



Your Financial Wellness
2/11 York Street Sydney NSW 2000
www.yourfinancialwellness.com.au

Friday, 28 January 2022

Pre-Budget Submission
Department of Treasury
Parkes ACT 2603

BY EMAIL: prebudgetsubs@treasury.gov.au

**YOUR FINANCIAL WELLNESS PRE-BUDGET SUBMISSION:
A FRESH APPROACH TO FINANCIAL LITERACY**

Dear Sir/Madam,

I refer to the government's call for pre-budget submissions for consideration in the 2022/23 Budget context. Your Financial Wellness is pleased to provide the following submission.

Background

Successive inquiries have found there is a clear link between financial literacy and empowering consumers to make better financial decisions that improve their circumstances.

As the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry found in its final report:

“Engagement with the financial services industry, by way of bank accounts, insurance and superannuation, is necessary in order to participate in society. Yet financial literacy among Australians is varied, and research suggests that people struggle with more complex financial dealings such as investments and superannuation.”

Your Financial Wellness (YFW) has proven that a strong correlation exists between financial literacy and financial wellness in Australia, and in doing so developed a proven measure of financial wellness.

Financial literacy is unquestionably shown to be a powerful prerequisite to enhance an individual's chances of achieving life changing goals, which lead to not only improved wellness and wellbeing but also personal wealth. The outcome for Australia is not only improved economic growth, but also a happier, more informed, and secure Australian society.

Importantly, financially literate Australians will be less of a tax burden to Government as they are more likely to be motivated to meet financial goals and much better positioned to fund their own retirements in later life.

Lack of Financial Wellness Remains an Issue in Our Economy

In 2021 Your Financial Wellness, embarked on a landmark research project to measure financial wellness in Australia. Conducted by the Centre for Social Impact at UNSW Sydney, the research confirmed that the Your Financial Wellness Index can reliably be used to measure the financial wellness of everyday Australians.

In a follow-up study of 3,000 participants released in July 2021, YFW found that there are issues with financial wellness in our society:

- Almost half (46%) of Australians experience some form of financial stress
- Almost half (51%) sometimes worry about meeting normal monthly expenses
- One in five (21%) cannot often afford to eat out or go to the movies
- Over a quarter of respondents (27%) reported high or overwhelming financial stress.

Basic financial literacy also remains an issue for many Australians, with less than one in three respondents (32%) able to answer three basic finance questions correctly.

In addition to the above, our analysis has found that:

- Women have lower financial wellness than men
- Home ownership is a very strong basis for financial wellness
- Renters have low wellness
- Savings strongly underpins wellness; however, given the current cost of living debate it was concerning that 40% of respondents have less than a month's salary in savings.

The [full report and findings](#) have been attached to this submission.

The COVID-19 pandemic has ushered in many changes. YFW considers it is now timely and appropriate to urgently review Australia's financial literacy position. It is vital to ensure the greatest wealth transfer about to occur via baby boomers isn't squandered, and that future generations have an improved start in life through sustained and tailored programs to support improved financial literacy.

Successive governments have tried to improve financial literacy, but we believe that this improvement should be delivered by the financial institutions whose role it should be to ensure their customers better meet their goals and aspirations via an improved level of financial literacy.

While many banks quite rightly bore the brunt of criticism for misconduct and critical failure to act in customer interests, what the Royal Commission showed was the nexus between a bank and its social utility. There is a positive role for financial institutions to play through good conduct and connection to its customers. As an independent third party, we see

ourselves as a conduit to greater national financial literacy success with a renewed zeal and an actionable plan.

This submission explores in some detail the state of play in financial literacy and suggests measures to better empower Australian consumers to take charge of their financial literacy, with obvious benefits for their financial wellness.

Your Financial Wellness makes the following recommendations to improve financial wellbeing across Australia.

1. Include Financial Literacy in the title of the relevant Minister and provide the Department with clear deliverables in this area, e.g. Minister for Financial Services and Financial Literacy
2. Review the effectiveness of the current National Financial Literacy Strategy to determine if it is ‘fit for purpose’
3. Create better alignment between financial literacy programs and mental healthcare providers via a Financial Wellness Toolkit for all medical practitioners and financial counsellors
4. Establishment of a 2030 Financial Literacy Taskforce to develop a clear set of deliverables for key consumer segments, including women, 18-35’s and high school students
5. APRA to produce a ‘principle-based guide’ on financial literacy, in line with APRA’s role to protect the Australian community
6. Establish a tested and consistent measure of financial wellness to ensure government objectives can be accurately and regularly measured
7. Investigate further financial and entrepreneurial support in the start-up community for existing organisations and new entrants that seek to foster financial literacy

About Your Financial Wellness

Your Financial Wellness (YFW) is a Sydney-based data analytics and financial wellness platform providing cloud-based solutions to Australian financial institutions.

Financial wellness is your ability make well-informed financial decisions now and in the future. Understanding your own finances is the first step to improved financial wellness.

YFW developed Australia's first Financial Wellness Program. It provides financial education, helping individuals build confidence and make sound financial decisions. For participating organisations, it provides invaluable insights to help develop better financial options in response to customer needs.

In 2021, YFW embarked on a landmark research project to measure financial wellness in Australia. Conducted by the Centre for Social Impact at UNSW Sydney, the research confirmed that the Your Financial Wellness Index can reliably be used to measure the financial wellness of everyday Australians.

In a follow-up study, we asked 3,000 Australians 100 questions relating to their financial aspirations and socio-economic situation. This [independent research](#) uncovered some valuable and at times alarming insights for the interest of public policy makers.

Chief among these was the direct correlation between home ownership and financial wellness, and in some case the lack of savings for a 'rainy day', something never so important than during a once in a hundred-year event like the COVID-19 pandemic.

Financial Literacy Identified as a Key Issue

Measures to promote financial literacy are not new and calls to improve Australia's financial literacy are both well-founded and articulated with the benefit of deep analysis and experience.

In 2014 the Financial System Inquiry (chaired by former Commonwealth Bank of Australia Chief Executive, David Murray) observed that:

"...improved financial literacy may enable consumers to be more engaged and to make more informed decisions about their finances."

The Productivity Commission's review of Competition in Banking found there was low financial literacy and poor engagement of consumers; a strong imbalance of information between consumers and providers; and evidence of an inability or unwillingness to switch products or providers.

This consumer inertia and low awareness was stark when it was observed further that even "the most experienced customer" may struggle to make choices due to the complex nature of financial products.

As ASIC says, it "helps Australians to be in control of their financial lives."

It aims to "support people to make informed financial decisions, manage their money day-to-day, and plan for the future."

ASIC has led the charge to improve financial literacy in Australia. It describes financial literacy as a “key component of ASIC’s regulatory toolkit” that “complements enforcement and surveillance activities and supports ASIC’s strategic priority of building investor and consumer trust and confidence in the financial system.”

In a speech on financial literacy, ASIC noted that its “financial literacy program also reflects ASIC’s broader vision – to allow markets to fund the economy and, in turn, economic growth and in doing so contributing to the financial wellbeing of all Australians.”

To achieve this, ASIC has carriage of the National Financial Literacy Strategy, the MoneySmart website and other channels for consumers and ASIC’s MoneySmart Teaching program.

But YFW argues that despite best endeavours, there is a desperate need for a rethink. Why is it that the dial has barely moved? Consumer research consistently tells us that little inroads are being made on improving financial literacy.

A Fresh Approach

Your Financial Wellness has found a strong correlation between financial literacy and financial wellness.

Successive governments have tried to improve financial literacy, but we see a connection between financial institutions and their customers. We believe that financial wellness is the responsibility of caring financial institutions, who can strategically position themselves as helping their customers achieve financial wellness and go beyond just offering products to them.

And the problem is not unique to Australia. One in three EU households are unable to meet unexpected financial shocks in regular times, let alone in a pandemic. As Mairead McGuinness, European Commissioner for Financial Stability, Financial Services and the Capital Markets Union told the Financial Times, improving financial literacy must be a priority for Europe and that’s why the European Commission has been working with the OECD’s International Network on Financial Education to step up financial literacy in the EU¹.

Domestically, Your Financial Wellness notes the concern expressed from consumer groups in relation to financial literacy education being provided to school students by major banks.

However, we believe the pendulum has swung too far. Our experience working with member-owned banks and industry superannuation funds to deliver financial literacy education to customers has consistently produced improved outcomes for the financial institution and better financial wellness for participants.

Thus, for YFW, changes need to be made to recast financial literacy and make it fit for purpose.

¹ <https://www.ft.com/content/60d10129-fad4-4ec6-ba60-612ce5cd02fc>

While APRA is a “systems regulator” charged with building and maintain the safety, stability and resilience of Australia’s financial system, economic growth remains a bipartisan goal of government.

Accordingly, YFW offers the following seven recommendations.

Recommendations

1. Minister for Financial Services and Financial Literacy

The Financial Literacy area needs renewed vigour and attention. We propose adding Financial Literacy to the title of Minister for Financial Services. While this change may be seen as cosmetic, it is much more than that. Having a Minister for Financial Literacy will add weight to the issue, add an increased policy lens and create more consumer awareness and better outcomes.

2. Review the National Financial Literacy Strategy

As a first task, the Minister for Financial Services and Financial Literacy should review the National Financial Literacy Strategy and other related programs to determine if its ‘fit for purpose.’ Given the current electoral cycle, a review should begin within 100 days of the formation of the next Government.

3. Mental Health and Financial Literacy Alignment

The Australian Psychological Society through its Stress and Wellbeing in Australia Survey has identified the strong correlation between financial issues and stress. We see the need for better alignment between financial literacy programs and mental healthcare providers via a Financial Wellness Toolkit for all medical practitioners and financial counsellors.

4. Financial Literacy Taskforce

Following the review of the National Financial Literacy Strategy, we recommend the establishment of a 2030 Financial Literacy Taskforce to develop a clear set of deliverables for key consumer segments, including women, 18-35s and high school students. We strongly believe members of this taskforce, while offering the necessary experience and skill, should be drawn from a ‘fresh pool’ of talent.

5. APRA guide on financial literacy

While APRA’s mandate has financial stability at its core, in its own words it has a role to “protect the Australian community.” APRA has already published a ‘principle-based guide’ on climate change, in response to that issue requiring preparedness and careful management by banks. The issue of financial literacy is significant. While not seeking further regulation, a principles-based guide would achieve the purpose. It wouldn’t burden banks with red tape but would provide a useful operating framework to improve

consumer outcomes, which would provide additional stability and strength to the financial system.

6. Establish financial wellness criteria

With financial wellness now in vogue, it is important for government to have data it can rely on to assist policy decisions and objectives. While some indicators are merely an extension of a marketing function, it is important to ensure data is rigorously assessed, has credibility, and is accurately and consistently measured. Setting criteria and an agreed set of metrics on financial literacy and wellbeing will support better and more accurate decision making. Your Financial Wellness recommends government is attentive to this emerging space and applies rigour when dealing with financial wellness data.

7. Support for financial literacy investment

Through its work and partnerships, Your Financial Wellness has seen the benefits of organisations working with their customers to achieve better financial outcomes. We see financial institutions being a key driver of financial literacy.

Established financial institutions have a genuine role to play in lifting financial literacy. There is also a role for fresh players such as start-ups or disruptors to provide fresh ideas to drive positive change. Support for entrepreneurial spirit and innovation in financial literacy should be considered.

Conclusion

Only through a recalibrated approach will we start to see progress in financial literacy.

While existing measures may indeed have a place and achieved some awareness and support, engaging with established players and new entrants on financial literacy will open the field to fresh ideas and approaches.

We thank Treasury for its consideration of our submission. Should you have any queries, please do not hesitate to contact us.



Alexander Hassall
Co-Founder & CEO



Mike Roberts
Head of Strategy & Insights