



Good Shepherd  
**Microfinance**

# National Financial Literacy Strategy

**Response to consultation paper**

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# Introduction

## **We welcome the opportunity to participate in the consultation process for the development of a new financial literacy strategy in Australia for 2018 and beyond.**

As with previous strategies, the new strategy will be an essential framework to guide organisations, governments, and industry to work together to build financial capability, and financial wellbeing, across Australia. We fully support the ongoing commitment of the Australian Securities and Investments Commission (ASIC) to financial capability. This includes ensuring that our collective efforts continually evolve as our understanding of how financial wellbeing and behaviour change develops, informed by a growing body of research and literature in Australia and internationally.

Good Shepherd Microfinance believes that financial capability alone cannot bring about economic wellbeing, especially for those on the very lowest incomes. We recognise that behaviour change occurs within an ecosystem, and while promoting behaviour change and financial capability is important, this must occur in conjunction with work towards progress in the other elements of economic wellbeing put forward by ASIC in the previous National Strategy (e.g. financial inclusion, consumer protection, and fair and efficient financial markets).<sup>1</sup>

In addition to the recommendations and suggestions offered in this submission, we also advocate for increased funding for Newstart, as well as, increased funding for financial counsellors and inclusive finance initiatives across Australia to provide both proactive and responsive financial education and support.

Our responses to each of the proposals and discussion questions are below.

## Proposals

### **Proposal 1: We propose to update the language of the National Strategy from ‘financial literacy’ to ‘financial capability’**

Good Shepherd Microfinance agrees with this proposal, as we believe financial capability is a more accurate term to identify the diverse areas of work occurring in this sector. We also believe that this change in language is more positive and more likely to motivate clients to engage with money matters. Good Shepherd Microfinance considers financial capability to be a key pillar of economic wellbeing, allowing people to draw on their capabilities to use external resources to avoid financial problems and to recover from financial shocks.

### **Proposal 2: We propose to extend the timeframe of the next National Strategy to up to 10 years**

Good Shepherd Microfinance agrees with this proposal as we believe holistic systemic change takes time and a longer-term horizon will support this goal. To ensure this strategy remains relevant and effective throughout a 10 year period, it will be necessary to commit to a review process that includes deadlines and protocols for assessing progress and amending sections as needed and in a timely manner. Key considerations could include ensuring the strategy continues to align with current research and insights, particularly in the field of behavioural psychology and in relation to the evolving digital landscape. We consider that a review process conducted every three years would be appropriate, which could be supported via the continuation of the Financial Attitudes and Behaviour Tracker.<sup>2</sup>

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<sup>1</sup> ASIC (2014) Financial Literacy Strategy 2014 - 2017

<sup>2</sup> [www.financialliteracy.gov.au/research-and-evaluation/financial-attitudes-and-behaviour-tracker](http://www.financialliteracy.gov.au/research-and-evaluation/financial-attitudes-and-behaviour-tracker)

**Proposal 3: We propose that the 2018 National Strategy will emphasise the following core behaviours that support improved financial capability: (a) Managing money day-to-day; (b) Planning for the future; and (c) Making informed decisions.**

Good Shepherd Microfinance supports the proposal to emphasise behaviour change as key to improving financial capability and inclusion as a core priority of the National Strategy. We consider that recognising behaviour change as the goal of financial capability initiatives is important to achieving long-term impact.

As stated previously, it is also important to reiterate that behaviour change occurs within an ecosystem, and that while promoting core behaviours is important, it must be supported by making progress towards other elements of economic wellbeing.<sup>3</sup>

The core behaviours identified in the consultation paper are similar to the financial behaviours identified in the 2014-2017 strategy, with changes including: controlled spending; confident decision making; and comfort discussing money with family and friends. Our feedback includes:

- **Controlled spending:** We assume 'controlled spending' includes understanding and prioritising needs versus wants, but consider that the strategy may be more effective if this is identified explicitly.
- **Discussing money with family and friends:** It would be valuable to have more information about the intent of the behaviour 'being comfortable talking about money with family and friends'. Given social norms under which discussing money with family and friends can be considered impolite, we are unclear about whether this can be considered a core indicator of financial capability.
- **Making informed decisions:** We recommend including the following to 'making informed decisions': understanding and recognising harmful products or scams and feeling confident to advocate for one's consumer rights with regard to financial products and services.
- **Diverse and inclusive approaches to money:** We recommend considering ways to allow for the definition and core behaviours of financial capability to be inclusive of diverse approaches to money and financial wellbeing. For example, research has identified that for Indigenous Australians, having knowledge about money is more important to wellbeing than demonstrating core financial behaviours such as spending or saving<sup>4</sup>, as well as culturally distinct approaches to money such as the importance of sharing and caring to financial life. Other research has called for a gendered approach to financial capability to include the unique needs of women, such as, women may feel disempowered and be more likely to not understand financial terminology.<sup>5</sup>

In developing the action plan for the strategy, Good Shepherd Microfinance urges ASIC to consider recent advances in understanding behaviour change and innovations in supporting behaviour change in relation to financial capability. These include: bringing financial capability closer to financial services; connecting education to real-life opportunities; making it fun; using a social context; using rules of thumb; and taking advantage of touchpoints between the government and citizens.<sup>6</sup> One example of this in practise is the Money Advice Service's Online Money Manager interactive tool that is delivered alongside work search interview support in the United Kingdom.<sup>7</sup>

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<sup>3</sup> ASIC (2014) Financial Literacy Strategy 2014 - 2017

<sup>4</sup> Eccles, K., Cairney, S., Abbott, T. & Wilson, B. (2017) 'Exploring Wellbeing within Wunan's Financial Counselling, Capability and Resilience Hub – Applying the Interplay Wellbeing Framework' for Good Shepherd Microfinance

<sup>5</sup> Stebbins, T., M. Planigale and J. Canty-Waldron. 2014. Evaluation of Good Shepherd Firmer Foundations Program: Discussion Paper – Non-Crisis Family Violence Work. Lirata Consulting, Melbourne.

<sup>6</sup> Arnold, J., & Rhyne, E. (2016) A Change in Behaviour: Innovations in Financial Capability prepared for the Centre for Financial Inclusion

<sup>7</sup> United Kingdom Department for Work and Pensions (2017) Free online support to help Universal Credit claimants with their personal finances launches today

# Issues for discussion

## Issue 1: Priority audiences

### **A number of priority audiences have been identified under previous National Strategies. What are the most important priority audiences for the 2018 National Strategy to focus on?**

Good Shepherd Microfinance broadly supports the approach taken by ASIC to focus on target groups in National Strategies, given research has identified the need for targeted approaches to address financial capability.<sup>8</sup> As a first step, we recommend evaluating the effectiveness of the previous work undertaken by ASIC to ensure that future efforts are as effective as possible, particularly the work undertaken to promote the financial capability of women and Indigenous Australians.

In addition to the priority audiences identified in previous National Strategies, we recommend that ASIC consider focusing on the following groups:

- Continued focus on women and girls, particularly those experiencing family violence and economic abuse.
- People on very low incomes, including Centrelink recipients, people experiencing homelessness and those with casual, minimum wage, or insecure work.
- Young adults identified as having particular weaknesses in aspects of financial capability (such as, long term planning, financial confidence, and seeking help)<sup>9</sup> and as having less financial security<sup>10</sup>.
- Incarcerated or previously incarcerated individuals.
- People in rehabilitation or transition out of addiction, homelessness, and other vulnerable phases.

In implementing programs and developing materials for priority audiences, it will be necessary to ensure that the target audiences are not only represented and consulted, but have the opportunity to actively participate in and influence stakeholder discussions and decision-making. For example, the Human Centred Design or Living Labs approach to research and program design embeds the end-user in every stage to ensure the solutions directly correspond to the unique needs of the target user groups.

## Issue 2: Broadening stakeholder reach and engagement with the National Strategy

### **Working collaboratively has been an essential element of previous National Strategies. What are the most effective ways of broadening stakeholder reach and engagement with the National Strategy?**

A key challenge for the future of the National Strategy will be to increase collaboration between and within governments, organisations, and businesses. A number of the collaborative forums identified in previous strategies no longer exist, such as the National Financial Literacy Forum and MoneySmart Week. The monthly Financial Literacy Community of Practice is a highly valuable opportunity to share research, case studies of success, and update the community, but does not provide a platform for collaboration.

This offers new opportunities to develop forums for stakeholders across multiple sectors to come together, to share learnings, and build new partnerships. We recommend that new avenues for collaboration are centrally coordinated by ASIC, as our experience with Financial Inclusion Action Plans (FIAPs) taught us that organisations will engage enthusiastically if they do not have to lead collaboration.

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<sup>8</sup> Kempson, E., Perotti, V., Scott, K. (2013) Measuring financial capability: a new instrument and results from low and middle-income countries

<sup>9</sup> Harrison, T., Marchant, C., Ansell, J. (2016) Young adults financial capability, prepared for the Money Advice Service

<sup>10</sup> Marjolin, A., Muir, K., Ramia, I., and Powell, A. (2017) Why is financial stress increasing? Financial Resilience in Australia 2016 – Part 1, Centre for Social Impact (CSI) at UNSW Sydney, for National Australia Bank

### Issue 3: Emerging opportunities and challenges

#### When updating the National Strategy, what emerging opportunities should be considered? Are there issues that might require greater emphasis in the 2018 National Strategy?

Good Shepherd Microfinance has identified a number of opportunities and issues that should be considered in developing the new National Strategy, including:

**Financial Inclusion Action Plans** - This review process is an opportunity to formalise the alignment of FIAP with the National Strategy, in particular to further support the 'shared responsibility' principle put forward in the previous strategy. This would provide a framework for how financial services providers can integrate financial capability and financial inclusion activities into one action framework.

For example, FIAPs provides a method, framework, advisory service and reporting process for financial services providers to explore ways of offering 'high quality financial literacy information to customers'. This alignment could be further supported by formalising a shared reporting procedure for organisations participating in both initiatives.

**Linking environmentally-friendly and pocket-friendly behaviours** - The review is also an opportunity to collaborate with environmental organisations and promote or subsidise environmentally-friendly and pocket-friendly behaviours (for example, backyard/community gardening and rainwater harvesting) that have both short-term and long-term economic benefits for individuals and communities.

**The Financial Technology (FinTech) sector** - The emergence of financial technology start-ups in Australia and internationally will be an opportunity and should be incorporated into the National Strategy so that technological innovation is embedded into the sector rather than 'disrupting' financial capability activities.

In the United Kingdom, The Financial Conduct Authority has recognised this opportunity by bringing market participants together to work collaboratively and innovatively on shared challenges in financial services in TechSprints ([www.fca.org.uk/firms/regtech/techsprints](http://www.fca.org.uk/firms/regtech/techsprints)). These events are designed to 'unlock the potential benefits of technology innovation', and have focused on challenges including consumer access, regulatory reporting, and mental health related to financial services.

**Digital capability and financial capability** - Being digitally capable can help consumers make the most of FinTech products and make the most of their financial circumstances, with research identifying that being digitally savvy intersects with being financial capable, in particular in helping people to save money and track finances<sup>11</sup>. Aligning strategies and activities to address both digital and financial capability at the same time is an opportunity for enhancing impact in both areas.

**Comprehensive credit reporting** - The National Strategy should recognise the recent changes to Australia's credit reporting system and the need to include this in future financial capability activities. This will be a particular challenge for consumers under the age of 35, with recent research identifying that 40 per cent do not know what a credit score is, and 73 per cent being unaware of changes to the reporting system ([www.operationhope.org/700creditscores](http://www.operationhope.org/700creditscores)).

In the United States of America where a low credit score can have significant financial and social impacts, including reducing employment and housing opportunities, there are examples of financial capability programs that focus on increasing credit scores with the goal of improving financial dignity and empowering consumers.<sup>12</sup> The National Strategy should incorporate the need for greater work in this area and the value in providing education targeted at people of different ages.

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<sup>11</sup> Lloyds Bank (2016) Consumer digital index: Benchmarking the digital and financial capability of UK consumers, Prepared in association with Accenture

<sup>12</sup> Loza, J., Godinho, V., Thomas, L & Eccles, K. (2016) Take Charge: Credit Reporting and Millennials, prepared by Good Shepherd Microfinance for Consumer Owned Banking Association (COBA)

**Small business financial capability** - The review of the National Strategy is an opportunity to incorporate focus on capability-building for small and micro businesses. The focus has previously been on individual financial capability, however we know the most common cause of small business failure is lack of commercial capability including managing finances and separating personal from business money.

**Workplace-based financial capability** - High financial stress in the workplace is costing businesses 47 billion per year, with one in four employees experiencing high stress and low resilience.<sup>13</sup> The National Strategy could address how financial capability can be promoted in workplaces, as part of boosting productivity as well as employee benefits.

### **What are the potential challenges to be considered in the 2018 National Strategy?**

Good Shepherd Microfinance considers that there are many challenges that impact people's financial capability, which should be considered in developing the 2018 National Strategy. Specifically, many external factors beyond financial literacy or behaviour inhibit people's chances of achieving financial resilience and wellbeing, and should be recognised, including:

- **Financial inequality in Australia** – This includes income and wealth inequality, and the unequal growth in real wages meaning people in the lowest income groups have insufficient income to adequately meet the basic costs of living.<sup>14</sup>
- **Financial stress of people in Australia** – Research shows that one in eight adults in Australia (12.6 per cent) experienced severe or high financial stress in the past year, an increase of 11.1 per cent from the previous year.<sup>15</sup> This suggests financial capability support should incorporate strategies for reducing factors that cause financial stress, in addition to promoting resilience-building behaviours such as saving or spending more wisely.
- **Increasing levels of household debt<sup>16</sup>, including the growth of the Australian market for small amount loans<sup>17</sup>** - This trend will mean that more and more households will seek financial support, including financial capability support, at the point of over-indebtedness and severe financial stress and need specific support before focusing on building financial resilience for the future. This will be exacerbated if predicted changes to the housing market transpire.
- **Gender impacts on economic wellbeing** – Women have different experiences than men in numerous aspects of their financial lives. Key factors include wage inequality, experiences of separation and single parenting, financial abuse, lower levels of superannuation later in life and the disproportionate amount of women in paid and unpaid caregiving roles.<sup>18</sup>
- **Economic impacts of climate change** – Climate change is predicted to have a range of household economic impacts including changing the labour market, the costs of insurance, and prices for essential items such as food, fuel, and energy.

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<sup>13</sup> AMP (2016) Financial wellness in the Australian workplace

<sup>14</sup> Whiteford, P (2013) Australia, Inequality and Prosperity and their Impacts in a Radical Welfare State, Crawford School of Government, Australian National University.

<sup>15</sup> Muir, K., Hamilton, M., Noone, J.H., Marjolin, A, Salignac, F., & Saunders, P. (2017). Exploring Financial Wellbeing in the Australian Context. Centre for Social Impact & Social Policy Research Centre – University of New South Wales Sydney, for Financial Literacy Australia

<sup>16</sup> International Monetary Fund (2017) Global Financial Stability Report October 2017: Is Growth at Risk?

<sup>17</sup> Banks, M., De Silva, A. & Russell, R. (2015). Trends in the Australian small loan market. Melbourne, Australia: Australian Centre for Financial Studies, School of Economics, Finance and Marketing, RMIT University.

<sup>18</sup> Economic Security4Women (2016) Lifelong Economic Wellbeing for Women in Australia Research Report

## **Issue 4: Research, measurement and evaluation**

### **How can we collectively improve research, measurement and evaluation of financial capability initiatives aligned with the National Strategy?**

Good Shepherd Microfinance has two suggestions for improving research, measurement and evaluation of financial capability activities, as described below.

#### **National indicators and basic evaluation frameworks**

We propose that the National Strategy could include an action to develop a national set of indicators and a basic evaluation framework and tool that could be used by businesses and organisations to measure the effectiveness of their work. These tools would enable small businesses and organisations with small budgets to evaluate their financial capability initiatives, as well as allowing comparison across financial capability activities, and lead to a national dataset on the effectiveness of interventions. These could be based on the financial capability and wellbeing indicators in ASIC's Australian Financial Attitudes and Behaviour Tracker, which could also allow programs to measure success against a national baseline, provide a way of comparing program effectiveness, and build knowledge about different population segments.

This proposition would be even more useful if the raw data from the Australian Financial Attitudes and Behaviour Tracker was released publically, enabling organisations to construct their own baselines based on factors that relate to their client base. As an example, the NILS program offered by Good Shepherd Microfinance is only available to people with a net income below \$45,000 and in stable housing. Being able to filter the raw data from the Australian Financial Attitudes and Behaviour Tracker would enable us to have a relatively accurate baseline from which to compare the results of evaluation questions that align with the questions in the tracker. Using baseline or control group data to compare data from interventions is the 'gold standard' for evaluations, but is almost always beyond the financial limitations of non-profit organisations given the high cost.

#### **Funding for research and evaluation**

We recognise that Financial Literacy Australia has made a concerted effort to ensure that programs receiving funding have the resources and capabilities to evaluate financial capability initiatives. This includes providing shortlisted grantees with access to assistance to develop programs evaluation plans. Increasing this in the future, as well as providing dedicated funding for undertaking rigorous evaluation, would ensure that this work continues and increases in the next National Strategy. This could be modelled on the 'What Works Fund' in the United Kingdom, a £10 billion dedicated evaluation fund set up to understand more about the most effective methods of improving financial capability ([www.fincap.org.uk/what-works-fund](http://www.fincap.org.uk/what-works-fund)).

### **What are the most effective ways of disseminating learnings from financial capability initiatives?**

Having been actively involved in the Community of Practice over recent years, Good Shepherd Microfinance supports the continuation of this forum as a valuable channel for learning and sharing. Our suggestions for improving the Community of Practice include making the full presentations and discussion available online and providing opportunities for greater collaboration and strategic partnership via this forum. This could include using the forum to host hackathons or workshops about certain challenges, or to have dedicated sessions on specific topics.

We also support the introduction of a hub for disseminating, sharing, and discussion learnings from research and evaluation activities relating to financial capability. This would make information easily accessible, particularly for business, organisations, and others who are not primarily engaged in the sector. An international example of this is the Evidence Hub that forms part of the United Kingdom's Financial Capability strategy, which compiles research from across the globe according to themes and with useful summaries ([www.fincap.org.uk/evidence\\_hub](http://www.fincap.org.uk/evidence_hub)). An Australian version of an evidence hub would ensure that topics unique to Australia are also incorporated, for example, financial capability and Indigenous Australians.

## **Issue 5: Getting involved**

### **How could we encourage more organisations to get involved with the National Strategy?**

Good Shepherd Microfinance supports efforts to broaden participation and collaboration with the National Strategy. Our suggestions for increasing involvement are:

- Incentivise and support organisations and businesses to implement financial capability-building programs and services for their clients, staff, suppliers and community partners. This could be achieved in conjunction with the Financial Inclusion Action Plan program.
- Identify stakeholder groups that have not typically engaged with the National Strategy (for example small businesses) or may not traditionally work in the financial capability space, and offer avenues for them to dip their toes in the water. One approach could be developing tools and resources specifically for small businesses that cannot afford to develop their own programs to provide financial capability supports to their staff.
- Broaden the National Strategy's scope to acknowledge and include the systemic issues that affect all aspects of individual, household, and community financial capability and wellbeing. This holistic approach would recognise the interrelatedness of currently siloed issues, such as education, environment, refugees, asylum seekers and homelessness, and the ways in which improved financial capability under the National Strategy can contribute to the objectives of the many diverse organisations working to improve people's lives. Working with the Financial Inclusion Action Plan program, as suggested in this draft document, could be one step in that direction.



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