

Financial System Inquiry

Tel. +61 3 9925 5700

Fax +61 3 9925 5741

28 March 2014

Re: Submission to Financial System Inquiry

Thank you for the opportunity to participate in the Financial System Inquiry – this is a timely and comprehensive review of our financial ecosystem, and we are confident the outcomes will benefit all stakeholders across the industry, government, community and academia. At RMIT, researchers from many academic disciplines have had considerable experience in studying the Australian financial system including the sociology of banking and money, the design, measurement and evaluation of financial capability programs for disadvantaged Australians and financial transaction analysis. Our recommendations in this submission relate to those users in our financial ecosystem, who are disadvantaged.

The confidence to navigate an ever-changing financial landscape and make good, responsible decisions about money, is a core life-skill for every Australian (ASIC NFLS 2013). Informed decisions about earning, spending, borrowing and saving enhance financial wellbeing, enabling individuals to secure a sound economic future for themselves, their family and community. However 17.7% of Australian adults are fully/severely financially excluded (NAB 2013) i.e. lack access to safe, affordable and appropriate financial products & services, which reduces their financial and economic resilience, and compromises their financial wellbeing.

This exclusion is multi-dimensional, straddling demand-side issues related to users (eg. low financial literacy, socio-economic or locational disadvantage) and supply-side issues related to providers and financial markets (eg. product/services design, enabling processes and policies). People on low incomes, the young, women, Indigenous people and those from non-English speaking backgrounds are more excluded.

Financial exclusion has proven to be a ‘wicked’ and growing problem across the globe. Those excluded have lower financial resilience (i.e. difficulty in saving/borrowing small amounts to smooth everyday expenses, meet unexpected costs or acquire assets. With fewer opportunities to improve education/employment, they are vulnerable to adverse life events, and likely to experience social exclusion, stress and poor health. These inter-related, often entrenched root-causes can reduce their capacity to break out of cycles of disadvantage, or fully participate in economic activity. A financially

excluded population also undermines national economic development by reducing material consumption and productivity, whilst increasing demands on welfare and health systems. Market efficiency and competition are impacted, requiring more policy/regulatory intervention.

The financial crises experienced across the globe in the last decade, have exposed the extent of financial exclusion across both developing and developed economies – half the world i.e. 2.5 billion people are financially excluded (World Bank 2012). Financial inclusion has emerged as a key global policy agenda for policymakers and regulators, particularly in developing countries with large ‘un-banked’ (i.e. people who do not have access to a bank account) populations.

In Australia (as in other ‘High Income’ developed countries) the problem concerns a growing ‘under-banked’ population, who may have a bank account yet cannot access safe, affordable and appropriate financial products/services from mainstream financial services providers for a variety of reasons. The under-banked often rely on ‘fringe’ or informal providers to service their financial needs, despite incurring higher costs.

Economic modelling shows a significant business case for enhancing financial inclusion in Australia:

- (1) Improving the financial literacy of the least literate 10% of the Australian population over 10 years (CBA 2010):
 - a. increases GDP by AUD6.2bn p.a.
 - b. creates over 15,000 new jobs
 - c. increases per capita income by AUD3,204 p.a.

- (2) Moving 25% of financially excluded Australians from financial hardship to stability (‘Economic mobility’) increases GDP by 2% p.a (GSM 2013).

Partnerships between the finance and community sectors (supported by government) have emerged in the last decade in Australia, to address financial exclusion. ‘Financial Inclusion & Remittances’ has also been identified as a priority policy for the G20 Forum to be hosted in Brisbane in 2014. However the following challenges to Australia’s financial inclusion agenda remain:

- (a) The multi-dimensional nature of financial exclusion cuts across multiple sectors (industry, government, community) and multiple policy/regulatory frameworks (financial literacy, consumer protection, financial markets, social inclusion etc.). Such ‘shared responsibility’ makes it difficult to co-ordinate national efforts, measure and communicate gaps/outcomes, share learnings/best-practice, and ‘connect’ policy / regulatory response. Project-based interventions across diverse sectors using differing definitions / methods also make it difficult to standardize measures, evaluate progress or synergise efforts to reach the ‘critical mass’ required to extend reach and impact³.
- (b) Financial inclusion efforts have focused more on ‘demand-side’ responses i.e. financial literacy/ education, advocacy and counselling. More attention to ‘supply-side’ issues of user-centred product /service design and effectively functioning markets would re-balance focus to both sides of the financial exclusion debate. Research on the needs of ‘at-risk’ users and longer-term behaviour change can sustainably embed financial education⁴ in a changing environment. Exploring the financial capability of micro and small-business entrepreneurs would be useful, given economic uncertainty and softening employment.
- (c) The informal ‘payday’ lending and ‘rent-to-buy’ sector has grown significantly (estimated \$800m p.a.) – such lending can be high-cost/exploitative, pushing low-income users into ‘debt spirals’, further eroding their financial resilience (Banks et al. 2012). The design of alternative user-centred financial products and services, which are safe, affordable and accessible for ‘at-risk’ users (eg. the working poor, women, youth, Indigenous people, those with disabilities or language difficulties etc.) could help to stem such cycles of disadvantage. The Financial System Inquiry has also identified a focus on the cost, quality, safety and availability of financial products and services for all end-users; alongside new technologies and market innovation.
- (d) Partnerships between the finance and community sector (supported by government) are delivering alternative financial services (eg. microfinance) to people on low incomes, but available capital is unable to meet all demand. Microfinance has focused on asset-building for people on low incomes – expanding the focus to income-generation opportunities (eg. microenterprise) will further strengthen economic participation and mobility. However the community sector’s capacity and

capability is limited, as is research/evidence on impact, effectiveness and innovation in service delivery.

(e) Financial inclusion research in Australia has been largely provider-led - studies measure national exclusion (NAB 2013) and literacy (ANZ 2011), identifying population groups 'at-risk'. Whilst our research & policies are internationally recognised, the need for longer-term, user-focused research on behaviour change, impacts and evaluation, which can provide an evidence-base to inform cross-sectoral policy/program development has been noted. Collaboration with international experts can help raise priority, strengthen innovation and professional development for researchers, and cement Australia's leadership in developing effective, 'connected' solutions for the under-banked, and tackling remote/regional financial access issues.

Although the challenges outlined above appear significant, we recommend a possible solution via a dedicated Co-operative Research Centre (CRC) for Financial Resilience, which could help address many of the above issues. The CRC Program (Department of Industry) is a significant component of the national innovation system, which supports medium to long-term collaboration between researchers and end-users (i.e. a public or private entity capable of deploying the research outputs) to deliver significant economic, environmental and/or social benefits to Australia.

The CRC Program provides funding to build critical mass in research ventures between end-users and researchers, which tackle clearly-articulated, major challenges. CRCs pursue innovative, high impact solutions that end-users can effectively deploy. It also seeks to stimulate a broader education and training experience for post-secondary researchers, to enhance their employment prospects, providing them with the skills needed to utilise research outputs and produce innovative end-user centric solutions.

We trust these research insights will assist your efforts to review and enhance Australia's financial system. We welcome the opportunity to participate in further consultation, should you require any further information or clarification.

Yours sincerely,

Roslyn Russell

Professor Roslyn Russell
Economics Finance & Marketing,
RMIT University
GPO Box 2476
Melbourne, Vic 3001
Roslyn.Russell@rmit.edu.au

Vinita Godinho

PhD Candidate, Smart Services CRC Researcher
Graduate School of Business & Law,
RMIT University
GPO Box 2476
Melbourne, Vic 3001
Vinita.Godinho@rmit.edu.au

REFERENCES

ASIC NFLS 2013 'National Financial Literacy Strategy 2014-17'

Banks et al 2012 'Caught Short. Exploring the role of small, short-term loans in the lives of Australians'

CBA 2010 Commonwealth Bank Foundation 2010 'Improving Financial Literacy – benefits for all Australians' with Monash University Centre of Policy Studies & Ipsos-Eureka Social Research Centre

GSM 2013 Good Shepherd Microfinance 2013 'Financial Inclusion Continuum' Daymark/Good Shepherd Microfinance

NAB 2013 'Measuring Financial Exclusion in Australia' the Centre for Social Impact