed Service or Financial Exclusion Issue	Total Number of Mentions	High Importance	Medium Importance	Low or No Importance
Third party property vehicle insurance	*9*	*2*	*6*	*1*
Insurance in general (including life insurance, income protection, unemployment and consumer credit insurance) access and better value products	*10*	*3*	*6*	*1*
Investment advice (especially for super) where low fund balances involved	*6*	*4*	*2*	*0*
Internet/phone access channel access/education	*7*	*0*	*4*	*3*
Superannuation/retirement savings access	*5*	*0*	*2*	*3*
Home equity/home mortgage access/perhaps via an interest free deposit loan-savings program dovetailed to a mortgage acquisition process	*4*	*2*	*2*	*0*
Community enterprise finance and management support	*4*	*4*	*0*	*0*

Highest Importance

Thus, the most frequently mentioned and most important needs of people who are financially excluded, according to the sample of stakeholders consulted, were for a low interest small personal loan, financial counselling, a fairer credit card, a low cost interest bearing savings account or other savings incentive program and a low fee transaction account.

The researchers have exercised subjective judgement by including the community enterprise needs in this high importance group, despite only a few stakeholders discussing them. This has been done because of the potentially far-reaching nature of the financial inclusion effects that initiatives addressing this area could deliver.

] **Small personal loan:** Loans of similar type to the Step Up loans were suggested. This means loans that:

- Are in the $500 to $5,000 value range;
- Carry a fair interest rate (eg approximately 6.9% to 10%);
- Involve (preferably) a fixed interest rate for the period of the loan (to aid budgeting);
- For a set time of one, two or three years;
- Involve regular disciplined payments of principal and interest.

] **Financial counselling:** Most stakeholders agreed that a wider availability of financial counselling was required. There was limited discussion devoted to the desired form or channels of such counselling, with most assuming that greater funding and geographic extensions of the currently available counselling services would be able to fill the need. Most felt that if mainstream suppliers wished to become involved in financial counselling, it would be advisable to use strategic partnerships with the existing not for profit (NFP) agencies, who have the ability to target appropriate consumers/households/families, as well as to make financially excluded people feel comfortable at the interface.

Although not discussed, it may be possible to offer one or more of the other most important needed products as a package with financial counselling, to ensure that the state of financial exclusion is progressively replaced with an inclusion mindset and that financial literacy skill deficiencies are addressed, if and where they appear among those accessing the other product(s).

A few stakeholders suggested more resourcing of government services or regulatory agencies like ASIC, ACCC and Centrelink's Financial Information Service may result in more widespread provision of such counselling. However, such agencies were thought by others to be best suited to providing *investment* information and education. Fee for service investment advice for SGC recipients with limited benefit balances, was seen as a potential part of information and advice provided by government agencies like those mentioned here[32].

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[32] Potential problem with this kind of channel include, however, the risk of overload as this is thought to be a very large problem affecting many people, and the need to provide

] **Fairer credit card:** Some people recommended that a fairer credit card be devised for those on a low income. In particular, it should have a low credit limit and heavily policed restrictions on the credit limit. Some stakeholders suggested this new card should have a savings plan attached to it – that is, the minimum monthly payments on the card should be sufficient to pay principal and interest on the total credit limit, calculated as though the "loan" would run for a set period of, say, two years. The interest rate should be set at a fair level, reflecting the savings aspect of the card.

] **Low fee interest bearing savings account:** Several stakeholders described the needed product as being similar to the former Christmas club accounts – account balances earn interest and the consumer is encouraged to save for certain goals. The Advantage Saver style of accounts adapted for low income consumers, by reducing account keeping fees, was the general idea. Some stakeholders felt that a passbook was an integral part of the needed product, while others spoke of the need for and success of more highly incentivised savings programs, such as the Saver Plus program.

] **Basic low fee transaction account:** Such an account, as with other products in this list was seen as being accessible only to selected consumers in need of it, and who met as yet undefined criteria for assistance. The account needed to be accessible from any branch, needed to be free of account keeping fees and to possess more than the usual number of free transactions each month, reflecting the possibility of three fortnightly pays per month and other consumer and household needs for cash and other transactions.

"While people across the market are now more relaxed about the existence of bank fees, and the fees are not the make and break in people's lives, bank penalty and other fees are too onerous and encourage exclusion at the low end (of income or poverty)."

] **Community enterprise finance and management support:** Four stakeholders stressed the need for financial exclusion to be addressed at a regional or local level via community enterprises, which themselves, were seen as in dire need of access to loans and capital, together with management and financial advice and mentoring.

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detailed advice to assist many consumers who lack sufficient financial literacy to act on generic information and guidance.

In some cases, this need was seen as more important to address than those mentioned above, since the building of community enterprise infrastructure would deliver both sustainable and more widespread financial inclusion in the community, by delivering employment, income, education and social inclusion, in regions or corridors in which the for-profit sector is unwilling to invest.

While a number of pseudo-CDFIs exist in Australia, none are set up to exclusively deal with community enterprise financial needs. Community sector banks, half owned by the community and half by a mainstream bank which provides the infrastructure and license (eg Bendigo Bank) have established a CDFI model, but were believed to have not really implemented it as yet.

"… But they have been very slow to implement it. They have been overrun with the success of their community banking model. They want security and have long approval times. (They show) a good intention, but they have a way to go yet."

Moderately High Importance

The following needs were considered important, but not as important as the group above.

- **Insurance:** Many stakeholders regarded insurance needs as quite pressing among financially excluded consumers. The main needs were thought to be affordable cover for third party property vehicle insurance, home contents insurance (and buildings insurance for those owning property outright), and consumer credit insurance;
- **Investment advice**: There were six mentions of investment advice, as an area needing attention for low income consumers. The most acute and growing need was for superannuation and retirement income stream advice in a climate of fund choice, where low income consumers often had low superannuation fund benefits considered unattractive to financial planners.

Moderate Importance

There were two need areas in which stakeholders were polarised as to whether or not ANZ (alone or with potential microfinance initiative partners) could realistically provide a solution. These included superannuation and home equity.

- **Superannuation:** Exclusion from superannuation was seen as a significant issue, but was seen as something that mainly required ongoing Federal government policy attention;

] **Home equity access:** Several stakeholders saw this as a high need area that banks could/should tackle. The potential solutions were not discussed with many stakeholders, but several ideas were forthcoming, including:

- A program in which selected deserving consumers/families were chosen for an incentivised home mortgage deposit saving plan, dovetailing with an advantaged home mortgage for the first five or more years of the loan;
- Shared equity models, in which the bank and the consumer share equity in the home.

Other Needs

Internet banking: It was significant that none of the stakeholders felt that initiatives specifically dealing with internet banking were a necessary response to financial exclusion. Instead, they saw a low cost transaction account better meeting the needs of low income consumers, as illustrated by the following comment.

"Lack of access to internet or phone banking may be a form of financial exclusion, but it is not a big issue, because few are affected seriously in dollar terms, and banks are addressing it. It is true that banks want people on a cheaper platform, but there will always be people without such access, education or motivation to use the new technology. They get stuck with channels which get priced upwards and a percentage can't respond to the price signal. They need to be identified and catered for by means of a universal fee-free transaction account using branches and simpler forms of access."

"It may not be especially damaging, but it needs to stay there to encourage banks to educate people that internet banking is not difficult or insecure."

Financial literacy: Although financial illiteracy was seen as one of the drivers of financial exclusion, none of the stakeholders mentioned a literacy program per se as a need requiring urgent attention. However, this is likely to be partly because most stakeholders were in the process of responding to the Government Taskforce on Financial Literacy, and thus saw this as a separate exercise or topic from financial exclusion.

The financial education role of a number of parties, from primary and secondary education systems, through financial services providers, to financial counsellors and other advisors to the public was seen as an important way of attempting to prevent financial exclusion.

"I was talking with a person the other day who had just seen a prisoner who had never heard the term – mortgage – and many consumers don't know what third party property insurance is, or that it is available."

Less Frequently Mentioned Needs

There were some less frequently mentioned needs requiring attention, each mentioned by only one or two stakeholders, in each case:

- **Dispute resolution scheme** covering non-mainstream financial providers;
- **Rural bank branch access**/coverage enhancements;
- **Small business banking access** (especially to overdrafts, loans and lower fee transaction accounts). It was argued that small business is a sector in Australia that suffers from financial exclusion – often relying on family funds and backing in order to survive;
- **Private health insurance.** This was seen as something that many people did not own, but in many cases needed;
- **Dignified service to low income customers.** This was argued to be a financial exclusion issue worthy of considerable attention, as it could reshape attitudes to available mainstream products by those most affected by exclusion.

Desirability of Further Discussion

Given that only one discussion was held with each stakeholder, feedback from all stakeholders on this full list of financial needs most requiring attention would prove of value in deciding in which areas to focus future microfinance or CDF initiatives.

7. NON-OWNERSHIP OF FINANCIAL PRODUCTS IN AUSTRALIA

7.1 Categories of Financial Products Analysed

The following charts have been compiled from Roy Morgan Research – Finance Monitor data collected in the period April 2003 to March 2004. There were 55,687 individuals in the full data set, aged from 14 years and upwards. Two sets of filters were used to obtain different analyses of this data:

- One set of data used here focused only on the adult population (eliminating those under 18 years of age, n=51,830);
- A second set focused only on adults who were decision makers in the household, in order to explore home ownership and insurance issues surrounding home ownership status (n=48,396).

The products examined in the analysis included the following fifteen product categories, within three macro groupings:

- Savings and investment products:
  - Transaction accounts;
  - Deposit accounts;
  - Superannuation, rollover, retirement savings accounts;
  - Managed investments;
  - Direct investments;
- Credit & loan products:
  - Store/finance cards[33] (excludes debit-only cards);
  - Major 5 credit cards (excludes debit-only cards);
  - Home loans;

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[33] This category was seen as a non-mainstream product, in that it is not supplied by large and full-service providers like banks or credit unions.

- Other loans (eg personal loans);
- Sub-prime retailer loan[34].

] Insurance (excluding vehicle compulsory third party):

- Private health insurance;
- Life insurance;
- Contents insurance;
- Building insurance;
- Other insurance (excluding vehicle compulsory third party).

Other analysis concerned:

] Four banking channel categories, including:

- Face to face;
- Electronic;
- Giro/Post Office;
- Cheque.

The data has been weighted to reflect the actual make-up of the Australian population at large.

7.2 Ownership of Financial Products in Australia

The chart overleaf shows the proportion of Australian adults owning each of the fifteen products mentioned above.

In summary, it shows that:

] There are many products displaying considerable proportions of non-ownership in the community;

] Highest ownership product areas included:

- Transaction account (owned by 90%);
- Superannuation or rollover (67%);

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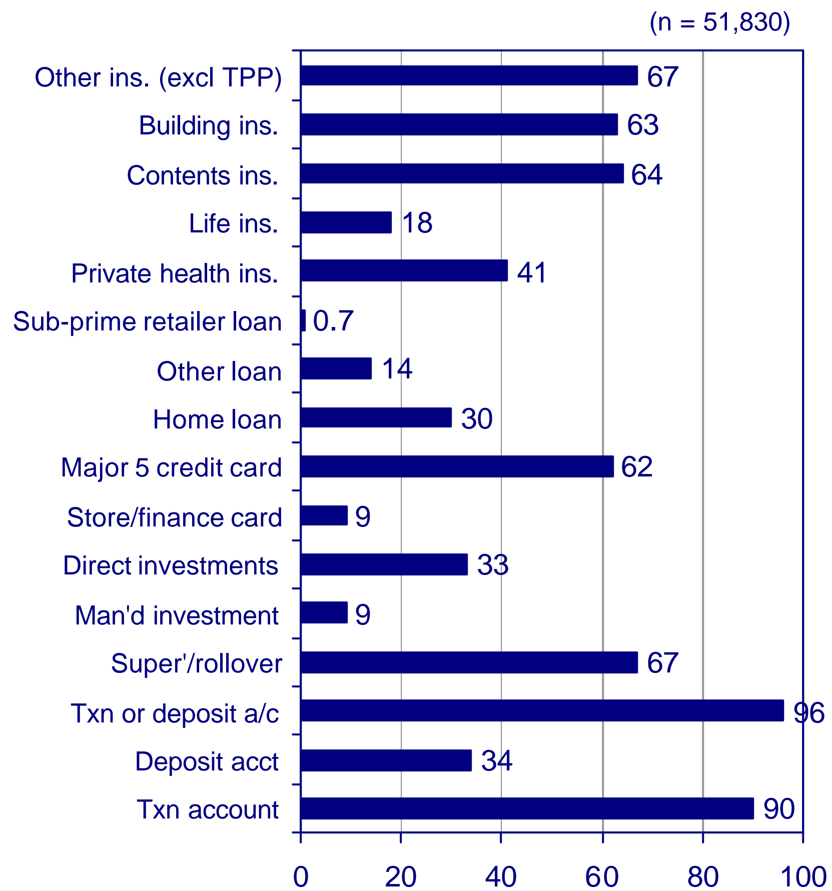
[34] This category was also seen as a non-mainstream product, in that it is not supplied by large and full-service providers like banks or credit unions.

- Other insurance (63%);
- Building insurance (63%);
- A “major five” credit card (62%).

] Least owned products included:

- Sub-prime retailer loan (0.7%);
- A managed investment (only 9% owned);
- Store/finance cards (9%);
- Personal & investment loans (14%);
- Life insurance (18%).

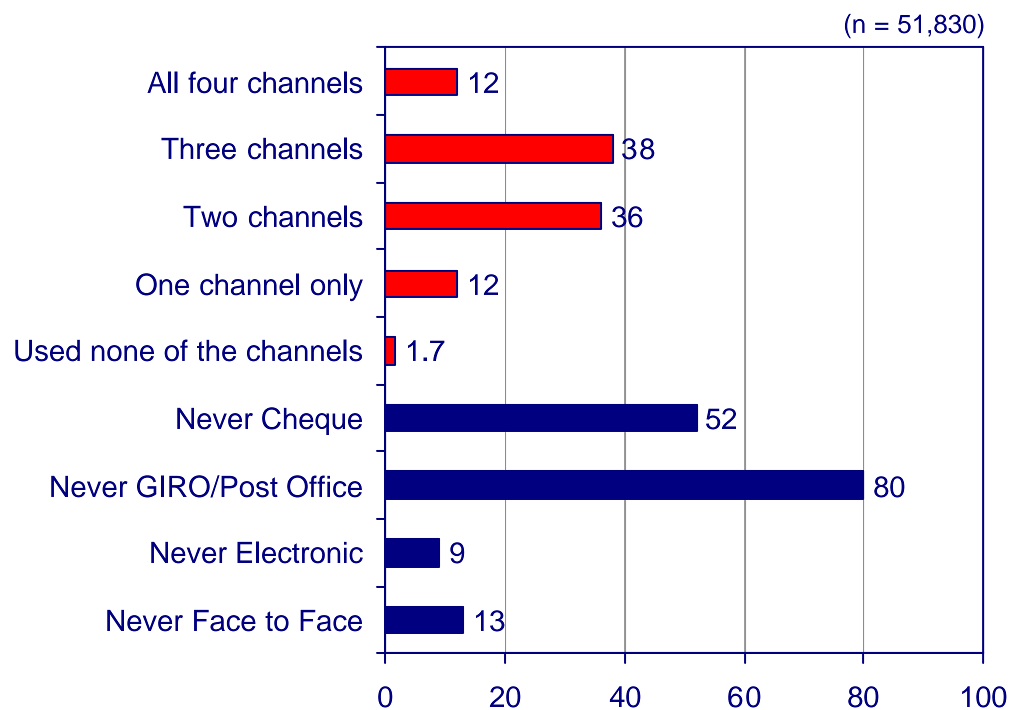
Exhibit 9. Ownership of Various Financial Products - Australia



7.3 Usage of Bank Channels in Australia

The data on channel usage is summarised in Exhibits 10 and 11 below. It is important to note that throughout this channel usage section, the data refers to “ever used” and “never used” rather than “currently using”, since that is how the Morgan Finance Monitor questionnaire is worded.

Exhibit 10. Percentage Who Have Ever (or Never) Used Various Bank Channels



In Exhibit 10, the incidence of use of various numbers of channels is shown in red, and the incidence of use of particular channels in blue. It shows that 1.7% of the sample had not used any of the major bank channels.

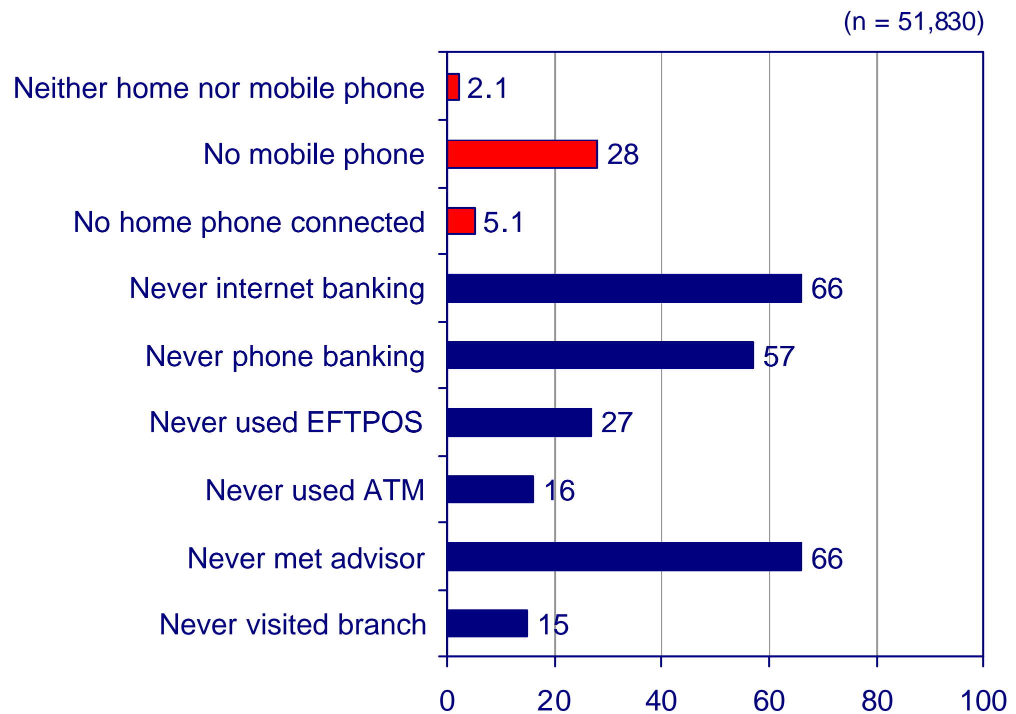
Another 12% had used one channel only. Thirteen percent had never used face to face dealings in banking, nine percent had never used electronic banking, and the vast majority (80%) had never used a Post Office GIRO facility.

Exhibit 11 (overleaf) shows more details of particular channel usage – for example that a large proportion of the sample (66%) had never met a bank advisor. A similarly large proportion had never used internet banking (66%) or phone banking (57%).

A lower proportion had never used EFTPOS (27%), sixteen percent had not used an ATM, and fifteen percent had never visited a branch.

The red bars show ownership of various telephone services. For example, 5.1% did not have a home phone line connected, and 2.1% had neither a home phone nor a mobile phone, so had little scope to use phone banking.

Exhibit 11. Non-Usage of Individual Channel Types



Generally speaking, non-usage of various channels was not as clearly associated with levels of savings, gender, or employment status as will be shown below was the case with product related non-ownership, although some income and age effects were identified. For example:

- **By income:** Non-usage of face to face channels was higher (22%) at very low incomes (less than $6,000 pa) but was in the range 10% to 12% for much of the income spectrum. Similarly, non-usage of electronic channels was highest (20%) at very low incomes, and steadily declined to zero at very high incomes;

] **By age:** while 14% of the overall population had never used face to face channels, the proportion of 18 to 19 year olds was 17%, falling to 12% for those aged 40 years and over. Similarly, while 11% of the population had never used electronic channels, the proportion increased from 2% of 20 year olds, to 20% of those in their 60s and 38% of those aged 70 and over.

According to stakeholders, it is likely that the observed non-usage of face to face channels is mainly an age (life experience) related phenomenon, with income effects being the result of age. However, it is considered likely that non-usage of electronic channels is genuinely both a generational (age related) issue and is also driven by income and education.

7.4 Number of Financial Products Owned

A key measure of financial exclusion in other countries has often been the proportion of the population lacking ownership of any (or many) financial products. Further, such analysis usually probes the extent to which multiple product ownership (or a lack thereof) varies among various demographic segments of the population.

The data in the tables on the following pages shows such data for Australia. In summary, the tables show that:

Analysis of the number of financial products owned in 2003, by demographic variables showed that:

- **Total "exclusion":** Only 0.8% of the Australian adult population (and 0.7% of decision makers in the home) owned no financial products;
- **Minimum access:** 6% owned only a transaction product;
- **Median number of products:** The median number of financial products owned was six;
- **By age:** The median number of products owned increased with age from 2 products at age 18-19, to 4 products by the age of 20 to 24, 7 products at 40-44, 6 products at 60 to 64, and 5 products at age 70 years and over;
- **By sex:** There was little difference between the sexes, although females owned slightly fewer products than males on average;
- **By country of birth:** Those born in Australia were less likely to have zero products than, say, those born in Asia. However, this may have been an age and income effect caused by the number of overseas students;
- **By aged pension status:** Those with an aged pension did not appear particularly excluded, having a median number of five products, and a similar proportion of them (compared the total population) had at least one product (5% versus 6% of the population);
- **By income (personal):** The median number of products increased rapidly with income, from 3 products at annual income of $10,000, to 7 products at $40,000 pa, and 8 products at annual incomes exceeding $100,000.

Exhibit 12. Multiple Product Ownership by Age, Country of Birth and Age Pensioner Status[35]

	Total popul'n	Zero	Txn/ deposit category only	Two	Three	Four	Five	Six	Seven	Eight	Nine	Ten
% Adult Population	***100***	***0.8***	***6***	***8***	***9***	***10***	***11***	***11***	***12***	***12***	***10***	***7***
% Decision Makers	100	0.7	5	6	8	9	10	11	13	13	11	7
Age of Respondent												
18-19	**4.4**	3	22	27	21	13	9	3	1	1	0.2	0.2
20-24	**8.8**	1	10	17	19	17	14	10	7	3	2	1
25-29	**8.9**	0.8	6	10	11	11	12	13	11	11	8	4
30-34	**10.4**	1	4	6	7	9	10	11	13	14	11	8
35-39	**8.9**	0.4	4	5	6	7	9	11	14	14	12	10
40-44	**9.9**	0.6	3	5	6	6	7	10	13	15	15	11
45-49	**10.1**	0.5	3	4	4	6	7	10	14	16	17	11
50-54	**9.2**	0.7	3	3	5	6	7	10	14	16	15	11
55-59	**8.0**	0.6	3	4	5	6	9	12	15	17	14	8

[35] Only up to "ten products owned" are shown. Read percentages horizontally, except for the first column (total population) whose percentages are to be read vertically. Only those aged 18 and over are included. The mode (the number of products registering the largest ownership for the given [horizontal row] demographic group) is shown in red to aid analysis.

	Total popul'n	Zero	Txn deposit category only	Two	Three	Four	Five	Six	Seven	Eight	Nine	Ten
% Adult Population	***100***	***0.8***	***6***	***8***	***9***	***10***	***11***	***11***	***12***	***12***	***10***	***7***
60-64	**5.9**	0.8	5	5	6	9	12	14	14	14	11	6
65-69	**4.6**	1	6	6	8	11	15	14	15	13	8	4
70+	**11.0**	0.8	7	7	12	16	18	15	11	8	4	1
Sex												
Men	**49**	0.7	5	7	8	9	10	11	12	13	11	7
Women	**51**	0.9	6	8	9	10	11	11	12	12	10	6
Country of Birth												
Australia	**74**	0.6	5	7	8	9	10	11	12	13	11	7
New Zealand	**2.6**	1	6	9	11	9	11	8	12	12	9	7
Asia	**6.0**	2	11	15	14	12	10	9	10	8	5	2
UK	**7.8**	0.8	4	6	7	8	10	13	13	13	12	8
Other Europe	**4.4**	1	7	8	10	11	13	13	12	10	7	4
Other	**5.2**	1	8	10	11	11	11	9	11	10	9	5
Pension Status												
Age pensioner	**10.6**	0.3	5	6	9	14	18	18	15	10	5	1

Exhibit 13. Income Effects on Multiple Product Ownership[36]

	Total	Zero	Txn only	Two	Three	Four	Five	Six	Seven	Eight	Nine	Ten
% Adult Population	***100***	***0.8***	***6***	***8***	***9***	***10***	***11***	***11***	***12***	***12***	***10***	***7***
Income (Personal)												
<$6,000	**0.6**	1.7	15	14	12	14	14	7	7	8	5	1
$6,000 to $9,999	**2.1**	2.0	21	17	16	15	12	8	6	3	1	1
$10,000 to $14,999	**5.4**	1.1	17	15	16	16	14	10	6	3	2	1
$15,000 to $19,999	**4.9**	0.6	12	10	12	15	17	14	10	5	3	1
$20,000 to $24,999	**4.8**	0.6	8	11	11	13	15	14	13	8	5	2
$25,000 to $29,999	**4.1**	0.1	6	10	11	12	14	15	11	11	6	3
$30,000 to $34,999	**4.0**	0.3	5	8	10	9	12	13	16	14	9	4
$35,000 to $39,999	**3.8**	0.2	4	7	8	10	11	16	15	12	9	5
$40,000 to $44,999	**3.9**	0.2	3	6	9	10	11	14	14	14	10	5
$45,000 to $49,999	**3.6**	0.4	3	5	6	8	11	13	16	16	11	7
$50,000 to $59,999	**6.0**	0.5	2	4	6	7	9	12	16	17	14	8
$60,000 to $69,999	**5.6**	0.2	2	4	4	7	10	11	15	18	14	9

Continued overleaf…

[36] Only up to "ten products owned" are shown. Read percentages horizontally, except for the first column (total population) whose percentages are to be read vertically. Only those aged 18 and over are included. The mode (the number of products registering the largest ownership for the given [horizontal row] demographic group) is shown in red to aid analysis.

Continued from previous page……..

	Total	Zero	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Ten
$70,000 to $79,999	**5.4**	0.2	1	3	4	6	7	10	15	18	16	13
$80,000 to $89,999	**4.5**	0.1	1	2	4	4	7	10	15	16	18	13
$90,000 to $99,999	**3.4**	0.2	0.3	2	2	4	6	8	13	17	20	15
$100K to $109K	**3.3**	0.2	1	3	3	4	6	8	12	19	19	13
$110K to $119K	**2.1**	0.5	0.2	2	4	7	7	7	10	17	18	14
$120K to $129K	**2.0**	0.2	0.8	2	3	4	6	6	10	18	21	16
$130,000+	**7.1**	0.1	0.6	2	3	5	5	8	11	16	17	15

Exhibit 14. Employment Effects on Multiple Product Ownership[37]

	Total	Zero	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Ten
% of Population	***100***	***0.8***	***6***	***8***	***9***	***10***	***11***	***11***	***12***	***12***	***10***	***7***
Employment status												
Employed	**60**	0.4	2	5	7	8	9	11	13	15	14	10
Not employed	**40**	1.4	12	12	12	13	13	11	10	8	5	2

[37] Only up to "ten products owned" are shown. Read percentages horizontally, except for the first column (total population) whose percentages are to be read vertically. Only those aged 18 and over are included. The mode (the number of products registering the largest ownership for the given [horizontal row] demographic group) is shown in red to aid analysis.

Exhibit 15. Remoteness and Housing Tenure Effects on Multiple Product Ownership[38]

	Total	Zero	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Ten
Remoteness (ABS defined)												
Major city	**68**	1	6	8	9	9	10	11	12	12	10	7
Inner regional	**21**	0.4	5	6	8	10	11	12	13	13	10	7
Outer regional	**10**	0.4	7	8	8	10	11	11	11	11	10	7
Remote	**1.2**	0.8	6	9	7	7	9	12	13	15	10	6
Very remote	**0.1**	0	4	2	4	3	18	23	8	15	17	2
Housing tenure (Note this data includes only decision makers in the home)												
Own home	**38**	0.7	2	3	6	10	13	14	16	14	11	6
Paying off	**32**	0	0	1	2	3	5	9	15	20	19	14
Rent	**29**	1.1	13	17	16	14	13	10	7	5	3	1
Other/not stated	**1**	11	5	9	13	13	11	8	10	6	7	5

[38] Only up to "ten products owned" are shown. Read percentages horizontally, except for the first column (total population) whose percentages are to be read vertically. Only those aged 18 and over are included. The mode (the number of products registering the largest ownership for the given [horizontal row] demographic group) is shown in red to aid analysis.

] **By employment status:** Those who were employed had a median number of products of 7, versus 4 for those who were unemployed. Only 2.5% of employed people had no products (0.5%) or a transaction product only (2%), versus 18% of unemployed people (3% of unemployed people lacked any products and 15% had a transaction product only);

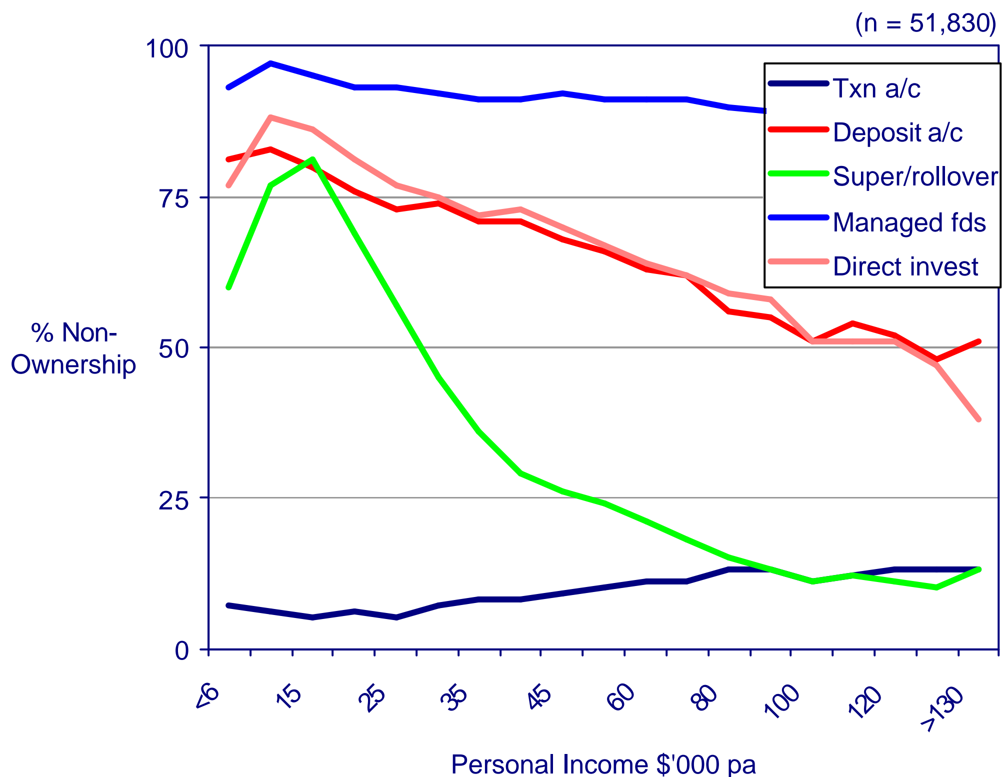
] **By remoteness:** There were no appreciable differences in number of products owned by remoteness (whether in a large city, inner regional, outer regional, remote or very remote);

] **By housing tenure:** Those paying off a home were more likely to have a larger number of products (median 8) than those who already owned their home (6 products). Those renting (29% of the population) had a median number of products of only 3, while those who had other housing arrangements or did not state their housing tenure status, also had a median of only 3 products.

7.5 Non-Ownership of Individual Products – By Income

Detailed analysis of the incidence of non-ownership of various individual products in Australia[39] confirmed that the broad conclusions from multiple product ownership tables held true for many individual products. Readers are referred to Volume 2 for more details in this regard. The most important drivers of lack of ownership of various products were found to be income and at the low end of the scale – level of savings and investments. This section deals with income effects.

Exhibit 16. Exclusion Curves: Transaction/Savings/Investment Products



Personal income was very closely associated with non-ownership of many products. Charting income and non-ownership incidence gave rise to the following series of exclusion curves[40], beginning with transaction/savings/investment products.

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[39] See Volume 2 for the full analysis.

[40] The term "exclusion curve" is defined in Section 5.3.1.

Exhibit 16 shows that *superannuation* displays the characteristics of **income exclusion** products, while *deposit accounts* and *direct investments* could be classified as **price exclusion** products. The latter two products also displayed high incidence of non-ownership across all income levels.

Managed funds (displaying high levels of non-ownership across all income groups) and transaction accounts (displaying low incidence of non-ownership) could not be classified as either income or price exclusion products.

Exhibit 17. Exclusion Curves for Credit/Loan Products

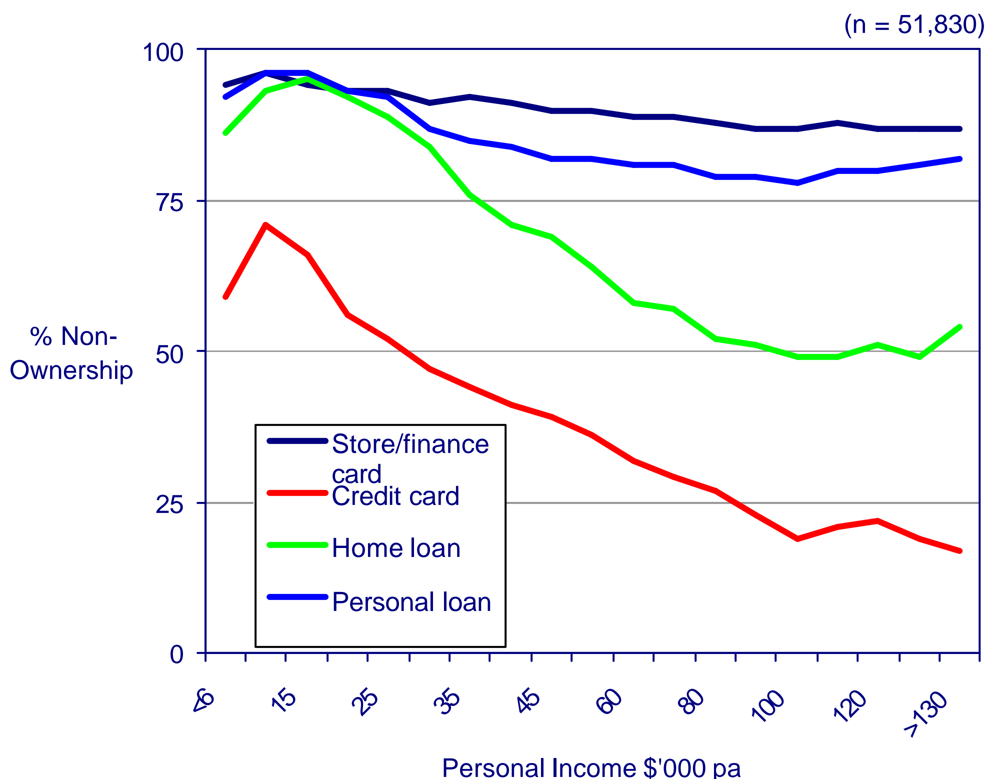


Exhibit 17 shows that **income exclusion** products included: *home loans* (below approximately $40,000 pa income), *credit cards* (below approximately $40,000 pa income), and *personal loans* (below approximately $40,000 pa).

Store/finance cards appeared to behave more like a price exclusion product, although there were high levels of non-ownership at all levels of income.

Exhibit 18. Exclusion Curves for Insurance Products

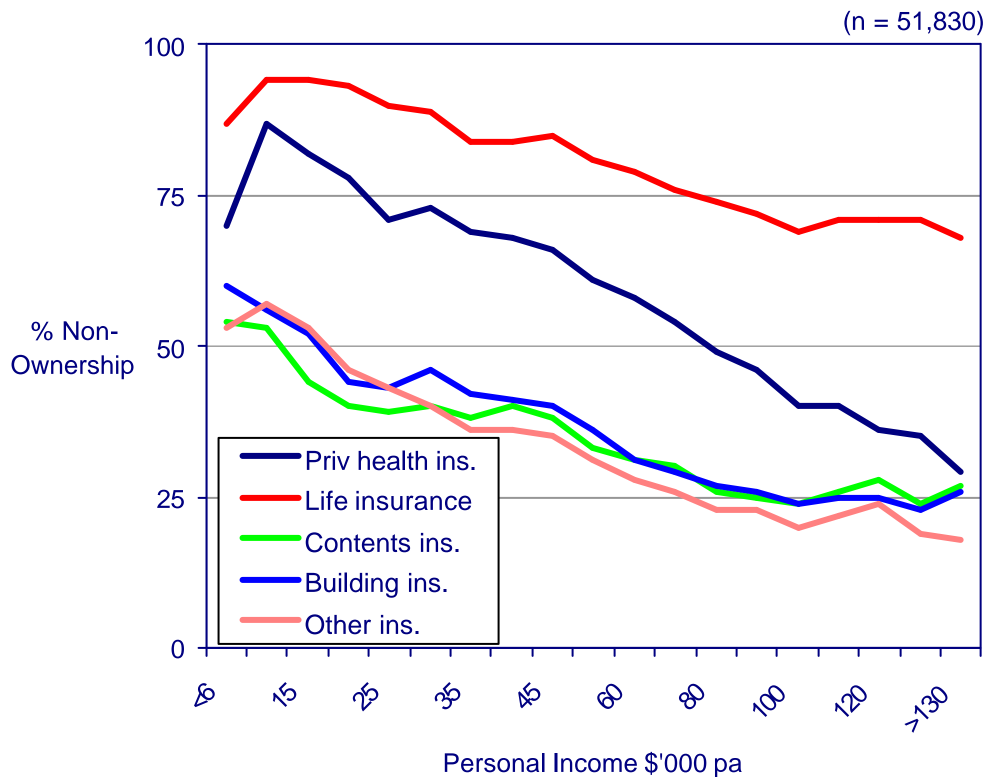


Exhibit 18 shows that there were high levels of non-ownership across all income levels in all insurance product categories. In addition, **income exclusion** products included: building insurance (below approximately $25,000 pa income), home contents insurance (below approximately $25,000 pa income) and private health insurance (below approximately $80,000 pa income). Life insurance, on the other hand, appeared to display **price exclusion** characteristics. There were high levels of non-ownership of both private health insurance and life insurance.

Summary

Thus, it can be seen that personal income appears to influence the level of non-ownership of many financial products in Australia, most noticeably:

- Deposit accounts;
- Direct investments;
- Home loans;
- Credit cards;

] Personal loans;

] Building insurance;

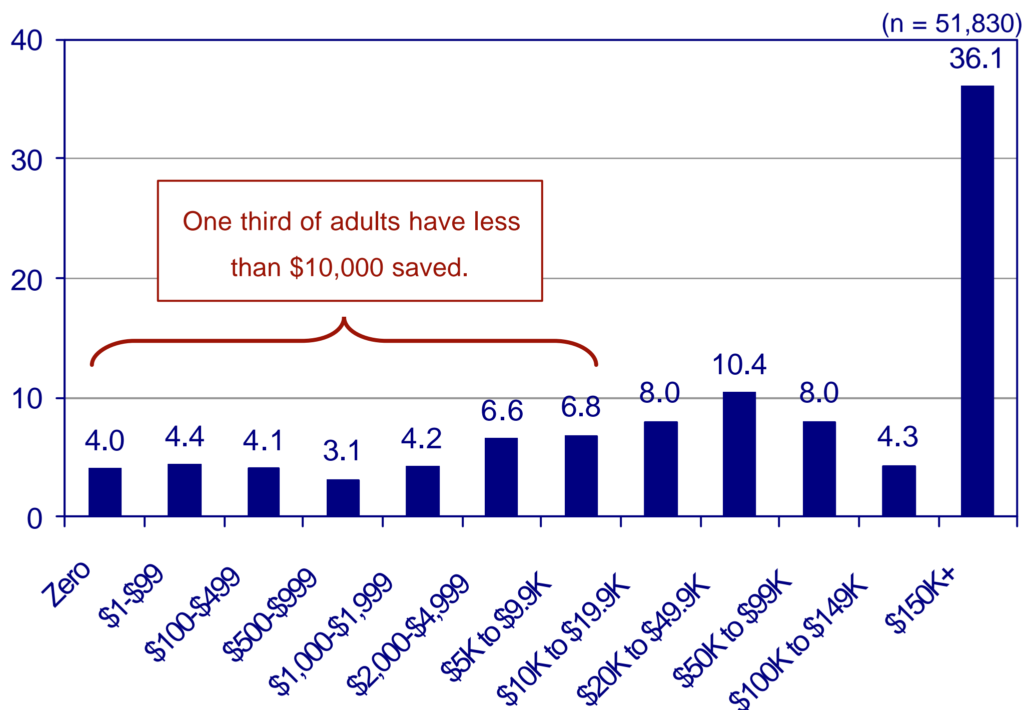
] Home contents insurance.

This finding from survey data analysis tends to support the stakeholder findings concerning the product exclusion areas of highest importance for the community to address.

7.6 Non-Ownership of Individual Products – By Level of Savings/Investments[41]

Analysis of the Financial Monitor data revealed that four percent of adults in Australia possessed no savings and investments at all in 2003/04, while another 4.4% possessed a paltry sum of between $1 and $99 (See Exhibit 19).

Exhibit 19. Level of Savings and Investments - Adults



[41] The measure used in this section is from Roy Morgan Finance Monitor survey response data for the question: 'What is the total estimated value of your savings and investments excluding your residential home?'

Exhibit 19 also shows that almost 20 percent of adults had less than $2,000 in savings and investments, 26% had less than $5,000, and one third had less than $10,000.

Constructing "exclusion curves" this time using the level of savings and investments owned, showed very high levels of non-ownership applied to those at the lowest end of the savings spectrum, as shown in the following exhibits.

Exhibit 20. Effect of Savings Level on Lack of Ownership of Transaction/Deposit/Savings Products

(n = 51,830)

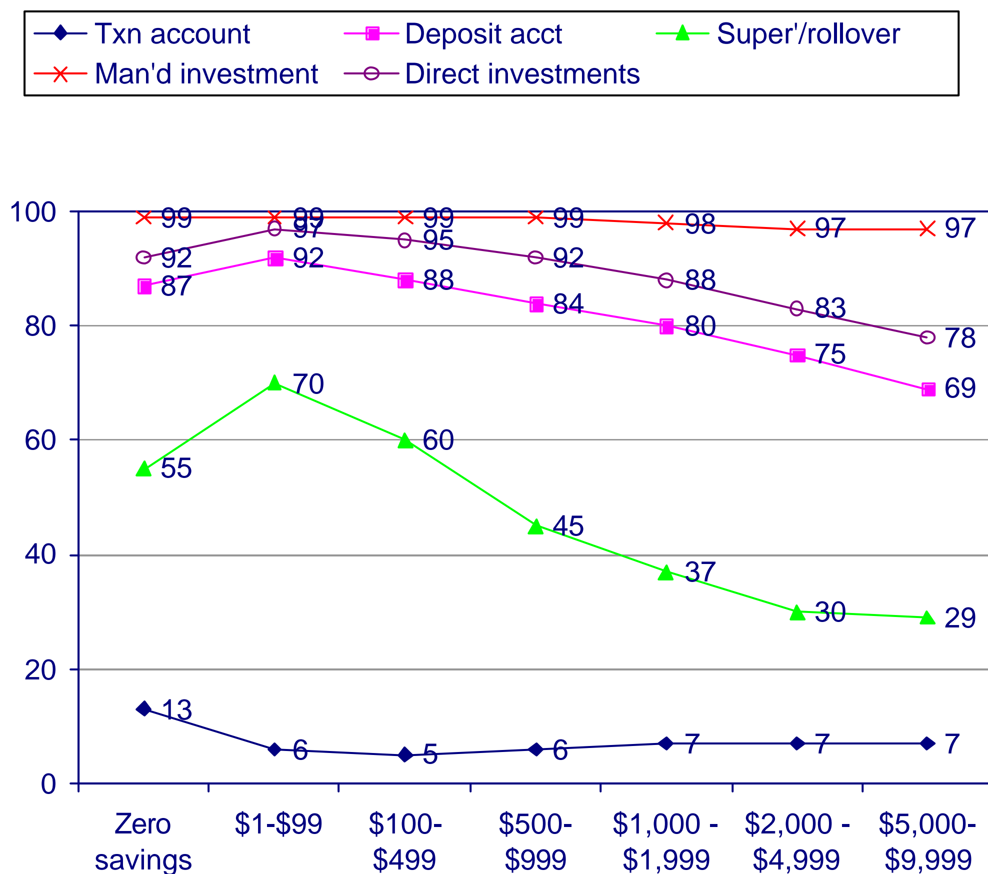


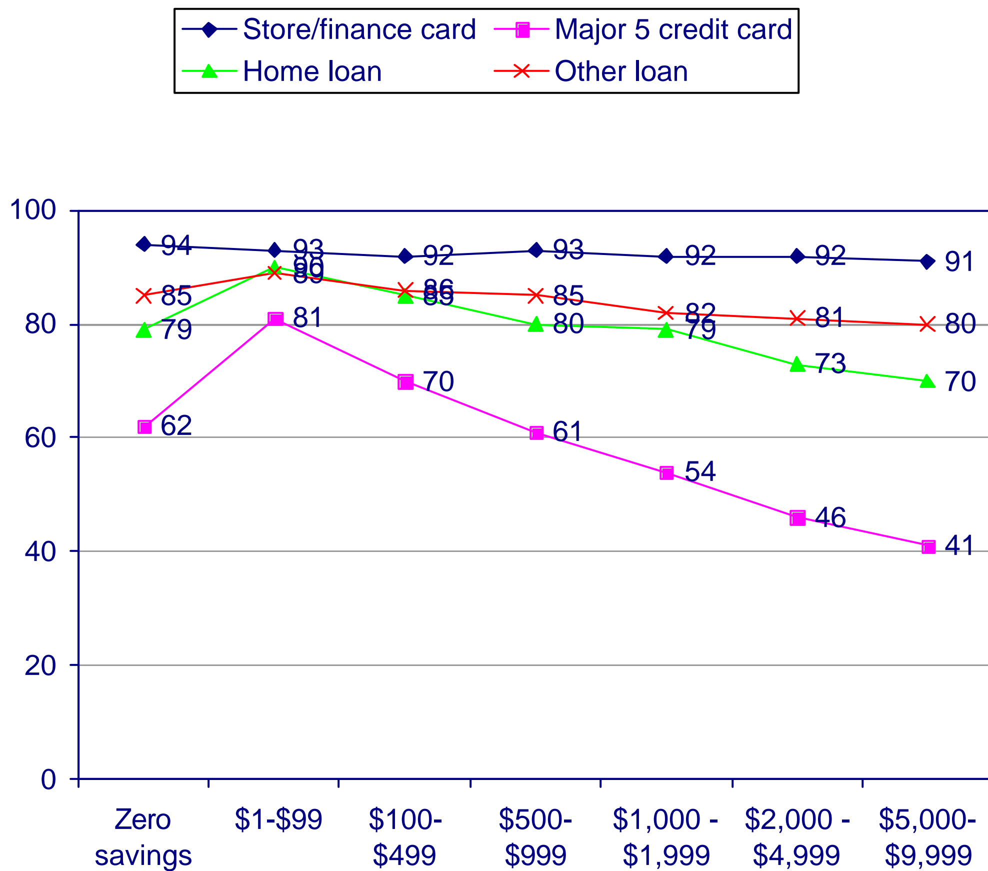
Exhibit 20 shows that those with zero savings were more likely to lack a transaction account (13% did not own a transaction account versus 10% of the overall population).

Amongst those with low savings (less than $10,000 saved or invested), level of savings was closely aligned with the level of non-ownership of superannuation, deposit accounts and direct investments, as may be expected.

Exhibit 21 (below) shows the effects of the level of savings and investments on lack of ownership of credit and loan products.

Exhibit 21. Effect of Savings Level on Lack of Ownership of Credit/Loan Products

(n = 51,830)



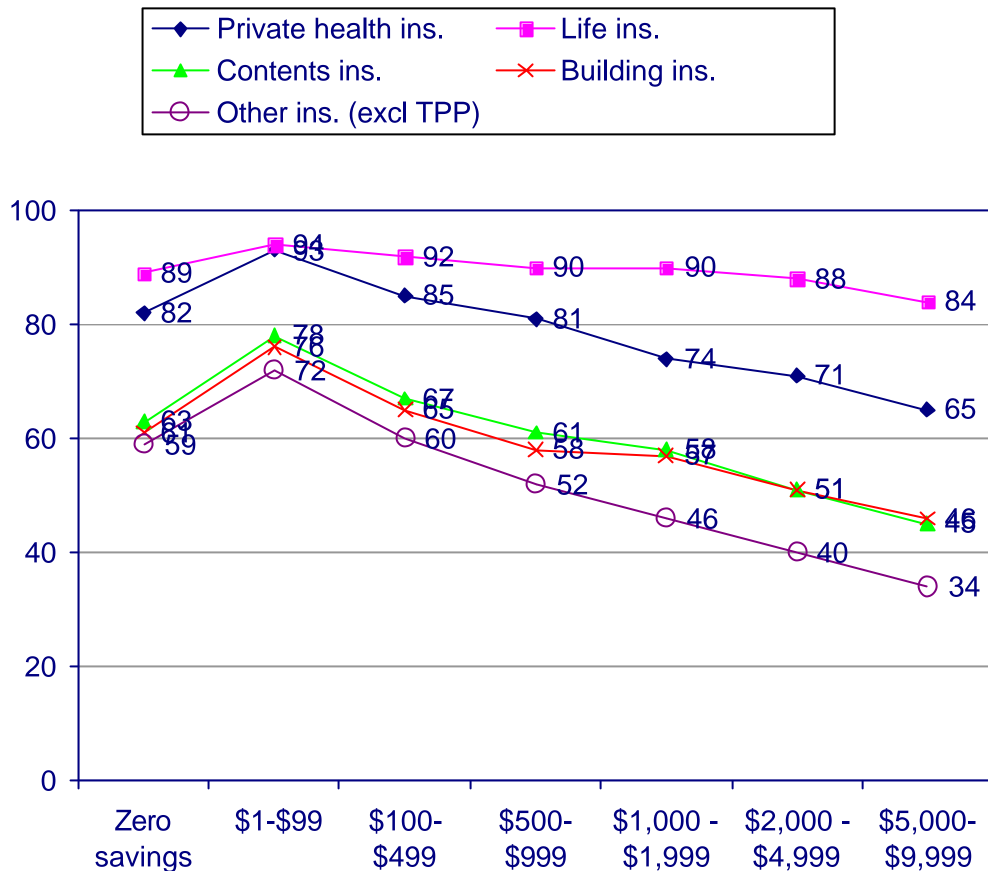
This data shows that those with savings under $1,000 were more likely to lack a major credit card (60 to 81% did not own a major credit card versus 38% of the overall population).

While 70% of the overall population lacked a home loan, those with very low savings appeared to be relatively more excluded (with 80 to 90% of them lacking a home loan).

Exhibit 22 shows the effects of low levels of savings and investments on lack of ownership of insurance products.

Exhibit 22. Effect of Savings Level on Lack of Ownership of Insurance Products

(n = 51,830)



This data shows that those with less than $10,000 savings were more likely to lack most forms of insurance than the general population.

Amongst those with low savings (less than $10,000 saved or invested), level of savings was closely aligned with the level of non-ownership of most insurance products.

Overall, level of savings and investments in the range zero to $10,000 appeared to be a very strong predictor of financial exclusion across a wide variety of products.

Summary of Apparent Effect of Low Levels of Savings/Investments

Just as level of income is shown in this analysis to be a key driver of lack of ownership of many financial products, the level of savings and investments is shown, at the low end of the scale, to be a key driver of such lack of ownership.

In a relative sense, very low levels of savings (less than $2,000) is highly associated with low incidence of ownership of the following product types:

- Superannuation;
- Deposit/savings accounts;
- Transaction accounts;
- Major credit cards;
- Home loans.

While non-ownership of personal loans were not so closely aligned with very low levels of savings and investments, Section 7.5 shows ownership was somewhat aligned with income. More importantly, ownership of personal loans appeared to be low in all income and savings cohorts, and stakeholder interviews have pointed to the relatively large impacts that a lack of a personal loan has on low income households in need of such a loan.

7.7 Home Insurance

Of course, home and contents insurance is only relevant for those who own (or are paying off) a home. In the overall population of household decision makers, there were 17% of people who owned their own homes lacking building insurance, and 17% lacked contents insurance, indicating a large group of consumers who potentially needed insurance, and who lacked any cover.

Similarly, 12% of those with a mortgage, lacked contents insurance, and a massive 66% of those with rental accommodation lacked home contents insurance.

Exhibit 23 (overleaf) explores the effects of housing tenure status and level of savings/investments on lack of ownership of home and contents insurance products.

Unlike the other graphs in this report, it includes only the key decision makers in the household, and therefore draws on data from 48,396 household decision makers.

Exhibit 23. Non-Ownership of Home Insurance Products, By Housing Tenure Status and Level of Savings/Investments

(n = 48,396)

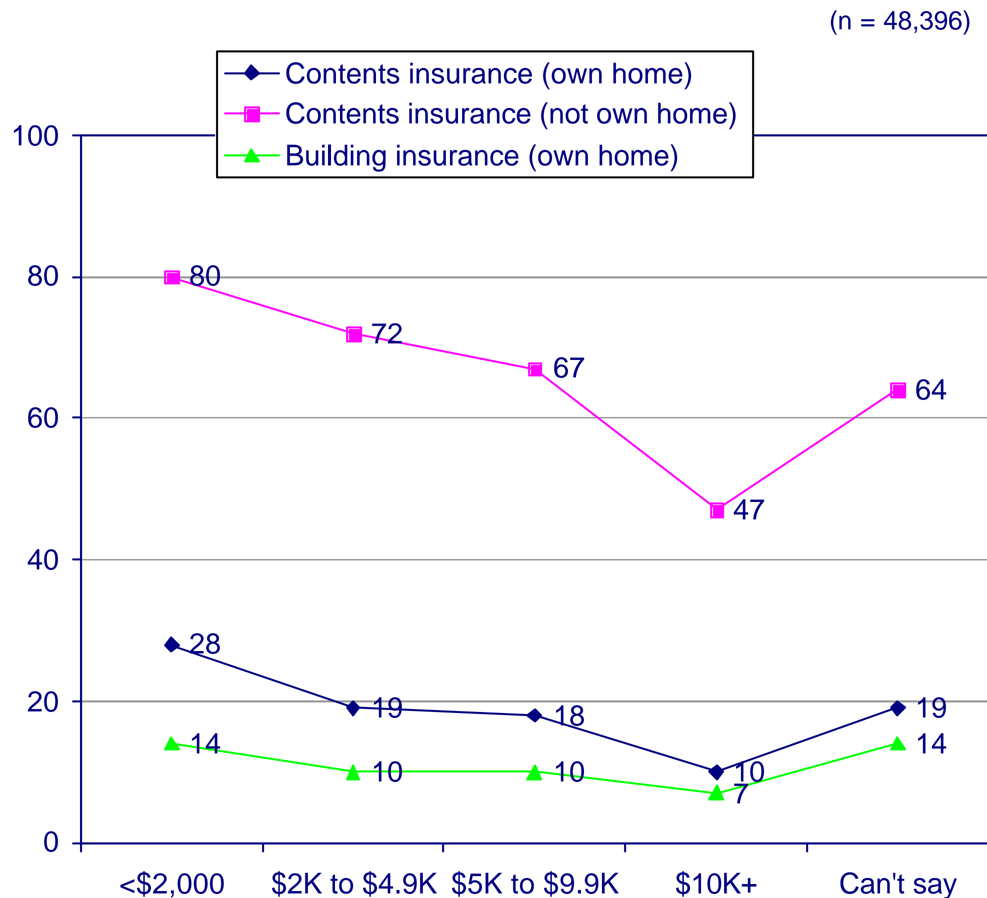


Exhibit 23 shows that those *who did not own* (or part-own) *their homes*, were much less likely to own contents insurance than those who did own their own home.

The *level of savings* also had a marked effect on non-ownership of contents insurance for both owners and especially so for non-owners of homes. Finally, level of savings had a smaller, but still significant effect on non-ownership of building insurance.

7.8 Alternative Sources of Credit

The Finance Monitor survey does not measure ownership of many types of alternative credit. For instance, usage of pawnbrokers, payday lenders and cheque encashment services are not specifically measured. However, ownership of store credit cards and non-prime retailer credit *are* measured. The data showed that:

] **Store/finance cards** were owned by only 9% of adults, with only small variations according to age. However, ownership peaked in two income ranges: $36,000 to $45,000 pa (at 12%), and $110,000+ income range (at 14 to 16% ownership) and was more likely among women (11%) than men (7%), among the employed (10%) rather than unemployed (7%), and among those paying off a house (13%) compared to those who already own their home (9%) or renting (8%);

] **Sub-prime retailer loans**[42] were owned by 0.7% of adults, with very low levels of ownership in the income range zero to $20,000 pa. There was a relatively high ownership incidence for those in the $36,000 to $40,000 income range (but even there, sub-prime retailer loans were only owned by 1.3%), those who are employed (1%, versus 0.2% of unemployed), and those paying off their home (1.4% versus 0.3% of home owners and 0.7% of renters).

Level of savings and investments (at the low end of the wealth scale) did not appear to be associated with ownership of these two alternative types of credit. The hypothesis posed by some stakeholders – that a large proportion of consumers on low incomes were using one or both of these forms of credit, appeared to be disproved by the available data.

However, the stakeholder view that those on low income who use these products are often badly penalised by so doing, remains a strong hypothesis.

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[42] This category of credit was measured in the survey by a question concerning ownership of an "interest free period loan (obtained through a retailer to purchase goods)". It is thought that this may be an incomplete measure of this category displaying some overlap with store cards and finance company credit cards, mentioned above.

8. NEXT STEPS - FUTURE RESEARCH ON FINANCIAL EXCLUSION

8.1 Review of Original Overall Research Objectives

The original objectives for the overall research program included the following.

- Identify the size of financial exclusion in Australia, particularly of (but not limited to) credit related financial exclusion which is intended to be a key focus of microfinance initiatives;
- Obtain an understanding of the drivers of financial exclusion, and in particular gauge the extent to which, in the case of credit related financial exclusion, this is driven by the risk management policies of mainstream financial service providers;
- Gain an understanding of the impact of financial exclusion (across the core products and services[43]), the level of need for microfinance initiatives, the elements of such services that could have the greatest impact, and which groups in the community are most affected/most in need of microfinance services.

Thus, it is important to identify the extent to which these objectives have been met by the current (initial) phase of research, and highlight the gaps which require further research attention. This is done in the table overleaf.

[43] Core products and services for the purposes of this research, include products such as: "basic accounts, savings accounts, insurance, superannuation, and credit."

Exhibit 24. Overall Research Objectives – Gaps in Information

Original Objective Area	*Extent to Which Data Pre-Exists*	*Extent of Possible Future Research Requirements*
1. Size of financial exclusion in Australia, especially for credit related financial exclusion.	*Data exists on non-ownership of fourteen main financial products and services as well as for store/finance cards.*	*Measuring the size of financial exclusion using the Australian definition requires metrics which take into account additional factors beyond non-ownership, including the presence of negative impacts of using inappropriate, high cost, unfair and / or unsafe financial products, individual / household perceptions of whether they feel excluded, and perceived impacts of exclusion.* *Depending on the purpose of future research (see below) further measurement of extent is likely to be required.*
2. Understanding the drivers of financial exclusion.	*The current research has identified the main drivers, and a model of their influence on financial exclusion is hypothesised.*	*Causal links between the potential drivers and financial exclusion may be able to be established by collecting metrics of many of the drivers indicated in our financial exclusion model, and then using structural equations or other multivariate analysis techniques where the dependant variable is "financial exclusion status[44]". Of course, this approach will only be successful if there is an agreed definition for financial exclusion. It is likely that measurements will need to be complex, will need to be collected face to face, and will require a large sample.*

[44] Several dependant variables or constructs may be worthwhile testing to act as the main measure of financial exclusion. Eg. A psychological scale to measure attitudes to/feeling of exclusion may be useful as one such dependant variable marking the state of "financial exclusion". Other candidates which could be tested in the research would be composite measures implied by the Chant Link definition of financial exclusion.

Original Objective Area	*Extent to Which Data Pre-Exists*	*Extent of Possible Future Research Requirements*
3. Extent to which credit related financial exclusion is driven by the risk management policies of mainstream financial service providers.	*Stakeholder interviews showed that low income, unemployment and low savings levels were major drivers of most forms of financial exclusion. However, in the case of credit related financial exclusion, marketing and risk policies of banks were also key drivers.*	*Arguably, further research is not required to establish that there is a connection between service provider policies as a driver of credit related financial exclusion.* *However, the incidence and relative importance (compared to other drivers of credit-related exclusion) of this causal relationship could be measured as per the discussion under item 2, above.*
4. Impact of financial exclusion across core products.	*Stakeholder views have provided good qualitative information on the impacts and outcomes of various product-related exclusion.*	*Again, depending on research purpose, measurement of the incidence of various kinds of impacts and outcomes should be conducted, partly to address the "extent of need" research objective (see next objective area below).*
5. Level of need for microfinance initiatives.	*The current research indicates:*] *In which demographic segments financial exclusion is thought to be more prevalent and having most impact on people.*] *Proportions of home owners and renters lacking home and contents insurance policies.*	*The actual number of people impacted by financial exclusion is not yet established (see objective area 1 above). Further, the relative intensity of negative impact across those affected has also not yet been measured.* *Depending on research purpose, there may be a strong need to conduct primary research to establish this (see later discussion on research purpose in this section).* *Measurement of extent of need and propensity to participate in particular microfinance initiatives are regarded as high research priorities (again depending on research purpose). If a quantitative study is undertaken, it should also be possible to obtain metrics on the incidence and severity of "outcome" variables in the hypothesised model of exclusion.*

Original Objective Area	Extent to Which Data Pre-Exists	Extent of Possible Future Research Requirements
6. Elements of microfinance initiatives that could have the most impact.	*Stakeholder views have provided a preliminary qualitative assessment of the relative importance of various product-related exclusion types, showing, among other things that access to small personal loans, and financial counselling are the two most pressing needs.*	*It will be important to gather the more considered views of all stakeholders to the outputs of this preliminary research in order to verify or refine the relative importance of the various needs of people who are financially excluded.* *In addition, again depending on research purpose, it may be relevant to conduct primary research to obtain quantitative proof of the most important exclusion needs requiring attention (eg if a defined geographic area was chosen as a test market).*
7. Groups in the community most affected/most in need of microfinance services.	*The pre-existing research data[45], and stakeholder views show that the most affected community segments are those in the lowest quintile of income, and possessing savings and investments (excluding their home) of less than $2,000.*	*Again, depending on research purpose, it may prove necessary to conduct primary research to verify that propensity to participate with particular microfinance initiatives is sufficiently high in these segments, especially if a tightly defined geographic area, and/or if a highly product-specific microfinance initiative is under consideration.*

[45] See Section 8 and Volume 2 of this report.

8.2 The Need To Define The Research Purpose

Future research into financial exclusion will be particularly influenced by both the definition of financial exclusion to be used, and the agreed purpose of any such research. The need to agree on a definition is discussed in Section 8.3.1.

This section, however, deals with the issue of research purpose.

The consultants believe there may be a number of potential purposes of future research, each with implications for the research approach and measurement devices. Some of these are illustrated in the following table.

Potential Research Purpose	***Research Objectives***	***Implications for Research Approach / Design***
1. Contribute to the body of knowledge about financial exclusion in Australia.	*Scope the size and nature of financial exclusion in Australia.*	*Research designed to identify the numbers of individuals / households financially excluded and the nature of their exclusion.* *This is more fully discussed in the following sections.*
2. Determine whether there is a need for a particular microfinance initiative in the financially excluded marketplace. (For example a credit related microfinance initiative).	*Scope the size and nature of a particular product-type of financial exclusion in Australia.* *Identify the degree of perceived need for the particular microfinance initiative and the extent of that need.*	*Similar to above, but research elements designed to measure only one type of exclusion, and identify the proportion of those affected by it who believe there is a need for a particular microfinance initiative. This may include perceived strengths and weaknesses and indicators of uptake of a particular microfinance initiative.*

Potential Research Purpose	*Research Objectives*	*Implications for Research Approach / Design*
3. Determine in which geographic locations financial exclusion is most prevalent (for the purposes of targeting microfinance initiatives)	*Scope the size and nature of financial exclusion in Australia.* *Identify geographic areas where financial exclusion is particularly concentrated.*	*As for research purpose 1 with the need to collect location data, and analyse for macro and micro-geographic differences.* *Geo-demographic mapping could be used to highlight areas of FE concentration.*
4. Determine the most effective way to deliver appropriate particular microfinance initiatives to financially excluded populations.	*Identify the most effective channels to deliver appropriate particular microfinance initiatives to financially excluded populations.* *Determine the best customer service and ongoing customer interface design in the most promising channel(s).*	*Qualitative research among channel members could be required.* *Qualitative and quantitative research among financially excluded consumers would be needed, with emphasis on understanding attitudes to using existing channels, willingness to use existing channels, attitudes to alternative channels, preferences for particular channels, service attributes required of preferred channels, likelihood of uptake in a variety of channels.*

In addition to the above there could be a range of other research purposes including:

- To identify the most important microfinance needs for particular sub segments of the financially excluded population;
- To identify the most important microfinance needs in geographic areas where financial exclusion is concentrated;
- To test reactions of financially excluded populations to a range of microfinance initiatives and to identify which initiatives are perceived to be of greatest value.

Each research purpose has slightly different implications for any future research. In some cases the implications are purely a need to add additional questions to the planned quantitative measurement approach. In other cases there may be a need for exploratory qualitative research as a first stage so as to identify the specific issues that should be covered in any quantitative measurement. In yet other cases a completely different methodology may be required (for example an all qualitative approach to explore the needs of financially excluded indigenous or disabled populations).

Thus it will be critical to clearly define the exact purpose of any future research stage.

8.3 Review of Output Requirements for Preliminary Stage

The outputs of this preliminary study were to include a draft questionnaire designed to measure *the size of the financially excluded population and / or the impacts of being financially excluded*.

The results of the preliminary study so far show that this will not be easy to achieve and will be dependant on a number of issues as follows:

8.3.1 Importance of an Agreed Definition of Financial Exclusion

Traditional Overseas Definition of Financial Exclusion

Traditional definitions of financial exclusion (based mainly on overseas experience) have relied heavily on non ownership of various financial products and services as a key indicator of financial exclusion. When combined with other lead characteristics (such as household income, age, employment status, ethnicity, housing tenure and location) the financially excluded population is then defined and measured in these terms. This could be seen as the narrowest way to define and measure financial exclusion. The implications are a need to particularly measure:

- **Household / Personal Characteristics:** Age of head of household, household structure, total household income, level of household savings, employment status, whether social security recipient, housing tenure (own, mortgage, rent etc), ethnicity / ethnic background, indigenous status, existence of disabilities and regional location.

- **Product / Service Ownership & Usage**: Transaction accounts, savings accounts, financial advice (counselling & investment advice), major credit cards, fixed term loans, house and contents insurance, third party property vehicle insurance, superannuation and home equity / mortgage loans.

The Roy Morgan financial monitor data analysis showed that unlike the UK, few people are financially excluded, in the sense of not owning any financial products in Australia (0.8%). Thus measuring financial exclusion in Australia is not just about measuring 'the unbanked'.

This outcome implies a need to better define financial exclusion in Australia, and particularly for the purposes of measurement. This was a key reason Chant Link & Associates developed an Australian definition particularly based on stakeholder points of view.

Definition of Financial Exclusion in Australia

Financial exclusion is a lack of access by certain consumers to appropriate low cost, fair and safe financial products and services from mainstream providers.

Financial exclusion becomes of more concern in the community when it applies to lower income consumers and / or those in financial hardship.

The definition of financial exclusion suggested by Chant Link & Associates is different to overseas approaches in at least three ways:

- It does not rely purely on *non ownership* of financial products and services from mainstream providers and includes consumers and / or households that use mainstream financial products and services deemed to be inappropriate, unfair and / or unsafe.

- It requires some negative impact associated with a lack of access to appropriate, fair and safe financial products and services and / or a negative impact associated with use of inappropriate, unfair and unsafe financial products and services. In addition, it is suggested that any negative impact should relate to basic or accepted needs or a minimum standard of living for an individual and / or household.

- It assumes that financial exclusion becomes more of a concern in the community when it applies to low income consumers and / or those in financial hardship.

8.3.2 Implications of the Financial Exclusion Definition for Measurement

There are three implications for measurement of financial exclusion defined in this way as follows:

] **Lack of Appropriate Product Ownership / Usage of Inappropriate Financial Products**: There would be a need to measure both appropriate financial product ownership (or lack of ownership) and/or usage of inappropriate, high cost, unfair and/or unsafe financial products and services from mainstream providers. The second of these issues is a particularly difficult area as it relies on a value judgement about what financial products and services from mainstream providers are inappropriate, high cost, unfair and / or are unsafe. Based on stakeholder interviews these might include:

- Use of credit cards as an ongoing line of credit (revolving credit balance on an ongoing basis that disadvantages the user);
- Use of products with high fees and charges (that in some way disadvantages the user) or avoid use of such products with their attendant fees (to the detriment of the consumer);
- Use of products that are not positive behaviour reinforcing (resulting in some disadvantage to the user);
- Lack of access to lower cost products (that in some way disadvantages the user);
- Lack of access to positive behaviour reinforcing products (limiting the advantages that could be gained from use of such products);
- Lack of access to affordable risk management products (house and contents insurance, third party property vehicle insurance, life insurance);
- Lack of access to appropriate financial advice and tools.

] **Negative Impacts**: To determine "financial exclusion" by our definition, there would be a need to identify the presence/absence of potential negative exclusion impacts (whether from a lack of access to appropriate, low cost, fair and safe financial products and services and/or from the use of inappropriate, high cost, unfair and / or unsafe financial products and services). Based on the Chant Link & Associates model of financial exclusion these might include:

- Having to do without (highly constrained spending);

- Use of high cost financial products and services;
- Inefficient / ineffective use of money.

Each of these impacts would have short, medium and long term implications for the individual and / or household user. Of particular concern would be any impact that contributed to or prolonged a low standard of living and / or living in poverty.
For the purposes of measurement there would be a need to identify specific impacts as perceived and described by individual and / or households respondents.
Thus a further implication for measurement of Financial Exclusion would be the need for an exploratory research technique (probably qualitative), able to identify these perceived impacts from a respondent's point of view.
We assume that some of those perceived impacts would be similar to those described in the following point. Suggestions for measuring the overall impacts of being financial excluded appear in section 8.3.2.

] **Low Income & / or Financial Hardship:** There would be a need to identify, and then focus research mainly upon those on low incomes and / or those in financial hardship. While income levels are relatively easy to measure, identifying those suffering financial hardship is a more complex issue. It could be argued that measures of financial hardship or stress should be included in our device (such as those used in the HILDA approach). An alternative would be to use the ABS approach to measuring those in poverty. Key indicators mentioned by stakeholders included:

- Inability to acquire basic household goods & services;
- Inability to acquire common household assets (house, car etc);
- Inability to pay basic bills (electricity, gas, water, council rates etc);
- Inability to properly feed household members;
- Inability to pay for basic household expenses (medical expenses, children's education);
- Inability to deal with short term cash flow spikes / financial shock;
- Inability to produce funds at short notice of $2,000;
- Inability to generate long term savings / investments (superannuation);
- Being forced to use high cost product / services (high interest rates etc).

We propose stakeholder workshops in order to develop and refine the best means of measuring financial hardship for the purposes of the research.

The Need to Satisfy Multiple Conditions

Thus when using the expanded Chant Link & Associates definition, individuals and households would have to satisfy multiple conditions before they would be defined as financially excluded. Specifically, they would need to:

- Lack access to appropriate, low cost, fair and safe financial products / services from mainstream providers and / or;
- Use inappropriate, high cost, unfair and / or unsafe financial products which result in some negative impact to the user. (The negative impact would have to relate to basic or accepted needs or a minimum standard of living for an individual and / or household) and;
- They would need to be low income and / or financially disadvantaged in a manner defined by the developed measures described above.

Measuring Perceptions of Financial Exclusion

In addition, it would be of some importance to measure all of these variables for those who feel excluded, and for those who don't feel particularly excluded, so that the relevance of the psychological measure of "feeling excluded" could be gauged.

Indeed, it could be useful to develop an unequivocal scale or index to summarise financial exclusion feelings in a single measure.

- At the very least, this measure may be used to help further aid understanding of the state of financial exclusion as measured by more objective means.
- Such a financial exclusion index may become the best surrogate for financial exclusion.
- It could even become the definitive measure of financial exclusion if it can be shown to be readily measurable and a reliable predictor of lack of access to appropriate products, and/or the use of inappropriate products resulting in harmful impacts to those on low income or suffering financial hardship.

Dynamics of Exclusion

Both the literature review and stakeholder discussions have highlighted that the state of financial exclusion can be transitory.

It will therefore be important to measure whether respondents are moving further into a state of exclusion, coming out of that condition, or are in a steady state of exclusion, and the drivers of this.

8.3.3 Summary of Measurement Issues Surrounding the Establishment of a State of Financial Exclusion

It is thus clear that:

] A definition of financial exclusion would need to be agreed prior to the final design of a measurement device.

] The Chant Link & Associates Australian definition would present a significantly more complex measurement task than that required by the traditional overseas approach.

] Further, there would need to be agreement on how to measure *financial hardship* prior to the final design of a measurement device (although measurement approaches used by the ABS and / or HILDA may be used for this purpose).

] Finally, it will be useful to develop an unequivocal scale or index to summarise financial exclusion feelings in a single measure. At the very least, this measure may be used to help further aid understanding of the state of financial exclusion as measured by more objective means. However, such a financial exclusion index may become the best surrogate for financial exclusion, or even the definitive measure of financial exclusion if it can be shown to be readily measurable and a reliable predictor of lack of access to appropriate products, and/or the use of inappropriate products resulting in harmful impacts to those on low income or suffering financial hardship.

8.3.4 Measuring Overall The Impacts Of Being Financially Excluded

The second part of the research objective for the preliminary research was to develop a device that can measure the impacts of being financially excluded.

The stakeholder research showed that the most commonly mentioned impacts of financial exclusion included:

] Lowered standard of living for individuals and / or households ("doing without");

] Inability or delay in ability to rise above financial hardship and / or social exclusion;

] Negative education, health and social impacts;

- Negative impacts on safety and security;
- Inefficient use of money, through:
  - Using high cost/inappropriate mainstream products;
  - The need to use non mainstream / fringe providers;
  - Vulnerability to exploitation by non mainstream / fringe providers.

Some of the above impacts are more easily measured than others. For example, the need to use non mainstream / fringe finance providers (because of a stated lack of access to appropriate, low cost, fair and safe products from mainstream providers), would be relatively easy to measure (assuming respondents are willing to disclose use of such providers). However measuring the impact of financial exclusion on an individual's or household's standard of living would be a very difficult task as it would be difficult to distinguish between other key drivers and causes of a low standard of living.

The Need to Measure Perceptions of Impact

A number of the potential measures listed above (particularly the first four) could be mainly caused by factors such as low income and / or unemployment (rather than financial exclusion). It will thus be important to measure individual and / or household *perceptions of the impacts* of financial exclusion.

In particular there would be a need to measure the specific *nature* of any impact, the *extent* of impact and the *severity* of the impact from a consumer and / or household point of view.

In an ideal world, an exploratory qualitative research approach should be used to identify the main perceived and / or stated impacts of financial exclusion from an individual / household point of view (including nature, extent and severity of impacts). This would need to occur as a part of the device design and piloting process and prior to any main fieldwork measurement stage.

Other Attitudes and Perceptions

In addition to the above there would be a need to collect and measure other individual and / or household attitudes and perceptions. Examples include:

- Personal beliefs about a lack of access to appropriate, low cost, fair and safe financial products and services:
  - Whether ever rejected when applying for mainstream financial products and services (and the perceived reasons for rejection);

- Whether can only access inappropriate, high cost, unfair, unsafe financial products and services;
- Whether feel excluded or discriminated against with respect to access to financial products or services (and the reasons they feel excluded or discriminated against);
- The reactions to and impacts of being rejected, not gaining access to appropriate products, being excluded / discriminated against.

- Degree of comfort / familiarity / access to particular delivery channels (particularly electronic channels) used to deliver financial products / services.
- Degree of access to financial advice, counselling and / or financial tools.

Thus measurement of perceptions with respect to financial exclusion will be an important part of any measurement exercise (whether at individual or household level).

For example, it would be important to know if respondents who are financially excluded under the Chant Link & Associates definition, believe or feel they are financially excluded. The potential uptake of an appropriate microfinance solution may be very different for those who believe they are excluded when compared to those who do not believe they are financially excluded.

8.3.5 The Impact of a Financial Product / Service Overlay

Product-Specific Exclusion Issues: The preliminary research stage showed that non ownership of financial products and services varied significantly across product / service types when mapped against income levels. For example, non ownership of a deposit account was significantly different at various income levels to non ownership of a transaction account and both were different to non ownership of a personal loan, or a superannuation/rollover product. Thus financial exclusion as defined by Chant Link & Associates will clearly vary by financial product / service type.

Further, any negative impacts associated with a lack of access to appropriate financial products or usage of inappropriate products is likely to vary significantly by product type. For example, for younger respondents lacking superannuation, any negative impacts are likely to be longer term. With access to short term credit, the negative impacts could be short, medium and longer term.

In addition, the research issues will vary by financial product / service type. For example, the research issues associated with access to appropriate risk insurance (house and contents / third party vehicle insurance etc) will be different to those associated with access to appropriate short term credit.

Need Agreement on Product-Based Exclusion Type(s) to be Addressed: Thus there would be a need to agree on which mainstream financial product / service types should be included in the research for the purposes of measurement.

The measurement exercise and device would be significantly different if all financial products / services were included when compared to an approach that looked only at a selection of mainstream financial products / services, such as short term loans or an assisted pathway to home equity.

8.4 Methodology and Unit of Measure

8.4.1 Level in the Market

The preliminary research stage showed that financial exclusion can apply to individuals, households, small business, not for profit organisations and community enterprise organisations.

However the consultants assume that any initial attempt to scope the extent and nature of financial exclusion should primarily focus on individuals and / or households since this has been ANZ's focus to date.

If SME or community enterprise financial exclusion issues are to be covered, then a specific (and different) research approach would need to be developed, compared to that developed for individuals/households.

8.4.2 The Unit of Consumer Measure

There has been some debate about whether any consumer measurement approach should focus on individual adults or household units. The consultants concluded that the unit of measurement should be households and the target respondent should be the decision maker(s) in that household. This is for the following reasons:

- The Roy Morgan data analysis which used individuals over 18 years of age, has certain limitations. For example, the reason a person may not have a particular financial product may be that their partner or someone else in the household has the product in question. Thus a future study of individuals could be somewhat misleading;
- A study of households using the main household decision maker(s) would overcome this problem. In addition, it would provide an understanding of all individuals within that household (including children, spouse / partners etc), and would better present the context of the decision maker (the need to support a partner and family or a single parent needing to support a number of children etc).

Thus we recommend that the household is the unit of measure in any future market research.

8.4.3 Next Research Steps

Broadly speaking, there are three possible ways forward for ANZ's next steps in researching financial exclusion:

- **Option One:** Conduct a major research study to verify and quantify the hypothesized financial exclusion model. This would be consistent with the original ANZ goal of quantifying the financial exclusion market, OR;
- **Option Two:** Pursue research to firm up the order of priority in which the various (product based) forms of financial exclusion might or should be tackled in Australia, OR;
- **Option Three:** Select one or more microfinance initiatives (eg based on particular types of financial exclusion) and conduct practical research on each of them with a view to implementing early solutions.

The first option is consistent with the original research aims for ANZ's overall program on financial exclusion. On the other hand, from the discussion throughout Section 8, it is apparent that this would be a large and challenging project. It is likely to involve several research stages, taking from six to twelve months to implement and requiring a substantial budget.

Option Two would involve a series of discussions with stakeholders in order to verify the relative importance of the various forms of financial exclusion identified in the current research, and to establish the relative feasibility and potential impact of an ANZ CDF initiative to address each one of them. This option may be attractive if ANZ is unsure of which (product) form(s) of financial exclusion it wishes to tackle in providing solutions to the community.

Option Three, if combined with an immediate decision to move ahead with one or more CDF programs addressing a particular form (or forms) of financial exclusion, has the virtue of delivering solutions to the community earlier than may be the case in the other options. It also would require less time and budget than Option One, and would be more practical in its orientation.

Further discussion with ANZ will be required in order to reach a decision as to which of these research options should now be implemented. Such discussion should focus on defining the research purpose, taking into account Section 8.2 of this report, the technical discussion throughout Section 8 concerning research issues in financial exclusion. It should also take into account related ANZ research on this topic.

8.5 Summary of Future Research on Financial Exclusion

At a summary level a number of points could be made about future market research requirements:

- There will be a need to clearly define the exact purpose of any future research prior to finalising any research design or measurement device;
- There will be a need to agree on a definition of financial exclusion and particularly whether the Chant Link & Associates approach should be used;
- Key information gaps after the preliminary research stage include:
  - Measurement of the nature and extent of financial exclusion in Australia (highly dependant on the definition adopted);
  - Measurement of the extent of need and propensity to participate in particular microfinance initiatives (if this is deemed to be part of the research purpose);
  - Measurement of the incidence of various kinds of impacts and outcomes (partly to address the extent of need mentioned above);
  - Identification and measurement of the most important exclusion needs requiring attention.
  - Validation of the stakeholder research outcomes, especially the definition issues, and the hierarchy of financial exclusion issues requiring attention in Australia today. This would be achieved by providing the results to selected respondents and refining the report based on their views and feedback.
- Research on particular forms of financial exclusion, and research aimed at designing optimum CDF initiatives to address them, is indicated;
- The unit of measure in future research should be households and the key target respondent should be household decision maker(s);
- Both qualitative and quantitative research techniques are likely to be required in future research. The extent of the need for qualitative research will depend on the purpose of the research and the definition of financial exclusion adopted;

] Quantitative research, where needed, should be conducted face to face and should target the bottom half of households by income. The ABS would be used to define the sample structure and to help develop the sampling and weighting approach;

] An important measure which should be developed in future research in this area is an attitudinal index of financial exclusion, based on a range of metrics such as level of exclusion felt, self assessed financial literacy skills, and others.

] A series of workshops and brainstorming sessions are likely to be required to design and refine an appropriate research approach to meet the (to be defined) purpose.

8.5.1 Specific Potential Measures

The consultants have developed a list of potential questions, measures and demographics that could be used as a basis for questionnaire design, should Option One be chosen (verification and quantification of a model of financial exclusion). These are shown in Section 9.2: Appendix B. Elements of this list will be relevant if Option Three is chosen (research on specific types of financial exclusion and related CDF initiatives).

9. APPENDICES

9.1 Appendix A: Discussion Guide

The following list of issues describes the subject matter covered in free flowing discussions with stakeholders. Not every issue was covered in each interview, and the sequential order did not always follow that shown here. Participants were encouraged to raise other related issues if they were relevant to the core topic.

1. Introduction

- Background to this research
- Confidentiality issues

2. This Organisation

- Mission, size, served market, involvement with people who are financially excluded

3. This Person

- Role, involvement in financial exclusion.

4. Awareness of ANZ's Financial Exclusion Project

- Awareness and reactions to ANZ's initiative in this area.
- Comments on the discussion paper (sent in advance to them by ANZ).

5. Definitions of Financial Exclusion

- Unprompted – probe for definitions.
- Prompt with one or two working definitions from the literature/ANZ discussion paper.
- Discuss how the notion or temporary versus long term/permanent financial exclusion may/may not apply.

6. Description of Known Segments of Financial Exclusion

- What are the segments of financially excluded people which this organisation/person sees or deals with?

- How does involvement with these particular segments come about?
- What other segments exist (ie segments that this organisation/person knows of, but does not interface with.)
- Discuss the implications for the next phase of research on financial exclusion (eg will various techniques of research be able to find these people, will they answer questions on their financial affairs, sensitivities, and how to overcome these).

7. Extent of Financial Exclusion

- Estimates of the extent of financial exclusion in the community (numbers, proportions). Discuss the relative size of temporary financial exclusion versus long term/permanent exclusion, and clarify what earlier estimates were including.
- Basis, sources of these estimates.
- Known data, research & reports to back this up/extend this knowledge base.
- Discuss the implications for the next phase of research on financial exclusion (eg If financial exclusion is a certain size and nature – what research implications are there from that?)

8. Main Drivers of Financial Exclusion

- Unprompted views on the main drivers, and the type of exclusion each creates.
- Prompt with drivers known or put forward for Australia and other countries and obtain views – which apply here, which are the most important, and evidence for such views.
- Probe for further drivers that may be triggered by the above discussion.
- Discuss the implications of these drivers (and the particular kinds of financial exclusion they cause) for the next phase of research on financial exclusion, which will attempt to measure the incidence and relative importance of these drivers. (eg people may not be able say why they are excluded, but we could measure the incidence of hypothetical drivers. If we do that, how do we establish the causal linkages. Discuss ways of doing this).

9. Non-Mainstream Products and Services

- Explore what financially excluded people are using instead of mainstream financial service providers (if anything), and what these products/services replace. Consider this in relation to non-mainstream products and sources in various categories:
  - Credit /microcredit
  - Loans
  - Transactions (cash and non-cash)
  - Insurance (if any)
- Explore drivers of using non-mainstream products and sources.
- Explore effects of using these alternative products and non-mainstream sources.
- Do the people using non-mainstream sources qualify as financially excluded? Why/why not?

10. Effects/Impacts of Financial Exclusion

- Prompt with effects/impacts known or put forward for Australia and other countries and obtain views – which apply here, which are the most important, and evidence for such views.
- Probe for further effects/impacts that may be triggered by the above discussion.
- As a follow on from this, explore what people really need most, at an overview level.
- Discuss the implications of these effects & impacts (and the particular kinds of financial exclusion that cause these) for the next phase of research on financial exclusion, which will attempt to measure the incidence and relative importance of these impacts/effects. (eg Some people may not want to discuss the bad things that have occurred because of being excluded. Others may not know that their financial malaise was caused by some exclusion, or that a particular standard of living is lower than it could have been if they had known about cheaper sources of credit or a combination of a higher standard of financial literacy coupled with proper use of savings accounts or cheaper forms of credit. In other cases, it may be difficult to identify from a questionnaire approach, whether it was imprudent financial management, not being registered for social welfare, crime or anti-social behaviour in the family, rather than lack of financial access, that has caused certain negative

outcomes for people.) Discuss how the research could address these kinds of issues.

11. Research Issues for the Next Phase(s)

- Recap the main measurement issues that will/may need to be considered in the next phase (of primary research).
- Other comments of relevance to this initiative by ANZ/this research.
- Recommendations regarding other key people to whom the researchers should speak.

9.2 Appendix B: Specific Potential Measures

The following is a suggested basis for beginning to develop one or more questionnaires for use in future quantitative research on financial exclusion in Australia.

Potential Demographics, Measures & Questions	Comments
Household / personal characteristics *Age of head of household* *Gender of head of household* *Household structure (young single, single parent, couple etc)* *Level of household savings* *Level of household debt* *Housing tenure (own, mortgage, rent, public housing etc)* *Ethnicity / ethnic background* *Indigenous status* *Existence of disabilities* *Regional location* *Religion status* *Highest level of education* *1st language used in household* *Spoken English / English literacy skills* *Degree of financial education / literacy*	] *Basic household characteristics and indicators required to profile included and excluded households.*
Particular household / personal characteristics ***Employment status*** *Nature of employment* *Stability of employment* *Length / prevalence of any unemployment* *Number of days worked in last 12 months* *Future employment prospects* ***Total household income level*** *Level of household income* *Stability of income(s)* *Main sources of income(s)* *Whether social security recipient(s)*	] *Detailed understanding of the status and nature of employment situation* *Detailed understanding of the status and nature of household income situation*
Measures of financially disadvantaged / financial stress / financial wellbeing *Could household access $2000 in a few days if required* *ABS measurement approach (Financial stress indicators)* *HILDA measurement approach (Financial stress indicators)* *Measures of financial wellbeing*	] *Need to identify and agree on measures of financial well being and / or measures of financial disadvantage*

Potential Demographics, Measures & Questions	Comments
Product / service ownership & usage *Transaction accounts* *Savings accounts* *Major credit cards* *Fixed term loans* *House and contents insurance* *Third party property vehicle insurance* *Home equity / mortgage loans* *Superannuation* *Use / access to financial counselling* *Use / access to financial advice* *Use / access to financial tools*	] *Ownership and / or usage of financial products and services from major finance industry providers*
Relationships with mainstream providers *Do they have any contact / relationship with mainstream providers* *The nature of the relationship with mainstream providers* *The main way they interface with mainstream providers* *The perceived adequacy of mainstream provider products and services* *Advice and support provided by mainstream providers*	] *There is a need to understand the nature of any relationship with mainstream providers*
Usage of non mainstream providers *Pawn brokers* *Pay day lenders* *Cheque cashers* *Fringe finance providers* *Charitable / community enterprises (i.e. NILS etc)* *Store cards* *Finance cards* *Other store / POS credit facilities* *Informal providers (family, friends, personal networks)* *Sporting / social clubs*	] *Ownership and / or usage of non mainstream financial products and services*
Financial behaviours and habits *Whether have a regular savings approach / plan* *Whether have a regular investment approach / plan* *Whether have a regular debt management / loan repayment approach / plan* *Whether have risk management approaches / plans (house & contents / third party)* *Whether make personal contributions to superannuation* *Whether have emergency funds (to overcome spikes in cash flow / emergencies)*	] *Personal financial behaviours and habits.*

<table>
<tr><th>Potential Demographics, Measures & Questions</th><th>Comments</th></tr>
<tr><td>Attitudes / beliefs about inclusion / exclusion
Whether feel financially excluded
Ever felt discriminated against by major provider
Whether forced to use harmful or inappropriate products
Whether poor or no credit rating is a barrier / limits access
Whether account opening requirements are a barrier / limit access
Whether conditions attached to products / services are a barrier / limit access
Whether self excluded (because believe mainstream providers will exclude)</td><td>] Personal beliefs about whether financially excluded and why they think they are excluded or not excluded.</td></tr>
<tr><td>Specific exclusion experience
Product access exclusion
Whether ever rejected / can't access transaction account
Whether ever rejected / can't access interest bearing savings account
Whether ever rejected / can't access house & contents insurance
Whether ever rejected / can't access third party property vehicle insurance
Whether ever rejected when applying credit card
Whether ever rejected when applying personal loan
Whether ever rejected when applying home mortgage
Whether ever rejected when asking for superannuation investment advice
Ever had a financial product / service withdrawn by mainstream provider
Channel exclusion
Degree of physical access to face to face channel / facilities
Degree of physical access to ATM channel / facilities
Degree of physical access to telephone channel / facilities
Degree of physical access to internet channel / facilities
Degree of physical access to bill paying services
Degree of comfort / familiarity with various channels
Preferences for use of various channels
Ability / capacity to use non face to face / technology based channels
Price exclusion
Forced to use high cost products and services (credit cards)
Refused to use (by choice) high cost products and services
Cant afford / unable to pay for particular products and services
Self exclusion
Believe mainstream providers won't provide financial services (so don't ask)
Believe mainstream providers don't want to deal with them (so don't ask)</td><td>] Personal experiences (including perceived / stated reasons for lack of access / being rejected)
] What they did as a result (where they went / how they coped)
] Perceived impacts of lack of access / being rejected / being forced to use inappropriate products / channels</td></tr>
</table>

Potential Demographics, Measures & Questions	Comments
Impacts of lack of access to appropriate, fair safe financial products / services and / or use of inappropriate, unfair or unsafe financial products / services *Inability to acquire basic household goods & services* *Inability to acquire common household assets (house, car etc)* *Inability to pay basic bills (electricity, gas, water etc)* *Inability to properly feed household members* *Inability to pay for basic household expenses (medical, education)* *Inability to deal with short term cash flow spikes / financial shock* *Inability to generate savings greater than $2,000* *Inability to generate long term savings / investments (superannuation)* *Forced to use high cost product / services (high interest rates etc)* *Inability to gain stable and secure housing* *Inability to pay for risk management services (become vulnerable)* *Inability to afford a holiday / break from daily routine*	] *There is a need to develop a list of specific impacts from a household decision maker's point of view.*
Social / community connectedness / networks *Existence of other family members in same city / area* *Degree of support / interaction with other family members* *Degree to which feel part of local family or isolated* *Whether participate in local community activities (clubs, sports, community activities)* *Whether use community programs / resources* *Degree to which feel part of local community or isolated* *Existence of a close circle of fiends* *Degree of support / interaction with close circle of friends* *Degree to which feel part of close circle of friends or isolated* *Whether participate in religion / religious community* *Degree of support / interaction with religious community* *Degree to which feel part of religious community*	] *Whether household participates in / is connected to family and / or local community – degree of connectedness*
Mitigating factors *Whether suffer from mental disorders / depression* *Whether have problems with betting / gambling* *Whether experience domestic violence in household* *Whether suffer from alcohol / substance abuse*	] *Personal circumstances that potentially exacerbate / contribute to exclusion*
Other issues *Measures / indices of sub optimal participation* *Measures / indices of social deprivation* *Perceived needs for particular financial products / services* *Reactions to potential provision of particular financial products / services*	] *Other potential measure to be considered*