THE UNIVERSITY OF MELBOURNE

How Australians feel about their finances and financial service providers **2019**

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Introduction

If we are to improve the financial wellbeing of Australians, we need to have a clear picture of the current issues Australians face with regards to their finances

Throughout the Royal Commission into Misconduct in Banking, Superannuation and Financial Services, analysts and the media were quick to report the approximate value of remediation payouts and fines. While these figures estimated the costs faced by financial service providers, there was little consideration of the cost to the Australian people. This was likely because the Royal Commission considered known and suspected cases of misconduct, and therefore did not assess the burden of the issues described at a national scale. Not knowing the prevalence and burden of financial issues at the population level, however, means that the issues could be interpreted as "fringe" to the Australian population as a whole, rather than representative of issues facing the population generally.

To quantify these issues, and understand more broadly the challenges faced by Australians in managing their finances, academics at the University of Melbourne commissioned the research agency Forethought to conduct two focus groups and a nationally representative survey.

Importantly, a wealth of data already exists in relation to Australians' financial wellbeing, financial hardship, literacy, resilience and inclusion (see Appendix, p. 14). This study was designed in recognition of this data, with the ambition to generate unique insights regarding how Australians feel about their finances and financial services. Given that the research was conducted following the delivery of the Royal Commission final report, in April and May of 2019, the research allowed for a timely examination of Australians' opinions as regards financial service providers and finances in general.

The research confirmed that a trust deficit exists in the financial services sector. Worryingly, the most common response to the question "what do you feel is stopping you from improving your financial situation" was "I do not trust financial institutions or advisers". Further, it was found that over half the population had experienced one or more issues with financial service providers. Such experiences, therefore, were far from "fringe" and the cost to the Australian people is significant.

The results shared in this report were critical in informing the University of Melbourne's white paper "FinFuture: The Future of Personal Finance in Australia". As per the argument in the white paper, a re-orientation is needed in the financial services sector. Specifically, the sector needs to serve the interests of the Australian people by focusing on financial wellbeing. We hope that this short report will inspire other initiatives aimed at improving financial wellbeing in the Australia population.

Australians deserve a financial services sector that they can trust to work with to improve their financial wellbeing. As other studies have shown, how you feel about your finances affects how you feel about life in general (see e.g. Netemeyer et al., 2018). For a happier, healthier and more prosperous Australia, coordinated actions on behalf of industry, government, academia and the Australian public are required to make this change.

Executive Summary

- Almost 1 in 3 Australians are dissatisfied with their financial situation. The most commonly cited barrier to improving their financial situation was a lack of trust in financial institutions and advisors.
- This trust deficit is unsurprising given that the majority of Australians (54%) have experienced an issue with financial service providers in the last five years. The estimated cost of these issues (in the last 5 years alone) to Australian households is $201 billion.
- Aside from this lack of trust, other key barriers include being overwhelmed by finances and not having the necessary skills.
- Most Australians (77%) have regrets with regards to their finances, with the top three of these regrets being related to behaviours (e.g. not saving, investing or budgeting), while the fourth most common regret was ‘not learning more about finances and money’.
- The study found, in line with other research, that unexpected life events often negatively impact finances and that most Australians are not prepared to weather such shocks. Indeed, 1 in 5 Australians have less than $1,000 in savings and 1 in 2 have less than $10,000.

Research Method

In March 2019, academics at the University of Melbourne commissioned independent research agency Forethought Research to help understand how Australians feel about their finances. The study that was designed as a result comprised two phases, as outlined below. This design was informed by an extensive list of existing consumer research (as outlined in the Appendix) in the area of the personal finance.

PHASE ONE: QUALITATIVE RESEARCH

Objectives:

- Explore consumer experiences and the language used in relation to financial wellbeing to inform questionnaire development.
- Specifically, examine the obstacles and challenges to improving financial wellbeing and any financial regrets consumers may have.

Methodology:

2 x 90-minute focus groups held in Melbourne on 9 and 10 April 2019. A total of 15 people participated in the two focus groups.

Recruitment:

Due to the potential sensitivity of the topics discussed, the groups were recruited so that people of lower incomes and experience with financial stress formed one group and those in a middle class, less financially stressed situation formed the second group.

PHASE TWO: QUANTITATIVE RESEARCH

Objectives:

- Identify the most prevalent financial pain points and issues as well as the burden of these issues (prevalence and severity).
- Understand obstacles and challenges to improving financial health and wellbeing.
- Understand regrets consumers have regarding their personal finances.
- Identify and understand differences by key sub-groups, such as age, income, wealth and gender.

Methodology:

12-minute survey in field from 29 April to 3 May 2019.
Sample size: 1,029.

Recruitment:

To ensure national representativeness, Forethought and their fieldhouse monitored the sample throughout fieldwork to ensure that comparable allocations for ABS distributions of age, gender and location were captured. No weightings were required to achieve these allocations.

Almost one in three Australians are dissatisfied with their financial situation

Almost 1 in 10 Australians are extremely dissatisfied with their financial situation while 1 in 5 Australians are somewhat dissatisfied.

Recent research by the Melbourne Institute and the Commonwealth Bank of Australia regarding financial wellbeing has demonstrated that what people report about their financial situation can differ from observed metrics. This means that while understanding how Australians feel about their financial situation is important, it may be only part of the story (cf. Comerton-Forde et al., 2018).

> Australia is one of the most prosperous nations in the world. Yet, many Australians are dissatisfied with their financial situation.
>
> To understand why this is the case and how best to improve people's financial situation, more research is needed to understand what financial wellbeing is as well as how it can be improved.

How satisfied are you with your current financial situation?

Extremely dissatisfied	9.0%	Somewhat satisfied	34.0%
Somewhat dissatisfied	21.8%	Extremely satisfied	7.8%
Neither satisfied nor dissatisfied	27.4%	**Total Respondents**	**1,029**

The most common barrier stopping Australians from improving their financial situation is a lack of trust in financial institutions and advisors

A lack of trust in financial institutions and advisors was the most commonly cited barrier preventing Australians from improving their financial situation. Both in the findings from the focus groups and in comments collected through the survey, it was apparent that the Royal Commission and personal experience had led many Australians to distrust financial institutions and advisors.

Other recent studies confirm that Australians have little trust in financial service providers. A study conducted by Deloitte during the Royal Commission found that only 21% of Australians believed that banks in general had their best interests at heart and only 26% believed that banks will keep their promises (Deloitte 2018a).

> Trust is integral to the financial services sector. Without trust, people are less likely to take on advice or financial services products, which could help improve their financial wellbeing.

"I don't need to pay a banker for telling me what I already know. I don't have enough savings to invest either."

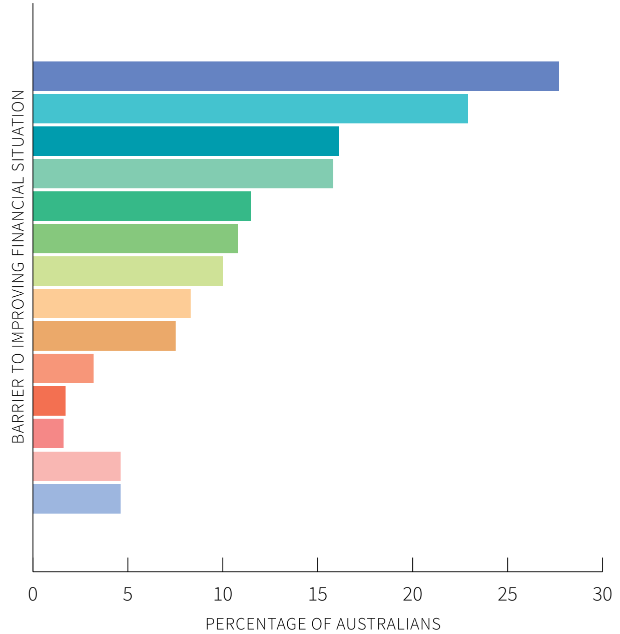
(Male Lower Income, 30-40 years old)

"They [financial institutions or advisors] tell you what you want to hear but not what you need."

(Male Lower Income, 40-50 years old)

Which of the following do you feel is stopping you from improving your household / your financial situation?*

*Multiple responses were allowed for this question, so these results may not sum to 100%.



I do not trust financial institutions or advisors	27.7%
Thinking about my finances is overwhelming	22.9%
I do not have the skills to improve my finances	16.1%
I do not have the time to spend on managing my finances	15.8%
I find finances too difficult to understand	11.5%
I have little interest in money / finances	10.8%
The right information about finances is not available to me	10.0%
The right tools are not available to help me manage my finances	8.3%
Income / Employment (e.g. not making enough money)	7.5%
Age/Retirement	3.2%
Cost of living	1.7%
Don't feel a need to improve my situation	1.6%
Other	4.6%
Don't know	4.6%
Total Respondents	**1,029**

This trust deficit is unsurprising given that the majority of Australians (54%) have had an issue with financial service providers in the last five years.

Which of the following issues have you experienced in relation to financial institutions in the last 5 years?*

*Multiple responses were allowed for this question, so these results may not sum to 100%.

High fees (e.g. bank fees, superannuation fees)	29.2%
Being sent or offered an increase to your credit card limit when this was not requested	24.5%
Being sent or offered a credit card when this was not requested	18.0%
Poor or misleading information	11.2%
Processing and administrative errors	9.0%
Being charged for services you never received	8.1%
Poor financial advice from a bank	7.3%
Poor financial advice from a financial advisor	4.5%
Unsuitable lending	4.5%
Poor financial advice from a broker (e.g. finance or mortgage)	4.2%
Discrimination from a financial services provider	2.1%
Non-consensual release of sensitive information by a financial services provider	2.0%
None of the above	46.0%
Other (please specify)	0.8%
Total Respondents	**1,029**

The majority of Australians (54%) had experienced at least one issue with a financial services provider over the past 5 years. Almost 1 in 3 Australians self-reported that they had been charged high fees and 1 in 10 had received poor or misleading information.

While the offering of increases to credit card limits is now against the law because of the Treasury Laws Amendment (Banking Measures No. 1), which came into effect in January 2019, almost a quarter of Australians cited this as an issue.

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry found a large number of cases of misconduct affecting Australians; however, it was not clear how many Australians were affected by these issues. This study quantified the prevalence of these issue amongst other commonly experienced issues, and found that the majority of Australians had been affected.

"Somehow a banker through [a bank] got in touch with my husband and wanted him to change his home loans to [the bank]. We didn't really want to but their terms were good enough and we switched. But then a month later, [the bank] put their interest rates up above where we were, so then we were worse off. Plus we had the costs involved in transferring."

(Female, Middle Income, 60-70 years)

"I was with [a bank] for years and read the Barefoot Investor and decided to switch banks. When I switched, they asked me why and I told them it was because of the fees [the bank] said you shouldn't be charged any fees. And I said, why haven't you offered this to me before? Why are you only telling me now?"

(Female, Lower Income 30-40 years old)

The estimated cost of these issues (in the last 5 years) to Australian households is $201 billion dollars

The cost of the issues reported with financial service providers was significant and far exceeded the estimated $10 billion in remediation costs that financial service providers have faced as a result of the Royal Commission (Eyers, 2019).

The average (mean) reported total cost per person was $20,473 while the median reported total cost per person was $1,000.

In extrapolating the mean result to the 54% of the Australian population (18 years plus) who experienced an issue, we can estimate that the cost of these issues to Australian households in the past 5 years is about $201 billion.

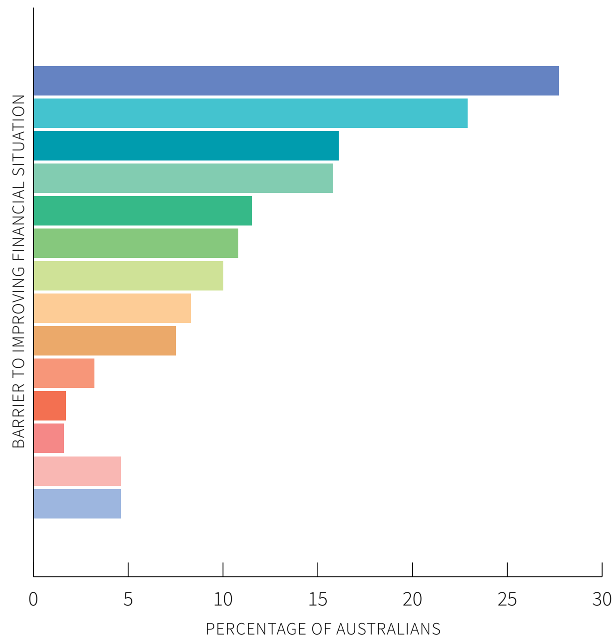
Issues with financial service providers have come at a huge cost to Australian households and have negatively impacted many Australians' financial wellbeing.

	Mean cost (based on sum per respondent)	Confidence Interval	Lower bound	Upper Bound
95% CI	201,221,175,928	110,271,542,510	90,949,633,419	311,492,718,438
90% CI	201,221,175,928	92,549,330,321	108,671,845,608	293,770,506,249

Besides a lack of trust in financial institutions and advisors, other barriers are a lack of skills and being overwhelmed by finance

Which of the following do you feel is stopping you from improving your household / your financial situation?*

*Multiple responses were allowed for this question, so these results may not sum to 100%.



I do not trust financial institutions or advisors	27.7%
Thinking about my finances is overwhelming	**22.9%**
I do not have the skills to improve my finances	**16.1%**
I do not have the time to spend on managing my finances	15.8%
I find finances too difficult to understand	11.5%
I have little interest in money / finances	10.8%
The right information about finances is not available to me	10.0%
The right tools are not available to help me manage my finances	8.3%
Income / Employment (e.g. not making enough money)	7.5%
Age/Retirement	3.2%
Cost of living	1.7%
Don't feel a need to improve my situation	1.6%
Other	4.6%
Don't know	4.6%
Total Respondents	**1,029**

The second most commonly cited barrier was that "thinking about my finances is overwhelming". This was significantly more likely to be selected by women than men.

In the focus groups, we heard that some participants found finance confusing as well as anxiety-inducing. This was often explained in terms of unexpected or changing circumstances. Others reflected that they did not have sufficient skills to deal with their finances, which aligned with the survey results where the third most commonly cited barrier was "I do not have the skills to improve my finances".

Personal finance can be complicated. People have different needs and life situations. In addition, the sector is complex and it can be difficult to know what the right decision or course of action is. Education and technology can be leveraged to upskill Australians and make personal finance easier to manage.

"Some of it's difficult to understand, especially when things change. Sometimes you think you're on top of things but then the rules change so there's that aspect of difficult."

(Female, Middle Income, 60-70 years)

"My education and information [prevent me from improving my financial wellbeing] as there are a lot of things I don't know how to do."

(Female, Lower Income 20-30 years old)

Most Australians (77%) have regrets when it comes to their finances

The top three regrets were all related to financial behaviors and the fourth most cited regret was "not learning more about finances/money".

In the focus groups, almost all participants shared regrets regarding their financial situation. Often, these regrets were related to "being young and naïve". For this reason, most participants strongly supported the idea of financial capability training in high schools. This was supported by the survey, where we found that 1 in 5 Australians regretted not learning more about finances/money.

Financial wellbeing is important and has established links to overall wellbeing, as well as mental and physical health. Yet, there is no consistent information available regarding how to improve financial wellbeing. Nor is financial capability training taught in all Australian schools.

For me, getting a credit card as soon as I turned 18. I'm 22 now so it's paid off and has been for over 28 months. I was only a kid sitting there thinking about all this money I didn't have and couldn't pay off. It's paid off now so it's fine but I really wish I had never got one."

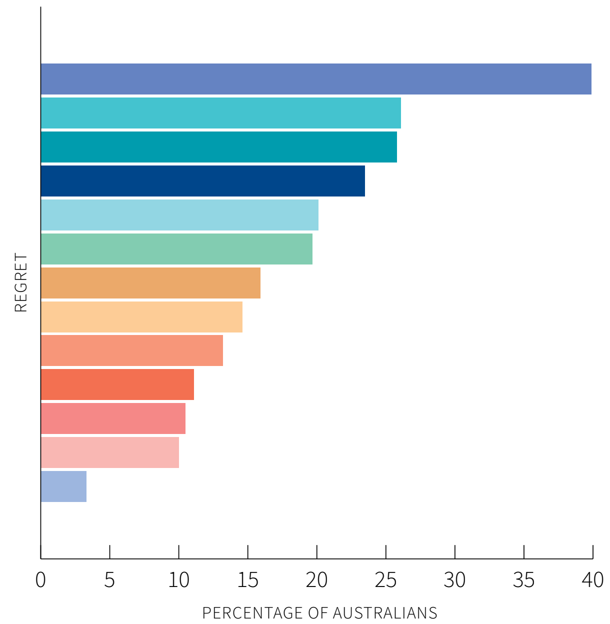
(Female, Middle Income 20-30 years old)

"[During a period] of 5-6 years I ran up $50,000 with my credit card. [It was a] huge regret. Watching money go down the drain... I was young, and my friends wanted to go out and I said okay I'll pay, what's another round of drinks? Looking back now, and I'm considerably older now, why did I spend that money out? Why did I need to spend that much? I remember I would eat out every night and spend $20-$30 on each meal. And my father's an accountant."

(Male, Lower income, 30-40 years old)

What are some of the regrets you have in relation to your financial choices?*

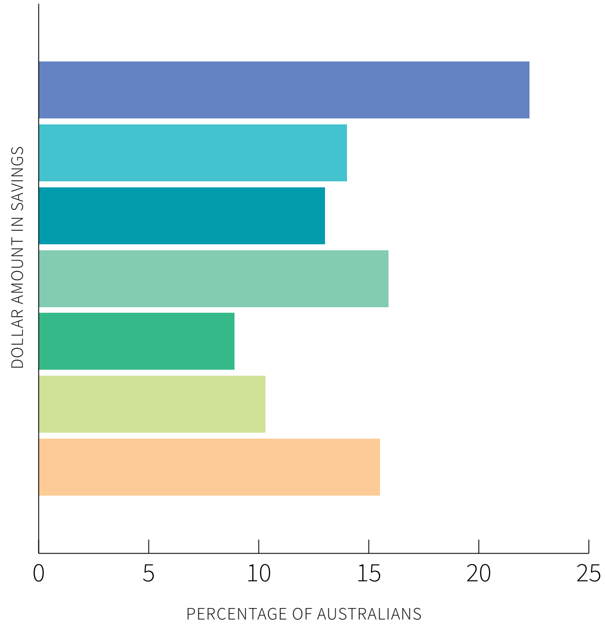
*Multiple responses were allowed for this question, so these results may not sum to 100%.



	Not saving enough	39.9%
	Not investing enough	26.1%
	Not budgeting/planning enough	25.8%
	Not learning more about finances/money	20.1%
	Spending beyond my means	19.7%
	Not shopping around for better prices/deals on everyday services (e.g. energy, phone)	15.9%
	Making poor investment choices	14.6%
	Not working enough	13.2%
	Getting a credit card	11.1%
	Borrowing too much money	10.5%
	Increasing my credit card limit	10.0%
	Other (please specify)	3.3%
	I do not have any regrets in relation to my finances	23.5%
	Total Respondents	**1,029**

Most Australians are ill-prepared to deal with financial shocks (part one)

How much does your household / do you currently have in savings?



	Less than $1,000	22.3%		$30,000 - $49,999	8.9%
	$1,000 - $4,999	14.0%		$50,000 - $99,999	10.3%
	$5,000 - $9,999	13.0%		$100,000 or more	15.5%
	$10,000 - $29,999	15.9%	**Total Respondents**		**1,029**

The survey results showed that 1 in 5 Australians have less than $1,000 dollars in savings and 1 in 2 have less than $10,000. These figures suggest that many Australians would be ill-prepared to deal with unexpected financial shocks. This aligns with other research conducted in Australia, such as the Financial Resilience study conducted by NAB and CSI (2018). To counter this, consumer advocate organisations such as Financial Counselling Australia recommend that all Australians build a 'savings buffer' to protect themselves against financial hardship (Financial Counselling Australia, 2016).

Other participants, however, noted that it was difficult to put any money away each month because of the high cost of living. This confirmed the recommendation from the Brotherhood of St Laurence Study "Spinning the Plates" (2015-2017), which found that for low income households, no amount of budgeting could adequately buffer against financial shocks. This study and our qualitative findings confirm that while financial capabilities are important, more structural conditions, such as access to secure work (as opposed to infrequent and casual work) and the amount of available safety nets (e.g. NewStart), must also be taken into account.

"For me, at the moment, I have just moved into safe housing after living in a refuge for 6 months, so I'm pretty much starting from scratch. Until I get enough savings, I write out my budget each week because I don't know what I'll need. I can't deviate from it, I don't have the extra funds to allow me to deviate. If my needs may change and I need to swap things in the budget, then I might, but the essential things don't change."

(Female, Middle Income, 30-40 years)

Most Australians are ill-prepared to deal with financial shocks (part two)

In the focus groups participants often referred to unexpected life events that had negatively impacted their financial situation. These often included health issues (physical as well as mental health), job loss and relationship breakdown. In the survey we found that most Australians had experienced life events which had negatively impacted their finances. Job loss was the most prevalent life event that negatively impacted people's finances, followed by personal physical health concerns and separation or divorce.

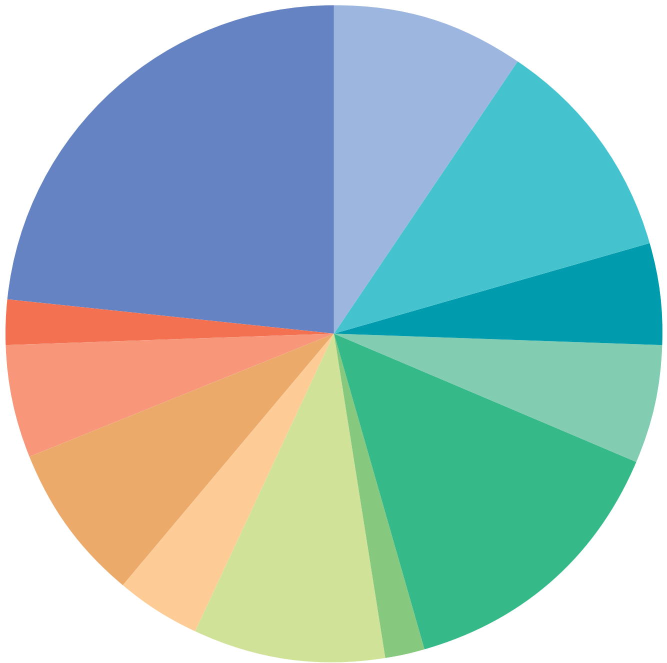
Many Australians need more savings to ensure that they can weather unexpected circumstances. While education, tools and technology will be important to foster behaviours to improve the savings of Australians, for some an increase in income or available welfare is necessary for any savings buffer to be achieved.

"I inherited a bit of money a couple of years ago and spent it all on recording equipment. I'm a musician so it seemed like I needed it. But if I'd known now that I'd be in this situation [with health issues and unable to work] then I would have put some of it away."

(Female, Lower income, 30-40 years old)

Have you ever experienced any life events which have negatively impacted on your finances?*

*Multiple responses were allowed for this question, so these results may not sum to 100%.



Separation / divorce	16.1%
Personal physical health concerns	18.0%
Caretaking a family member with high-needs health concerns	8.3%
Mental health concerns	9.7%
Job loss (e.g. redundancy, sudden termination)	23.5%
Domestic violence	3.5%
Unexpected expenses not related to health (e.g. property damage)	15.5%
Financial abuse by a partner or family member	7.0%
Inability to secure employment	13.0%
Death of a family member	9.0%
Other (please specify)	3.6%
None of the above	38.5%
Total Respondents	**1,029**

Some Australians are using tools and receiving support to help improve their financial situation, but more is needed

In the focus groups we heard that many people were using the MoneySmart tools or reading financial advice books such as *The Barefoot Investor* (Pape, 2007), and that these had prompted some participants to put aside money for unexpected situations.

While one participant commented that she had been pleasantly surprised by the support provided by her bank when she was put in a perilous financial position due to domestic violence, others commented that they had not been able to find support when needed.

There is an appetite as well as a need for financial education, tools and support in Australia.

"Since my health deteriorated and I'm not working anymore I've just started using an online budget planner. It's a spreadsheet, you put in all the expenses and work out how much you've got left over." (referring to MoneySmart budgeting tools)

(Female, Lower Income, 30-40 years)

"[The Barefoot Investor is] good to have something that tells you how much to put into your emergency account. Because this is new to me, I've always been living at home with parents, but now I don't need to rely on them. It also tells you what super to get. And things that I don't want to research myself."

(Female, Lower Income, 20-30 years)

"I defaulted on some payments because of health issues ... things that were beyond my control. When you're unwell and not able to work anymore there's not a lot of assistance."

(Female, Lower Income, 30-40 years old)

"[The bank] connected me with a domestic violence crisis team, they sent me a new mobile with prepaid credit and 500 dollar Visa gift card and a Coles card. They linked me with support services for me and my son as well. They introduced me to different play groups that help children that have been traumatised ... they have a specific team for it ... They even call me now, 3-5 months down the track asking if there's anything they can help me with."

(Female, Lower income, 30-40 years old)

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Contact:

Professor Carsten Murawski

The University of Melbourne
Parkville 3010, VIC

+61 3 8344 9077

carstenm@unimelb.edu.au

Learn More: **unimelb.edu.au/finfuture**