



Measuring financial exclusion in Australia

May 2011

**The Centre for Social Impact for
National Australia Bank**



more give, less take

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FOREWORD FROM NAB

Most Australians take everyday financial products and services like transaction accounts, general insurance and access to credit for granted. This is one of the benefits of a well-managed, well-regulated financial services industry.

But too many Australians – up to 15 per cent - are marginalised or excluded from mainstream financial services. This has important consequences. People are less able to participate fully in social and economic activities, financial hardship is increased and basic poverty (measured by income, debt and assets) is exacerbated.

Since 2003, NAB has worked with Good Shepherd, hundreds of community organisations and a number of government partners to address financial exclusion by providing safe and affordable financial services to all Australians.

This includes our \$130 million commitment to the NAB/ Good Shepherd microfinance partnership. With the support of the Australian Government and local community agencies we will write close to 20,000 microfinance loans this year - making it the largest microfinance program in a developed economy.

NAB is also committed to make banking more accessible by abolishing a range of fees, doubling our ATM network, providing essential credit for small businesses and ensuring all customers have support when in financial difficulty.

This Report demonstrates that the cost of bank financial services (ie. the cost to an individual in having a transaction account, credit card and general insurance) is a significant issue for a large number of Australians - for around 10% of Australians it represents 15% of their income. This vindicates the work NAB has done. Using the methodology in this Report, the average annual cost of a NAB transaction account is 77% less than the average and a NAB credit card is 11% less than the average.

The NAB commitment to address financial exclusion also includes our extensive Indigenous programs designed to increase financial literacy and provide improved access to banking services to some of the most financially disadvantaged communities in Australia; and research and advocacy to better understand the problem, provide a voice to those excluded and to offer public policy insights and recommendations.

We are proud of this work but recognise that so much more needs to be done if we are to truly overcome the problem of financial exclusion in Australia.

For this reason, in early 2010 we approached the Centre for Social Impact (CSI) and Chris Connolly (well known in financial inclusion circles for his work in 2001 with Khaldoun Hajaj on Financial Services and Social Exclusion) to more comprehensively understand financial exclusion in this country. We wanted answers to some basic, but critically important, questions.

What do we really mean by financial exclusion? Can it be identified and measured in a meaningful way? How many Australians are financially excluded? Who are they? Where do they live? What does financial exclusion actually mean?

And if we could answer these questions, could we create a meaningful index of financial exclusion in Australia that could chart the progress (or otherwise) over time of the various financial inclusion initiatives.

I'm pleased to advise this Report not only answers all these questions, but it provides us with the most detailed and comprehensive study into financial exclusion ever undertaken in Australia. In fact, it is probably the most extensive financial exclusion study ever undertaken around the globe.

Only with good research can we understand the problem of financial exclusion. And with good research we give ourselves the best chance of truly fixing the problem.

At NAB we believe one of the dividends from our well managed and well regulated financial services industry should be that people are not excluded.

With this Report, and those that follow in future years, we aim to raise awareness of financial exclusion in Australia and provide a voice for those who are financially excluded. We hope it stimulates broader public policy debate and, most importantly, we hope it provokes and encourages community organisations, governments and other corporations to take up the challenge of financial exclusion.

Cameron Clyne
Group CEO
National Australia Bank

ACKNOWLEDGMENTS

Centre for Social Impact

www.csi.edu.au

The Centre for Social Impact (CSI) is a partnership between the business schools of the University of New South Wales, the University of Melbourne, Swinburne University of Technology and The University of Western Australia. It brings together the committed hearts and business heads of the philanthropic, not-for-profit, private and government sectors in pursuit of social innovation. It provides socially responsible business management education and research in the common cause of building a stronger civil society for Australia.

The Centre for Social Impact research team for this project consisted of:

Les Hems, Director of Research, CSI (UNSW)

Project manager

Chris Connolly, Research Associate, CSI (UNSW)

Lead researcher and author

Lew Wolfson, Research Associate, CSI (UNSW)

Senior researcher

Meiko Georgouras, Research Associate, CSI (UNSW)

Senior researcher

Saida Sultana, Research Associate, CSI (UNSW)

Research and data analysis

NAB

www.nab.com.au

National Australia Bank is a financial services organisation with over 40,000 people, operating more than 1,800 branches and service centres, and responsible to more than 460,000 shareholders. We operate major financial services franchises in Australia, as well as businesses in New Zealand, Asia, the United Kingdom and the United States. Each of our brands is uniquely positioned but built on a common commitment to providing quality products and services, fair fees and charges, and relationships built on the principles of help, guidance and advice.

NAB believes that what we do (and how we do it) is just as important as our financial results. Put simply, to us, Corporate Responsibility is doing the right thing for our customers, employees and communities. Core to NAB's corporate responsibility strategy and activities, is an agenda to address financial exclusion and provide financial services for all Australians.

Roy Morgan Research

www.roymorgan.com

Roy Morgan Research is the largest independent Australian research company with offices in each state of Australia as well as the US, UK, New Zealand and Indonesia. A full service research organisation specialising in omnibus and syndicated data, Roy Morgan Research has more than 65 years' experience in collecting objective, independent information on consumers.

Pure Profile

www.pureprofile.com

Pure Profile is an online panel provider with more than 320,000 Australian members. They provide respondents for business to business and consumer research, and conduct more than 2,500 questionnaires each year.

Additional data sources

Additional data was sourced from:

- Australian Bureau of Statistics
- Australian Prudential Regulatory Authority (APRA)
- Canstar Cannex
- Insurance Statistics Australia
- Household, Income and Labour Dynamics in Australia (HILDA) Survey, hosted by the Melbourne Institute of Applied Economic and Social Research (University of Melbourne)
- NAB internal data
- Reserve Bank of Australia

Research Advisory Committee

A small Research Advisory Committee provided additional input and oversight to the research team during the development of the project methodology and the initial research and writing tasks. The members were:

- Mikala Hehir, Senior Manager Stakeholder Relations, Corporate Responsibility, NAB
- Monique Hitter, Legal Aid NSW
- Paul Miller, Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA)
- Mike Salvaris, Community Indicators Victoria
- Michelle Sainsbery, Good Shepherd Youth & Family Service
- Dr Calum Scott, Opportunity International
- David Tennant, FamilyCare Shepparton
- Marilyn Webster, Good Shepherd Youth & Family Service

EXECUTIVE SUMMARY

The Centre for Social Impact has completed the first detailed measurement of the extent of financial exclusion in Australia. This research was conducted on behalf of National Australia Bank (NAB).

The primary objective of this research is to define and deepen understanding of financial exclusion in Australia and its relationship with social and economic disadvantage.

The research benefitted from unique access to some of Australia's largest stores of private data. We were able to combine access to the Roy Morgan Single Source Survey, consisting of over 50,000 interviews per annum, with access to the de-identified banking records of several million NAB customers, in addition to other data sources. As a result, this study is certainly the largest and most detailed examination of financial exclusion that has been undertaken in Australia, and one of the largest studies of this type in the world.

We began by examining previous research and working with stakeholders to develop an agreed definition of financial exclusion:

Financial exclusion exists where individuals lack access to appropriate and affordable financial services and products – the key services and products are a transaction account, general insurance and a moderate amount of credit.

Using this definition, and our access to massive stores of data, we were able to make the following key findings:

The extent of financial exclusion in Australia

Around 15.6% or 2,650,000 of the adult population in Australia were either fully excluded or severely excluded from financial services in 2010. This figure comprises 0.8% of adults who were fully excluded (they had no financial services products) and 14.8% of adults who were severely excluded (they only had one key financial services product).

The relationship between cost and financial exclusion

The average annual cost of basic financial services in Australia (a basic transaction account, a low rate credit card and some basic general insurance) is \$1,740 – just to maintain a very simple level of service, with no additional features or benefits. For around 10% of the adult population this cost would represent more than 15% of their income.

Difficulties in accessing financial services

Internet banking is used by 54.5% of the population. Australians also have reasonable access to branches (1 branch per 2,586 people) and network ATMs (1 network ATM per 804 people). However access to network ATMs in rural and remote areas is more difficult, and there was an average of 1 network ATM per 2,029 people in the 23 regional and remote areas included in this study.

Categories of financial exclusion

The most significant demographic indicators for overall financial exclusion were a low level of education, being born overseas, being aged 18 to 24 or over 65, or being unemployed. The most significant demographic indicators for financial inclusion were higher education, full-time employment and an income over \$30,000. Indigenous consumers are also over-represented.

Reasons for financial exclusion

This study identifies a number of key causes of financial exclusion. Many of these findings confirm the causes of financial exclusion noted in previous international studies. Some of the strongest causes in Australia appear to be supply side factors, such as the promotion of inappropriate credit products and the absence of basic, affordable insurance products. However, some significant demand side factors were also identified, including a strong correlation between the level of education and exclusion from complex products such as insurance.

The impact of financial exclusion

This study identified a number of substantial impacts for people who are financially excluded. They faced difficulties accessing funds in an emergency, they were more likely to struggle meeting major repayments, and they were significantly less likely to have insurance cover for their key assets such as a motor vehicle. People who were financially excluded were more likely to use fringe credit providers, but they were also more likely to access Government emergency payments and community loan schemes.

Next steps

Improving our understanding of financial exclusion in Australia is a long-term objective and the primary output from the research is a national financial exclusion indicator that has the potential to be measured and compared on an annual basis. We now look to business, government and the community sector to respond to the challenges of financial exclusion identified in this study.

INTRODUCTION

The Centre for Social Impact has been examining financial exclusion, and developing a methodology for measuring the extent of financial exclusion in Australia. This research is being conducted on behalf of NAB.

Objectives

The primary objective of this research is to define and deepen understanding of financial exclusion in Australia and its relationship with social and economic disadvantage.

This is a long-term objective and the primary output from the research is a national financial exclusion indicator that measures financial exclusion across a variety of demographics and geographies, and can be measured annually.

We consulted with stakeholders during the design phase of this project and found that there were some common ideas about what sort of information on financial exclusion would be useful in practice. These included:

- National coverage;
- Geographic breakdown of data;
- Demographic breakdown of data, including gender, age, country of birth, income and other key demographics;
- Annual measurement and public release of an annual indicator;
- The presentation of data that is relevant to end-users – financial institutions, not-for-profit organisations and government;
- The ability to include the Australian data in international comparisons; and
- The use of a transparent methodology that is open for verification.

The research program

The research was conducted in two phases:

Phase 1 – Evidence gathering;

The first phase of the research included a comprehensive review of all relevant literature and available data on financial exclusion and the development of a methodology for measuring financial exclusion.

As part of Phase 1, a Workshop was held in September 2010 to receive input and comment on the methodology and measurement framework proposed by the research team. Attendees represented a variety of third sector organisations, academic institutions and government agencies. Among the attendees were researchers, practitioners and users of research, including those involved in advocacy and policy-making.

Phase 2 – Developing a model and index of financial exclusion in Australia.

The findings from the literature review and workshop were used to develop a model for measuring financial exclusion in Australia, including:

- An operational definition of financial exclusion;
- Utilisation of existing and new data to map and quantify financial exclusion in Australia; and
- The construction of an indicator of financial exclusion in Australia, and a methodology for measuring the indicator on a regular basis (most probably an annual basis).

The key components of this part of the study were an analysis of the massive Roy Morgan Single Source Survey, consisting of over 50,000 interviews per annum, complemented by a smaller CSI/PureProfile Validation Survey, which was conducted online. Although the Validation Survey was smaller, it provided the opportunity to ask some more detailed questions about both the causes and the impact of financial exclusion.

The full methodology for this research is described in Appendix 2.

DEFINING FINANCIAL EXCLUSION

Financial exclusion exists where individuals lack access to appropriate and affordable financial services and products – the key services and products are a transaction account, general insurance and a moderate amount of credit.

The need for a definition

A clear definition of financial exclusion is an important component of developing the financial exclusion indicator. The definition above was selected after an analysis of the literature and discussion with stakeholders.

Approaches in defining financial exclusion have evolved significantly in the last two decades. Early literature on financial exclusion placed the emphasis on issues of geographical access to services, particularly banking outlets. As a result, financial exclusion was narrowly defined as ‘the processes that prevent poor and disadvantaged social groups from gaining access to the financial system’ (Leysdon and Thrift 1995)

Since then, a number of commentators have added their opinion on how financial exclusion should be defined. These include both academics (Burkett & Sheehan 2009, Wallace & Quilgars 2005); and policy makers (Anderloni et al. 2008, UK Treasury 2004) As a result a wide range of both implicit as well as explicit definitions of financial exclusion exist.

Two key issues in the development of our definition were the use of the term “individuals” and the selection of products to be included in the definition.

Individuals

In our definition we chose to focus on the financial exclusion of individual consumers and not on households or businesses. However there is a debate about whether financial exclusion should be assessed at the individual, household or family level. Chant Link (2004) defines Financial Exclusion as:

“... the lack of access by certain consumers to appropriate low cost, fair and safe financial products and services from mainstream providers. Financial exclusion is observable at an 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.” (Chant Link 2004)

If the assessment is made on the individual level, individuals may appear to be financially excluded even though their partner may make extensive use of financial services and they would easily have access to them in their own right.

On the other hand, assessing access at the family level (that is the head of household and their partner if they have one) may underestimate the proportion of people at risk of being

financially excluded if they experienced the break-up of their family. It also underestimates the overall number of people affected by financial exclusion.

Assessing access at the household level, which considers all adults living in a household, compounds these problems even further as there is much less stability of households than of family units. Furthermore, household level analysis does not provide estimates of financial exclusion faced by young adults still living at home. (Anderloni et al. 2008)

Another point of discussion is whether a definition should include organisations and businesses. Burkett & Drew (2008) argue that if financial exclusion is defined broadly as any person or group who is excluded from mainstream financial services and products, then financial exclusion may extend to include organisations, businesses and enterprises. We however chose to exclude businesses and other organisations from our definition since the supply and demand factors for financial exclusion of businesses and individuals are fundamentally different. For example, the main indicator for the demand for business credit is the current economic cycle. This, however, does not correlate with private demand for credit. Nevertheless financial exclusion in the business sector is a significant field worth examining and could be a topic of future research.

Financial Services

During the literature review we encountered a diverse number of opinions on which financial services to include in the definition of financial exclusion, as well as commentators using a very general approach when mentioning financial services and products.

We limit our definition to “appropriate and affordable financial services and products” – with a clear focus on simple but essential financial services and products. Furthermore we distinguish from fringe products and services by focusing exclusively on appropriate products provided by the mainstream financial services industry, the Government or the community sector.

This approach is similar to that used by Burkett & Sheehan in a previous Australian study:

“Financial exclusion is a process whereby a person, group or organisation lacks or is denied access to affordable, appropriate and fair financial products and services” (Burkett & Sheehan 2009)

Anderloni also provides a useful definition of financial exclusion that incorporates the idea of “appropriate” services and products:

“Financial exclusion refers to a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong.” (Anderloni et al. 2008)

In order to measure financial exclusion precisely we found it necessary to state the exact services which are most likely to result in individuals being financially excluded. We identified three essential “needs” that can be met by financial services:

The ability to manage day to day transactions and payments

In this project we use access to a transaction account to measure an individual’s ability to manage day to day transactions and payments.

Access to a transaction account is seen as a universal need in most developed societies. Since it is the most popular and generalised financial product, the lack of it can stigmatise individuals and promote social exclusion. Furthermore, a transaction account is the key to accessing other financial services (especially credit and savings products). Payment methods (for both making and receiving payments) can be very limited in the absence of a transaction account, and can be expensive and time consuming for people who can only pay in cash. (Anderloni et al. 2008)

Access to a moderate amount of credit

Credit is a major financial tool to enable access to goods or services that are beyond the monthly budget such as vehicles and furniture. It can also play a significant role in smoothing consumption and protecting against income shocks and financial stress.

Individuals unable to access credit from mainstream financial institutions are forced to use the informal financial sector or fringe market which includes payday lenders and pawn brokers. There is a large and growing demand for fringe credit and a rapidly expanding network of companies willing to supply it. As a result, the alternative finance sector in Australia has experienced considerable growth over the last decade (Marston & Shevellar 2010). There are a number of significant negative issues associated with alternative credit products, particularly for vulnerable, low-income consumers. These include unconscionably high effective interest rates once all costs are taken into account, which may lead to debt spirals through roll-over loans. (NAB 2010)

It is difficult to measure access to credit in Australia, and in this project we have ultimately used access to a credit card as a proxy measure for general access to credit. This should not be read as an endorsement of credit cards as an appropriate or affordable source of credit for all consumers – it is simply a reflection of the difficulties in measuring access to credit. For example, a small personal loan may be a more appropriate product for many consumers – but low-value personal loans are rarely available from major lenders.

If a consumer has a credit card, they would generally qualify for other forms of mainstream credit, so credit cards remain a useful proxy for measuring access to general credit in this study.

In order to measure the degree of credit exclusion, it is necessary to define a level of what is accepted as a “moderate” level of credit. The Australian Bureau of Statistics asks whether individuals are able to raise \$2,000 within a week as an indicator for financial stress. (ABS Household Expenditure Survey) This can be used as a baseline for defining what constitutes a moderate amount of credit. However, this amount has not been changed since first introduced in 1998 and we have therefore decided to index this amount to the rate of inflation, which would result in \$2,000 in 1998 inflating to approximately \$3,000 today. Our definition therefore defines a ‘moderate’ amount of credit as \$3,000. This amount will be indexed when the indicator is repeated in future years.

The ability to protect key assets

We include access to general insurance as part of our definition of financial exclusion, as it provides a way for individuals to protect their key assets and manage risk.

A number of studies of financial exclusion have included access to insurance services as an indicator for financial exclusion. (Burkett & Sheehan 2009, Corr 2006, Chant Link 2004) Insurance, in particular home and contents and motor vehicle insurance, is regarded as a significant financial product that provides a personal safety net for households or individuals when facing a range of risks, such as burglary, natural disasters and accidents. (Chant Link 2004, Kempson et al. 2000)

Not all individuals will have a demand for specific insurance products, because they do not own a car or valuable possessions which justify insurance. The project methodology acknowledges this factor, by combining access to a number of products in the calculation of the indicator. Our methodology also limits the range of insurance products included in the indicator to the most basic general insurance products – home contents insurance and car insurance (excluding Compulsory Third Party (CTP) cover).

Additional products and services

In addition to transaction accounts, credit and insurance, we considered a number of other financial services and products. Although these are all of interest, they have not been included in the financial exclusion indicator for this year. These products require further research and the methodology allows additional products and services to be added to the indicator in future years. Additional products and services might include:

- Savings products;
- Superannuation and retirement income products;
- Other types of insurance; and
- Financial advice and/or financial counselling.

THE EXTENT OF FINANCIAL EXCLUSION IN AUSTRALIA

Around 15.6% of the adult population in Australia were either fully excluded or severely excluded from financial services in 2010. This figure comprises 0.8% of adults who were fully excluded (they had no financial services products) and 14.8% of adults who were severely excluded (they only had one financial services product).

Financial exclusion – 2010 data

We have measured the extent of financial exclusion in Australia, based on the definition of financial exclusion discussed in the previous chapter.

This report includes three measurements. The first is a basic indicator (this chapter), that simply measures the extent of access to the three essential products identified in the definition.

The second measurement examines exclusion resulting from the cost of using those products (as a proportion of income). The third measure assesses the accessibility of these products. These measurements are discussed in later chapters of the report.

In order to measure the first factor – the level of product ownership exclusion in Australia – three key financial services have been identified and their level of ownership within the population (18 and older) has been measured. Categories of exclusion have been developed based on the number of essential services that individuals have access to (e.g. a person with only one product is categorised as severely excluded).

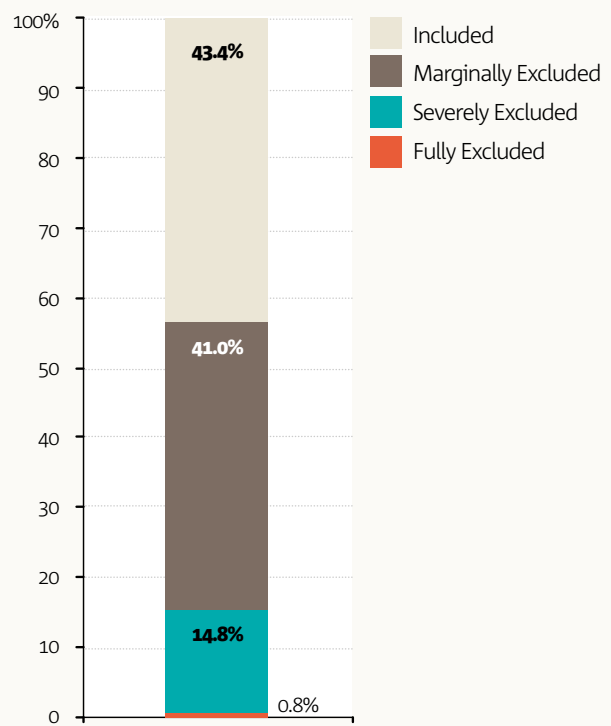
Transaction Account	Credit Card	General Insurance	% of population	Category
x	x	x	43.4%	Included 43.4%
x	x	o	3.0%	Marginally Excluded 41.0%
x	o	x	37.6%	
o	x	x	0.4%	
x	o	o	13.8%	Severely Excluded 14.8%
o	x	o	0.1%	
o	o	x	0.9%	
o	o	o	0.8%	Fully Excluded 0.8%

Source: Roy Morgan Research, November 2009 to October 2010.
Base: Australian population aged 18+.

This indicator is based on over 50,000 interviews per annum, conducted by Roy Morgan Research and accessed through the support of NAB. This means that this study is one of the largest and most detailed studies of financial exclusion undertaken anywhere in the world, and the sample size (over 50,000) dwarfs the sample size of most studies in this field.

According to this measurement about 15.6% of the adult population in Australia were either fully excluded or severely excluded from financial services in 2010. This equates to around 2,650,000 individuals. This is made up of 0.8% who are fully excluded (129,000 people) and 14.8% who are severely excluded (2,521,000 people).

Product Ownership Exclusion in Australia (2010)



Source: Roy Morgan Research, November 2009 to October 2010.
Base: Australian population aged 18+.

Financial exclusion – Historical data

Data is also available for the period 2007-2009. The level of full financial exclusion has almost halved between 2007 and 2010 from 1.5% to 0.8%. This is likely to have resulted from the introduction and promotion of fee-free basic transaction accounts in 2008. Nevertheless the combined number of people being fully excluded and severely excluded has not significantly changed from 2007-2010 due to an increase in the number of people being severely excluded.

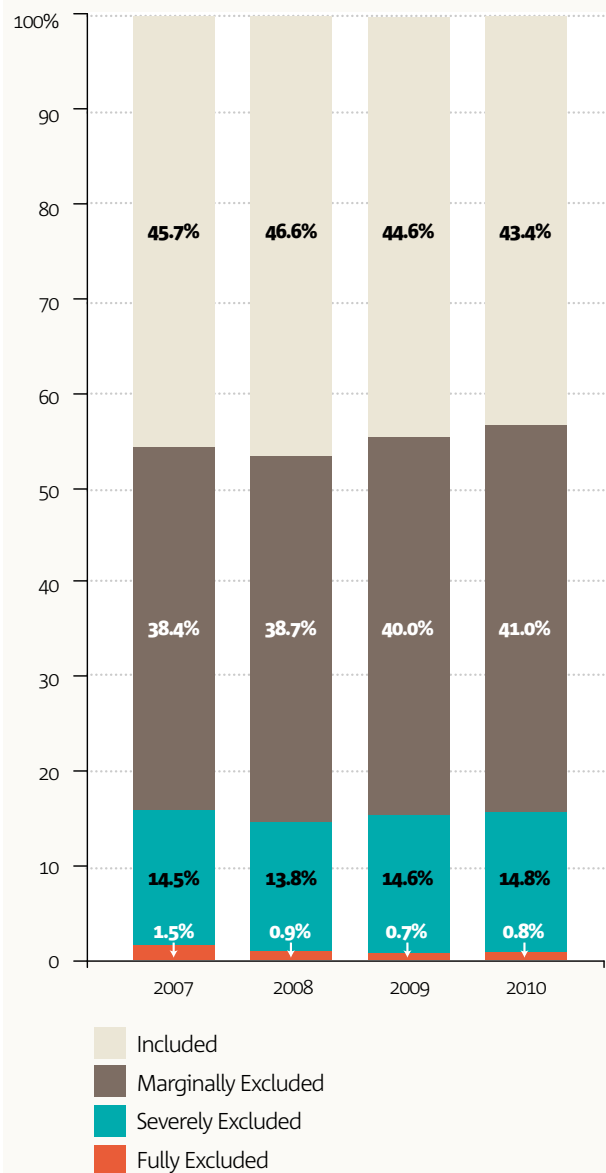
Degree of Exclusion	2007	2008	2009	2010
Included	45.7%	46.6%	44.6%	43.4%
Marginally excluded	38.4%	38.7%	40.0%	41.0%
Severely excluded	14.5%	13.8%	14.6%	14.8%
Fully excluded	1.5%	0.9%	0.7%	0.8%

Source: Roy Morgan Research, November 2009 to October 2010.
Base: Australian population aged 18+.

These findings are based on an unweighted selection of financial services and products – a transaction account is given the same level of importance as credit and insurance products. During this project we considered conducting a weighted analysis, where products would be weighted according to their importance. In practice, it proved difficult to reach an agreement amongst stakeholders and experts regarding an appropriate weight that should be given to each product, as all three products were seen as vital.

In addition, the CSI Validation Survey asked respondents to rate the importance of each of the three products. The table overleaf shows that transaction accounts and insurance are considered the most important products, but the difference between the three products is not sufficient to justify the use of a weighted ranking system in our study.

Product Ownership Exclusion in Australia (2007-2010)



Source: Roy Morgan Research, 2010. Base: Australian population aged 18+.

Group 1 (General population)

Importance of products	Points	Transaction Account	Credit	Insurance
Not at all important	1	0.0%	4.9%	1.3%
Not very important	2	1.8%	8.1%	8.1%
Neutral	3	11.7%	18.8%	22.0%
Somewhat important	4	41.3%	35.0%	40.4%
Very important	5	45.3%	33.2%	28.3%
Overall Score (out of 5)		4.3	3.8	3.9

Group 2 (Vulnerable consumers)

Importance of products	Points	Transaction Account	Credit	Insurance
Not at all important	1	1.0 %	7.9 %	3.4 %
Not very important	2	2.5 %	12.3 %	10.3 %
Neutral	3	20.2 %	28.6 %	30.5 %
Somewhat important	4	34.0 %	30.0 %	36.0 %
Very important	5	42.4 %	21.2 %	19.7 %
Overall Score (out of 5)		4.1	3.4	3.6

Source: CSI/PureProfile Survey 2011

One interesting aspect of measuring financial exclusion is to examine whether consumers perceive that they are excluded. It wasn't possible to assess this level of self-perception in the large Roy Morgan survey, however, we were able to ask this question during the smaller CSI Validation Survey:

Degree of Exclusion	Perception that "I am excluded"
Included	7.0%
Marginally excluded	
Severely excluded	15.2%
Fully excluded	

Source: CSI/PureProfile Survey 2011

Individuals who we categorise as fully excluded or severely excluded (based on their access to products) were more than twice as likely to perceive themselves as excluded compared to individuals that we categorise as included or on the margin. While this is not a surprising result, it does leave a number of consumers in a curious position where they appear to enjoy a reasonable level of product ownership, but they still believe they are excluded. The two most significant causes of this type of exclusion are cost and accessibility, and these issues are discussed in the next two chapters.

COST EXCLUSION

The average annual cost of basic financial services in Australia (a basic transaction account, a low rate credit card and some basic general insurance) is \$1,740 – just to maintain a very simple level of service, with no additional features or benefits. For around 10% of the adult population this cost would represent more than 15% of their income.

Annual cost of a transaction account

We calculated the annual cost of maintaining a basic transaction account, by combining information on balances and transaction patterns (from NAB internal data) and information on fees and charges. (from Canstar Cannex)

The data is based on the basic accounts provided by the ten largest providers of transaction accounts in Australia:

Provider	Basic account
ANZ	ANZ Access Advantage
Bank of Queensland Limited	Reverse Charges Account
Bank of Western Australia Ltd	Bankwest Zero Transaction Account
Bendigo and Adelaide Bank Limited	Bendigo Ultimate Everyday Account
Commonwealth Bank of Australia	Smart Account
Heritage Building Society	Simply Access
National Australia Bank Limited	NAB Classic Banking
St. George	Express Freedom
Suncorp-Metway Limited	Everyday Basics Account
Westpac Banking Corporation	Westpac Choice

The average annual cost for running a basic transaction account is \$92. The costs of the top ten providers ranged from \$21 to \$142. These costs are significantly lower than the typical costs of maintaining other types of transaction accounts which have more features.

This cost calculation includes all of the fees and charges that are regularly incurred by consumers using these accounts, including:

- The average monthly account keeping fee;
- The cost of EFTPOS transactions;
- The cost of withdrawing cash/balance inquiries from the consumer's own ATM network;
- The cost of withdrawing cash/balance inquiries from other ATMs;
- The cost of branch cash withdrawals;
- The cost of cheque and GiroPost withdrawals; and
- The average annual cost of overdrawing an account.

Each cost was then multiplied by the number of times the average consumer incurs that particular cost in a year (based on NAB internal data on balances and transaction patterns). The calculation incorporates the average number of free transactions, but it ignores some extremely rare and unusual fees and charges.

The strength of this methodology is that the calculation can be repeated at any stage, and will reflect changes in market share, transaction behaviour and product costs. The limitation of this methodology is that it is an "average of averages" and does not necessarily reflect the costs faced by some disadvantaged groups who make more frequent transactions for smaller amounts and/or incur a higher proportion of fees for overdrawing their account.

Annual cost of a basic credit card

We calculated the annual cost of maintaining a basic credit card, by combining information on balances and transaction patterns (from NAB internal data) and information on fees and charges. (from Canstar Cannex)

The data is based on the basic credit cards provided by the ten largest providers of credit card accounts in Australia:

Provider	Basic credit card
ANZ	ANZ Low Rate MasterCard
Bank of Western Australia	Bankwest Lite MasterCard
Bendigo and Adelaide Bank	Bendigo Basic Black
Citigroup Pty Limited	Citibank Clear Credit Card
Commonwealth Bank	Low Rate Card
St. George Group	Vertigo Credit Card
Suncorp Group	Clear Options Standard Card
GE group	Low Rate MasterCard
NAB	NAB Low Rate Visa Card
Westpac	Low Rate Card

The average annual cost for running a basic credit card is \$793. The costs of the top ten providers ranged from \$698 to \$955. These costs are significantly lower than the typical costs of maintaining other types of credit cards which have more features.

This cost calculation includes all of the fees and charges that are regularly incurred by consumers using these cards, including:

- The average annual fee;
- The interest incurred on the carry on balance (non cash advances);
- The interest incurred on the carry on balance (cash advances);
- Average cash advance fees;
- Average late minimum payment fees; and
- Average annual over the limit fees.

Each cost was then multiplied by the number of times the average consumer incurs that particular cost in a year (based on NAB internal data on card balances and transaction patterns). The calculation ignores some extremely rare and unusual fees and charges.

The strength of this methodology is that the calculation can be repeated at any stage, and will reflect changes in market share, transaction behaviour and product costs. The limitation of this methodology is that many consumers will not be using the low cost/basic credit cards we have included in the study.

Annual cost of basic general insurance

We calculated the annual cost of maintaining some basic general insurance to protect key assets by analysing data on average insurance premiums (supplied by Insurance Statistics Australia) for the type of general insurance products held by the average consumer (from Roy Morgan Research and validated by the CSI/PureProfile validation survey).

The average annual premium for home contents insurance is \$280. The average annual premium for motor vehicle insurance (excluding Compulsory Third Party cover) is \$575. This results in a combined annual average cost of \$855 to protect these important assets. These costs were the average premium at June 2010.

The strength of this methodology is that this data is updated by Insurance Statistics Australia each year, making it easy to include in future issues of the Indicator. The limitation of this methodology is that the premium calculation is an “average of averages” and that in practice consumers pay a wide variety of premiums, based on factors such as their level of excess, their location and the value of their assets.

The impact of cost on exclusion

To summarise, the average annual cost of basic financial services is \$1,740. This is made up of \$92 for a basic bank account, \$793 for a low cost credit card, and \$855 for basic general insurance.

With these products in place, a consumer can manage basic payments, handle small emergencies and/or smooth income, and protect some key assets from basic risks. However, the data raises questions about whether all consumers can afford to maintain these three basic products.

After estimating the average cost of each financial product the next step is to calculate the overall annual cost of financial services. As an indicator for cost exclusion the ratio of cost to annual income is being used.

To measure how many people fall into each category, Roy Morgan demographic data has been used.

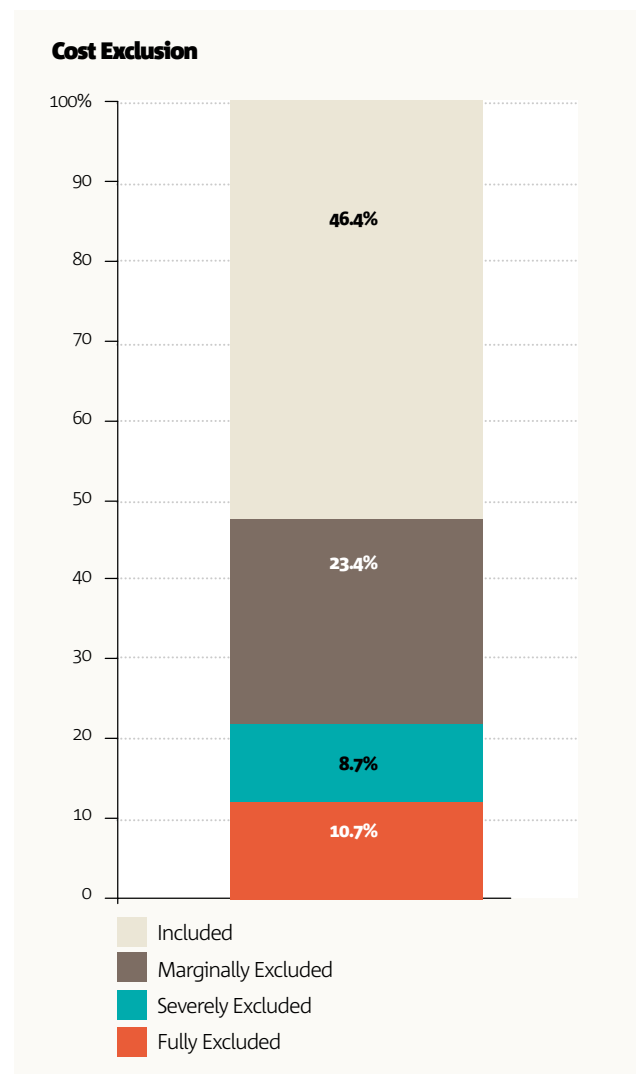
Category	% of income	% of population
Included	< 5%	46.4
Marginally Excluded	5-10%	23.4
Severely Excluded	10%-15%	8.7
Fully Excluded	> 15%	10.7

Source: Roy Morgan Research, November 2009 to October 2010.
Base: Australian population aged 18+.

More than 19% of individuals are either fully excluded or severely excluded because of the current average cost of using these basic products. This is slightly higher than the number of individuals we categorise as fully excluded or severely excluded using the product exclusion data (15.6%). It is likely that this indicates that many individuals suffer some degree of financial stress in managing their access to financial services. For example, 39% of respondents in the CSI/PureProfile validation survey believed that they were paying too much in bank fees.

Financial stress is not the core subject of this current study, however, it is a topic that needs to be considered alongside financial exclusion. Indeed, many of the potential responses to financial exclusion (such as community No Interest Loan Schemes and microfinance programs) are also designed to alleviate financial stress. (Livingstone et al 2009, Burkett & Sheehan 2009)

One benefit of measuring financial exclusion on an annual basis, is that changes in the average cost of basic financial services should be reflected in the overall level of exclusion. Over time, methodologies could be developed that can help to model the impact on financial exclusion that improvements in cost structures could deliver in Australia.



Source: Roy Morgan Research, November 2009 to October 2010.
Base: Australian population aged 18+.

ACCESSIBILITY

Internet banking is used by 54.5% of the population. Australians also have reasonable access to branches (1 branch per 2,586 people) and network ATMs (1 network ATM per 804 people). However access to network ATMs in rural and remote areas is more difficult, and there was an average of 1 network ATM per 2,029 people in the 23 regional and remote areas included in this study.

Internet banking

The Roy Morgan Research data shows that 54.5% of the population have used Internet banking. Obviously this level of participation has increased rapidly in recent years. Internet banking provides an affordable way to conduct many inquiries and transactions, although the complete functionality of a branch is still lacking.

This study has identified certain groups that are less likely to access Internet banking. Although there are no surprises in these findings, it is useful to confirm the key demographic indicators for people using Internet banking

Not surprisingly, age is the key factor in determining whether an individual uses Internet banking:

Access	All ages	18-24	25-34	35-49	50-64	65 and Over
Use Internet banking	54.5%	61.8%	70.5%	64.8%	51.3%	20.6%
Use ATM	89.4%	94.8%	95.4%	94.2%	90.0%	70.8%
Use branch	88.3%	85.1%	87.5%	89.0%	88.8%	89.6%
No access	0.8%	1.0%	0.5%	0.6%	0.6%	1.3%

Source: Roy Morgan Research, November 2009 to October 2010. Base: Australian population aged 18+.

This study also examines how individuals access financial services based on their geographical location. We start with some data provided by Roy Morgan Research that identifies different levels of access in capital cities and country areas:

Access	All areas	Capital cities	Country areas
Use Internet banking	54.5%	59.0%	47.2%
Use ATM	89.4%	90.2%	88.1%
Use branch	88.3%	87.7%	89.3%
No access	0.8%	0.9%	0.6%

Source: Roy Morgan Research, November 2009 to October 2010. Base: Australian population aged 18+.

It is important to note that this data is high level and the distinction between capital cities and country areas is very broad. In future years, the indicator may include a more detailed geographic analysis.

Branches

As we have seen, 88.3% of individuals still access financial services via a physical branch. Typically this will be in combination with other forms of access.

Geographical location has been identified as an important factor for individuals and communities at risk of financial exclusion. (Kempson 2006) The dramatic changes to the Australian financial sector in the 1980s and 1990s resulted in a decline in the availability of banking and financial services in rural Australia. The number of bank branches in Australia decreased by over 32% from 7,064 in 1993 to 4,789 branches in 2001 (APRA Data). This removal of banking services from remote and rural communities has particular implications for the population of these communities. (Connolly & Hajaj 2001, McDonnell 2003)

However, this rationalisation was the most severe in the 1990s and has now slowed significantly with signs of gradual recovery due to banks adopting a more customer focused approach. Since 2001, the number of bank branches recovered by 15% to about 5,500 branches in 2009. (APRA Data)

This study has found that at the national level, there is one branch (including bank branches, building society branches, credit union branches and Bank@Post outlets) for every 2,586 people. As this is the first year that the financial exclusion indicator has been published, it is difficult to place this figure in context. However, it can now form the baseline for an analysis of branch accessibility in future years.

In addition to the broad national figure, this study has collected data on branch access in some Local Government Areas that are classified as both disadvantaged and remote.

For this part of the study a pool of 23 Local Government Areas (LGAs) has been created. Those LGAs have been identified through the use of three filters.

- The LGA must be one of the 10 highest disadvantaged LGAs in the state by the Socio-Economic Index for Areas (SEIFA index) and within the 250 most disadvantaged LGAs nation wide;
- The LGA must be Moderately Accessible or less on the Australian Index of Remote Areas (ARIA); and
- The LGA must have a population of at least 5,000 people.

This pool of 23 LGAs will also be used in future years, to enable year-to-year comparison of accessibility issues in regional areas.

In the current year, we found that these LGAs had an average ratio of 1 branch for every 1,807 people – a better access ratio than the national average. However, the range of access within these 23 LGAs was quite wide, with the lowest level of access being 1 branch per 2,983 people and the highest level of access being 1 branch per 752 people.

The CSI/PureProfile Validation Survey was also able to identify some correlation between the categories of financial exclusion based on access to products, and the geographic location of individual respondents:

Distance	Less than 10km from a branch	10 + km from branch
Included		
Marginally excluded	87.0%	13.0%
Severely excluded	79.6%	20.4%
Fully excluded		

Source: CSI/PureProfile Survey 2011

A higher proportion of severely and fully excluded individuals lived a significant distance from branches.

ATMs

This study has found that 89.4% of individuals access financial services via an ATM. This includes withdrawals and balance inquiries.

This study has a focus on ATMs that belong to a major financial institution network, allowing the account holder to avoid ATM fees when they use their own network ATM. Data on independent ATMs (that charge fees irrespective of the account holder) is not yet available in sufficient detail for inclusion in the study. The impact of independent ATMs will be the subject of greater scrutiny in the development of the financial exclusion indicator in future years.

At the national level, there is one network ATM for every 804 people. As this is the first year that the financial exclusion indicator has been published, it is difficult to place this figure in context. However, it can now form the baseline for an analysis of ATM accessibility in future years.

In addition to the broad national figure, this study has collected data on network ATM access in a pool of 23 Local Government Areas that are classified as both disadvantaged and remote.

In the current year, we found that these LGAs had an average ratio of 1 ATM for every 2,029 people – a much lower access ratio than the national average. There was also a wide variance between specific LGAs. The lowest access ratio was 1 ATM per 5,420 people. The highest access ratio was 1 ATM per 788 people.

This finding indicates that access to network ATMs remains severely restricted in regional and remote communities. Although this gap may be filled by independent ATM operators, this has implications for the cost of accessing financial services in those communities. An inability to avoid ATM fees by using your own network ATM may be a significant barrier to financial inclusion.

This finding correlates with the findings of a recent study by the Australian Financial Counselling and Credit Reform Association which examined the issue of ATM fees in remote Indigenous communities. (AFCCRA 2010) The Commonwealth Government subsequently launched an inquiry (led by Treasury) into the specific issue of ATM fees in Indigenous communities, which is expected to report in mid 2011.

The CSI/PureProfile Validation Survey was also able to identify some correlation between the categories of financial exclusion based on access to products, and the geographic location of individual respondents:

Distance	Less than 10km from ATM	10 + km from ATM
Included		
Marginally excluded	93.7%	6.3%
Severely excluded	90.2%	9.8%
Fully excluded		

Source: CSI/PureProfile Survey 2011

A higher proportion of severely and fully excluded individuals lived a significant distance from ATMs.

CATEGORIES OF FINANCIAL EXCLUSION

The most significant demographic indicators for overall financial exclusion were a low level of education, being born overseas, being aged 18 to 24 or over 65, or being unemployed. The most significant demographic indicators for financial inclusion were higher education, full-time employment and an income over \$30,000.

Significant demographic indicators

We used the Roy Morgan Research data to identify groups that were significantly more likely to appear against indicators of financial exclusion. Typically the level of exclusion (or inclusion) in these groups differed by more than 20% from the average level. In some cases the difference was greater than 50%.

Category	Factors likely to lead to exclusion	Factors likely to lead to inclusion
Ownership of any financial services	Age 18-24 Primary School education Students - not in employment Non Australian Born	Age 35-64 Full Time Employment Income \$30,000 +
Use of channels to access financial services	65 and Over Primary School education Not Employed Non Australian Born	Age 25-49 Income \$30,000 + Higher education
Ownership of a transaction account	Students - not in employment Primary School Education Non Australian Born Home duties	Income \$15,000 to \$19,999 Higher education
Ownership of a credit card	Age 18-24 Primary School Education Students - not in employment Single Renting Home duties	Age 50-64 Higher education Income \$30,000 +
Ownership of any general insurance	Age 18-24 Students - not in employment Single Income < \$15,000 Non Australian Born	Age 50+ Married - De Facto Full-time employment Income \$30,000 +
Ownership of vehicle insurance	Age 18-24 Students - not in employment Single Renting	Age 50+ Full-time employment Income \$30,000 +
Ownership of home contents insurance	Age 18-24 Single - not married Non Australian Born Students - not in employment Rent Home	Age 50+ Income \$30,000 + Retired

Source: Roy Morgan Research, 2010. Base: Australian population aged 18+.

National and international research has consistently found that financial exclusion is concentrated among the most disadvantaged segments and communities and consequently contributes to a much wider problem of social exclusion. Some people experience short periods of exclusion in their lives based on current circumstances. For a small number of people, it can be a long-term, perhaps life-long, situation. (Corr 2006)

International studies have previously found that financial exclusion is concentrated in the following groups:

- People with disabilities;
- The long-term unemployed;
- Homeless people;
- Female single parents;
- Young households who have not yet used financial services;
- Those reliant on state welfare benefits; and
- Those living in social housing or private rented accommodation.

(Corr 2006, Howell & Wilson 2005)

In our study, we have found that the key demographics vary slightly depending on the type of financial service being examined. However, the categories in our study broadly align with the international experience.

Scenarios

Within the Roy Morgan database it is possible to create a number of specific demographic scenarios and compare them with each other.

These scenarios reveal the extreme diversity of access to financial services in the community:

- An uneducated 50+ year old with low income (\$15,000 – \$25,000) is 12 times more likely never to have used an ATM compared to a 35-49 year old tertiary graduate employed with an annual income of \$50,000 or more.

In Australia, we have been able to analyse access to products by income brackets:

Access	All	Under \$15,000	\$15,000 to \$19,999	\$20,000 to \$24,999	\$25,000 to \$29,999	\$30,000 to \$39,999	\$40,000 to \$49,999	\$50,000 or More
Transaction account	97.8%	96.9%	98.3%	98.0%	97.3%	98.3%	98.2%	98.2%
Credit card	46.9%	31.5%	32.7%	35.9%	39.6%	44.4%	49.5%	67.5%
General insurance	82.3%	68.5%	76.7%	78.6%	80.8%	84.8%	88.3%	93.7%
At least one product above	99.2%	98.4%	99.5%	99.3%	99.1%	99.5%	99.5%	99.7%

Source: Roy Morgan Research, 2010. Base: Australian population aged 18+.

- A 65+ year old retiree with an income of \$15,000 – \$25,000 is 6 times less likely to use Internet banking compared to a 35-49 year old tertiary graduate employed with an annual income of \$50,000.
- A 35-49 year old tertiary graduate employed with an annual income of \$50,000 is 4 times more likely to own a credit card compared to an unemployed single mother.
- A 65+ year old retiree with an income of \$15,000 – \$25,000 is 4 times more likely to own household insurance than an employed individual with an income of \$20,000 - \$30,000 with rented accommodation (working poor).

We anticipate that the ability to develop and analyse these scenarios will help us to enhance our understanding of financial exclusion each time the indicator is updated. The remainder of this chapter examines the findings for some key demographic groups based on the 2010 data.

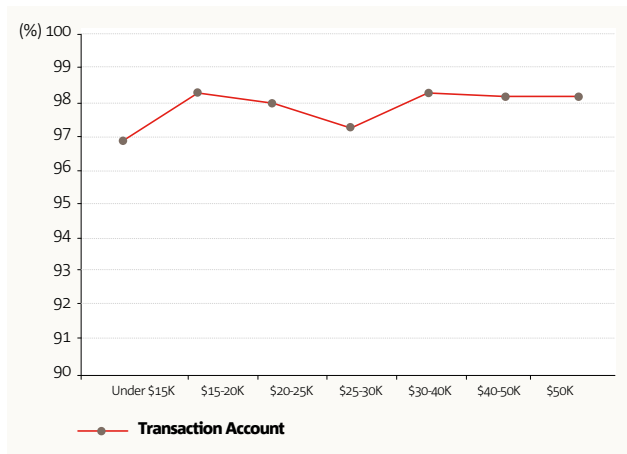
Low Income Population

One of the most significant and frequently mentioned individual drivers of financial exclusion is low income and there is 'clearly a circularity of cause and effect between financial exclusion and financial hardship or poverty.' (Howell & Wilson 2005) Research carried out internationally found that those on low incomes are twice as likely to be without a bank account as individuals with stable income. (Kempson 2006)

These findings confirm the work of previous Australian studies which assumed strong links between poverty, indebtedness and financial exclusion. (Burkett & Sheehan 2009, Chant Link 2004, Connolly & Hajaj 2001)

However, one interesting aspect of the correlation between income and financial exclusion in Australia is that there is a noticeable “Centrelink effect” in the figures relating to ownership of a transaction account.

In order to receive welfare payments from Centrelink – the Commonwealth’s central provider of welfare and money management services – individuals must have a transaction account that can accept electronic payment of benefits. The majority of recipients of welfare payments will have an income of less than \$25,000. As can be seen in the following

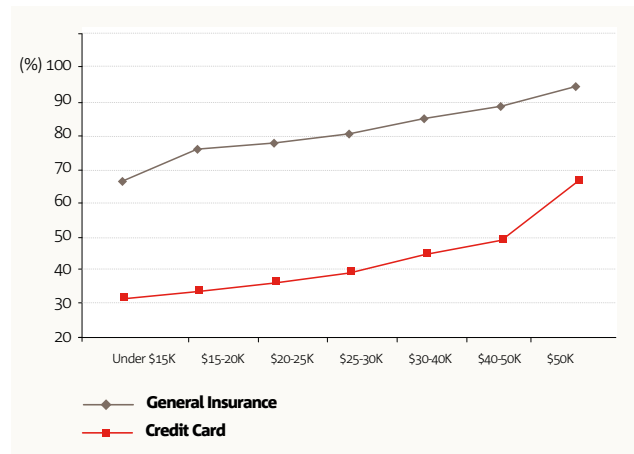


Source: Roy Morgan Research, November 2009 to October 2010. Base: Australian population aged 18+.

chart, transaction account ownership in the income brackets leading up to \$25,000 is reasonably high. However, it falls away dramatically for the \$25,000 to \$30,000 income bracket, who we categorise as working poor.

This is in contrast to the figures for access to credit cards and financial services where growth in access is aligned with growth in income in a smooth, rising line. This difference is the impact made by the Centrelink requirement to have a transaction account – the “Centrelink effect”.

In addition, the CSI/PureProfile Validation Survey found a strong correlation between overall levels of exclusion and income, using slightly broader income bands:



Source: Roy Morgan Research, November 2009 to October 2010. Base: Australian population aged 18+.

Income	< 25K	25-50K	50-100K	100K +
Included				
Marginally excluded	27.1%	28.0%	32.5%	12.5%
Severely excluded				
Fully excluded	59.8%	28.8%	10.6%	0.8%

Source: CSI/PureProfile Survey 2011

Age

In our study, being aged 18 to 24 was found to be a major factor in financial exclusion:

Age	All ages	18-24	25-34	35-49	50-64	65 and Over
Included	43.4%	10.1%	35.5%	53.8%	56.6%	42.5%
Marginally excluded	41.0%	43.0%	43.6%	37.4%	36.6%	48.5%
Severely excluded	14.8%	45.4%	20.1%	8.2%	6.3%	8.2%
Fully excluded	0.8%	1.4%	0.8%	0.6%	0.5%	0.8%

Source: Roy Morgan Research, November 2009 to October 2010. Base: Australian population aged 18+.

In our study, being aged 18-24 was most notable as a factor in two key areas – not having access to credit and not having access to general insurance.

Access	All ages	18-24	25-34	35-49	50-64	65 and Over
Transaction Account	97.8%	98.2%	98.1%	97.7%	97.7%	97.6%
Credit Cards	46.9%	15.5%	41.7%	56.6%	59.1%	44.1%
General Insurance	82.3%	48.1%	74.0%	90.0%	92.5%	90.9%
At least one product	99.2%	98.6%	99.2%	99.4%	99.5%	99.2%

Source: Roy Morgan Research, November 2009 to October 2010. Base: Australian population aged 18+.

The very young demographic segment of the population have been recognised in several of the international studies as likely to suffer from financial exclusion. (Andrew Irving Associates 2006, Barry Fitzpatrick & Kingston 2008, Kempson 2006).

Young population segments also suffer from a low level of financial literacy. In the ANZ Survey of Adult Financial Literacy in Australia some of the lowest levels of financial literacy were associated with young people. Thirty one percent of 18–24 year olds were in the lowest quintiles of financial literacy (compared to only 13% in the age group 45-59). (ANZ 2003)

The most substantial difference for individuals aged over 65 is in relation to access methods, rather than product exclusion. This is especially the case with Internet banking. The very low level of registration for Internet banking amongst this group may become a significant issue, as branch and ATM access can be expensive.

Access	All ages	18-24	25-34	35-49	50-64	65 and Over
Use Internet banking	54.5%	61.8%	70.5%	64.8%	51.3%	20.6%

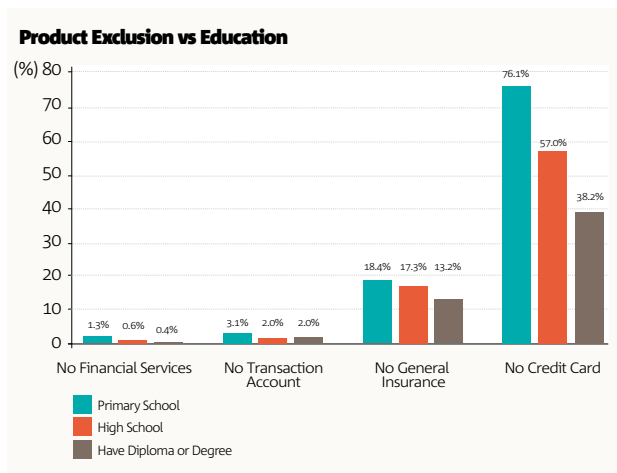
Source: Roy Morgan Research, November 2009 to October 2010. Base: Australian population aged 18+.

The international studies recognise that the older population is facing a number of barriers in accessing financial services. The knowledge gap is a significant issue which intensifies the level of financial exclusion of senior citizens. Many are unfamiliar with online accounts or the usage of online sources for accessing information. Furthermore, many older citizens were raised on cash and are still most comfortable with it instead of using electronic methods of payment. (Barry Fitzpatrick & Kingston 2008)

The studies also recognise that there is an element of 'self exclusion' amongst older consumers. Research among a sample of older people drawn mainly from low income backgrounds, suggests that self exclusion tends to be the product of a combination of factors including degrees of social isolation and lack of trusted support as well as the reluctance to use new methods of money management. (Andrew Irving Associates 2006)

Consumers with lower education levels

The level of education is a major factor contributing to the degree of financial exclusion. It impacts not just the ownership of financial products but also the usage of channels to access those services.



Source: Roy Morgan Research, November 2009 to October 2010. Base: Australian population aged 18+.

Education	All	Primary School	Tech, HSC, Year 12	Have Diploma or Degree
Transaction account	97.8%	96.9%	98.0%	98.0%
Credit card	46.9%	23.9%	43.0%	61.8%
General insurance	82.3%	81.6%	82.7%	86.8%
At least one product	99.2%	98.3%	99.3%	99.4%

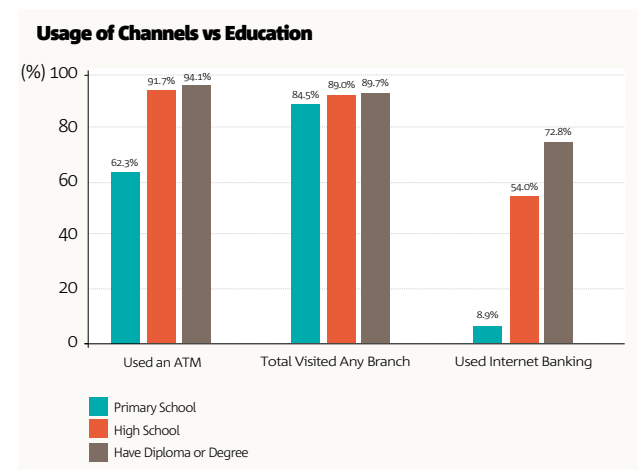
Source: Roy Morgan Research, 2010. Base: Australian population aged 18+.

In terms of product ownership, education is a significant indicator for exclusion for almost all of the essential services we identified. Individuals having only a primary school education are twice as likely not to own a credit card in contrast to tertiary graduates. Furthermore about 18.4% of individuals with primary school education have no ownership of general insurance (home contents and car insurance) compared to only 13.2% of people holding a university degree.

When it comes to total financial exclusion (not owning any financial services) the impact of education on ownership is even stronger with an individual having only primary education being three times more likely not to own any financial services or products compared to tertiary graduates.

When measuring the usage of channels to access financial services, some major differences between the degrees of education can be observed.

Source: Roy Morgan Research, November 2009 to October 2010.



Base: Australian population aged 18+.

In particular the use of Internet banking varies significantly with only 8.9% of individuals with primary school education using Internet banking compared to 72.8% of individuals with a diploma or degree. A similar picture can be observed with the usage of ATMs where tertiary graduates are around 50% more likely to have used an ATM compared to people with primary school education.

Interestingly, significantly lower degrees of channel usage can only be observed for Internet banking and ATM usage but not for visiting branches. This implies that individuals with a lower level of education have a particular problem with the complexity of technology provided to access financial services, and may benefit from increased human interaction. Using branches is an expensive option, so this group may also be paying more for their basic banking day-to-day banking needs.

Indigenous consumers

A lack of physical access to banking and financial services is a key aspect of the financial exclusion faced by many Indigenous peoples and has adverse implications for the Indigenous population of communities. As a significant share of the population in rural Australia, Indigenous people have been significantly impacted by the removal of financial services from these areas.

However, 31% of the Indigenous population live in urban areas (ABS 2006), and many of these Indigenous consumers still face challenges accessing financial services. Many Indigenous people struggle with low levels of financial literacy. Consequences of this include the difficulty of using Automated Teller Machines (ATMs), accessing and understanding bank balances as well as fully comprehending bank fee structures. (McDonnell 2003)

Many financial institutions have limited information on Indigenous borrowers and are unaccustomed to dealing with them. For instance, regulatory requirements for 'proof of identity' can create barriers for dealing with some Indigenous people. Often, there is a lack of Indigenous bank employees to aid with language and cultural barriers and bank staff lack adequate cross-cultural training. This creates challenges for financial institutions when determining the credit-worthiness of Indigenous borrowers. (McDonnell 2003) Other problems include the lack of competition in the provision of banking services to many rural and remote communities, and Indigenous cultural preference for face-to-face banking rather than electronic services. (Gibson 2008)

In this year's study, we have not identified Indigenous consumers in the large Roy Morgan data set, however we plan to include a more detailed assessment of Indigenous consumers in future years. The CSI/PureProfile Validation Survey was able to identify consumers who identify culturally as Indigenous. Not surprisingly, they were over-represented in the fully excluded category, and under-represented in the included category.

Background	Identify as Indigenous
Included	1.5%
Marginally excluded	2.7%
Severely excluded	4.8%
Fully excluded	14.3%

Source: CSI/PureProfile Survey 2011

Consumers born overseas

Previous research has identified that financial exclusion is prevalent among ethnic minorities and migrant groups, both in Australia and abroad. (Chant Link 2004, Kempson 2006) 'The link between ethnicity and financial exclusion is complex as low income may be the main explanation for some groups being excluded, whereas language, culture and religion have an impact on other groups'. (Corr 2006)

In this study, we were able to identify individuals born overseas and we were also able to further refine this category by excluding individuals born in some major English speaking countries such as the UK, the United States and New Zealand. This provides us with the ability to assess whether people born overseas, in predominantly non-English speaking countries, face barriers to financial exclusion.

The study found that people born overseas had lower levels of access to key financial products, with a very significant difference in the level of access to general insurance products.

Country of origin	All consumers	Born in Australia	Born Overseas
Transaction Account	97.8%	98.0%	97.0%
Credit Cards	46.9%	47.4%	41.2%
General Insurance	82.3%	85.1%	69.5%
At least one product	99.2%	99.5%	98.4%

Source: Roy Morgan Research, November 2009 to October 2010. Base: Australian population aged 18+.

This finding may in part be explained by barriers that are faced by new arrivals – for example many products require a period of established residence prior to application. However, a large number of people born overseas have lived in Australia for a significant period, and their lack of access to key products, especially insurance, may reflect deeper cultural, language or educational issues that they face when confronted with complex products.

Financial exclusion amongst this group may also have an impact on the broader issue of social exclusion for some culturally and linguistically diverse groups in Australia. In this study, we did not attempt to identify specific cultural groups, although this could be included in future years.

Remote and rural consumers

We have included some broad geographical analysis in this year's examination of financial exclusion. This is an area we hope to consider in more detail in future years.

This broad analysis reveals some interesting differences between city and country areas. The level of credit card exclusion is higher in rural areas whereas the level of general insurance exclusion (car and home content insurance) is higher in urban areas.

Access	All areas	Capital cities	Country areas
Transaction Account	97.8%	97.6%	98.1%
Credit Cards	46.9%	49.2%	43.1%
General Insurance	82.3%	80.0%	86.1%

Source: Roy Morgan Research, November 2009 to October 2010.
Base: Australian population aged 18+.

The detailed data on general insurance is also interesting. The higher figures for insurance in country areas appear to result from greater reliance on private vehicle ownership:

Access	All areas	Capital cities	Country areas
Any general insurance	82.3%	80.0%	86.1%
Home contents insurance	64.6%	61.4%	69.8%
Vehicle insurance (excluding CTP)	72.4%	70.4%	75.7%

Source: Roy Morgan Research, November 2009 to October 2010.
Base: Australian population aged 18+.

As discussed earlier, we also selected 23 Local Government Areas that had a population of over 5,000 and were classified as both remote and disadvantaged. We plan to use these 23 LGAs to help monitor changes in access to branches and network ATMs, and in future years this data will provide an insight into accessibility issues in remote communities. In the first year of the study, the only finding of significance is the dramatic difference between the number of network ATMs per population. The national average is 1 network ATM per 804 people. However, there was an average of 1 network ATM per 2,029 people in the 23 regional and remote areas included in this study.

Finally, we were able to identify some correlation between overall levels of exclusion and geographic location in the CSI/PureProfile Validation Survey. Again, these findings are fairly high level and they do not (at this stage) help us to identify particular communities where exclusion is prevalent, however, they do confirm the underlying trend – that consumers in rural and remote areas are more likely to appear in the severely excluded and fully excluded categories:

Location	Urban or city area	Rural or remote area
Included	80.9%	19.1%
Marginally excluded	88.9%	11.1%
Severely excluded	70.4%	29.6%
Fully excluded	71.4%	28.6%

Source: CSI/PureProfile Survey 2011

REASONS FOR FINANCIAL EXCLUSION

This study identifies a number of key causes of financial exclusion. Many of these findings confirm the causes of financial exclusion noted in previous international studies. Some of the strongest causes in Australia appear to be supply side factors, such as the promotion of inappropriate credit products and the absence of basic, affordable insurance products. However, some significant demand side factors were also identified, including a strong correlation between the level of education and exclusion from complex products such as insurance.

Barriers to financial inclusion

The phenomenon of financial exclusion has largely been attributed to global trends and policies in mainstream financial services and consumer credit markets. According to Burkett and Drew (2008) financial exclusion in Australia could be interpreted as a market failure because of complex interplays between market imperatives and unintended consequences of regulation. Increased pressure of full cost recovery, reliance on market forces, and discretionary targeting by mainstream financial institutions.

This chapter describes some of the key causes of financial exclusion in greater detail.

Supply-Side Factors

According to Burkett & Sheehan (2009) financial exclusion in Australia can be understood by looking at its five key dimensions which together could be termed the five A's of financial exclusion (Availability, Access, Awareness, Appropriateness, Affordability).

Availability

Availability refers to issues regarding the lack of financial services or products which are in demand but do not exist at all or in the individual's locality. (Burkett & Sheehan 2009) A lack of physical access to financial services, (often referred to as geographic exclusion, see: Corr 2006, McDonnell 2003, Burkett & Drew 2008, Chant Link 2004) is a key aspect of financial exclusion faced by many Australians. Geographic exclusion relates to the changing geography of financial service provision. (McDonnell 2003) The last decade of the 20th century in particular saw a substantial increase in the rate of branch closures focusing on rural and remote communities as well as deprived urban areas, populated by people on low income. (Connolly & Hajaj, 2001)

This removal of banking services from remote and rural communities has severe implications for the rural population but in particular for the Indigenous people living in those communities since Indigenous people represent a large and increasing share of the population of rural and remote Australia. (McDonnell 2003)

This current study has found that access to network ATMs is more limited in rural and remote areas. We have established a 2010 'baseline' for access to Internet banking, branches and ATMs (per population) that will be used in future years to consider changes in availability.

The CSI/PureProfile Validation Survey also found that a higher proportion of severely and fully excluded individuals lived a significant distance from both branches and ATMs.

Access

A lack of access to particular kinds of financial services can be the result of structural factors or issues that an individual faces (i.e. bad credit record, language issues or physical disabilities). (Burkett & Sheehan 2009)

This study has noted that people born overseas, in predominantly non-English speaking countries, face a higher degree of financial exclusion than people born in Australia. This difference is most noticeable in relation to complex products, such as insurance.

Access for people with a physical disability may also be a factor in Australia, but they were not the subject of any specific data collection in the current study.

Awareness

The lack of awareness of individuals of financial services and products (sometimes referred to as marketing exclusion) may be a significant cause of exclusion. (Corr 2006, Connolly & Hajaj 2001, McDonnell 2003) This could be as a result of inadequate promotion of basic, fair products by financial service providers. (Burkett & Sheehan 2009) Inappropriate marketing methods can be unclear and lead potential clients to abandon the request or to mistrust financial institutions and look for other alternatives. (Anderloni et al. 2008) Since financial institutions are generally not keen on attracting individuals with a low income there is only limited marketing of their more affordable products such as basic bank accounts. (Connolly & Hajaj 2001)

This study also noted that a decrease in the level of full exclusion between 2008 and 2010 may be the result of the introduction and promotion of fee free basic transaction accounts during that period. However, this did not reduce the overall number of people who were fully excluded and severely excluded, as there has not been the same level of promotion of affordable and appropriate credit and insurance products. Some institutions have been exploring opportunities to provide microfinance in Australia, with some initial success. (Burkett & Drew 2008, Burkett & Sheehan 2009, NAB 2010) However, there is virtually no discussion of basic insurance products in Australia.

Appropriateness

A major problem with mainstream financial products and services is that they are not appropriate to some individual's needs or their cultural backgrounds. (Burkett & Sheehan 2009) Low income consumers are often seeking loans for relatively small amounts, with fixed and affordable rates and a relatively short repayment period. These are precisely the types of loans that are available in the community/informal sector. Mainstream providers on the other hand have largely withdrawn small loans from the market, since they are not as profitable as other products. Those consumers requesting smaller loans are directed to credit cards and other sources of open-ended credit. These products however entail their own risks and some low-income consumers appear to be cautious of using them. (Howell & Wilson 2005)

Commercial considerations in the Australian finance sector have restricted the number and type of consumer credit services available to low-income and vulnerable consumers. For example, in this study we found almost no personal loan products were available for small or moderate amounts of credit.

Another issue is that the terms and conditions attached to financial products may make them inappropriate for the needs of some individuals, such as a limited amount of transactions for current accounts, high minimum account balances, expensive cheque accounts and prohibitive fees and charges. (Beck 2008, Connolly & Hajaj 2001)

Affordability

Affordability refers to the inability of individuals to pay for existing financial services products due to the high cost imposed by financial institutions. The cost structure of those products and services often lead to people with fewer financial resources being charged more (Burkett & Sheehan 2009, Connolly & Hajaj, 2001). This includes transaction costs that to a large extent are independent of the size of the financial transaction and make outreach to clients with demand for small transactions costly as well as higher fees for over-the-counter transactions, which tend to be used most by people on low income. (Corr 2006, Kempson 2006)

Further barriers such as high charges incurred for temporary overdrafts, bounced cheques (both paid out and in) and failed direct debits increase the barriers for low income individuals to access financial services. (Kempson 2006)

In this study we found that there was a strong correlation between low income and financial exclusion, although it was distorted by the "Centrelink effect" in relation to ownership of transaction accounts, as ownership of a transaction account is mandatory to receive welfare benefits in Australia. This study also found that a significant proportion (10%) of the community would have to pay more than 15% of their income in order to obtain access to very basic financial services.

Demand-Side Factors

From the demand-side point of view there are four major causes which lead to financial exclusion. Those are self exclusion by individuals, low levels of financial literacy, exclusion due to limited resources and new technologies.

Self Exclusion

Self exclusion exists where individuals voluntarily decide not to participate in the mainstream financial system. Voluntary self-exclusion can be attributed to religious or cultural reasons, a lack of need for financial services or indirect access to services through relatives and friends. (Beck et al. 2009, Chant Link 2004, Corr 2006, McDonnell 2003)

European research has shown that a significant number of people on low income feel quite disengaged from banking. A common belief is that banks are not interested in the needs of people like them and that the services offered are not appropriate to their needs. (Kempson 2006). Based on previous experiences with mainstream financial services some individuals exclude themselves from accessing these services because of beliefs that they will be discriminated against. Similar views have been shared with Indigenous people who may think that there is little point applying for a financial product because they believe they will be refused. (McDonnell 2003, Burkett & Drew 2008)

The fear of loss of financial control is another cause of self exclusion. For some people bank accounts feel intangible compared to cold cash and also some access methods are seen as unsafe (i.e. Internet banking). (Anderloni et al. 2008)

Self-exclusion due to religious beliefs is quite common in Muslim communities. Mainstream financial services may not comply with Islamic law, which forbids the charging of interest. (Atkinson 2006). Islamic banking (banking activity that is consistent with the principles of Islamic law or Sharia) is still in its infant stage with only a limited number of finance institutions offering products in line with the Sharia principles. (Seidu 2009)

This study measured total financial exclusion, including self exclusion. Respondents in the CSI/PureProfile Validation Survey rated access to transaction accounts, credit and insurance as very important, so the demand for these products is high. There was some evidence of self-exclusion exhibited by respondents, typically based on previous negative experiences with the banking system.

Financial Literacy

Financial literacy (or financial capability) is becoming increasingly important to the long-term wellbeing of individuals and the community and is an essential skill for functioning in modern society. The level of financial literacy of individuals has been found to be correlated to the level of financial exclusion in some international studies.

This current study does not include detailed data collection on levels of financial literacy as this work is the subject of detailed examination elsewhere.

The Australian Securities and Investments Commission has recently launched the National Financial Literacy Strategy (ASIC Report 229 2011). That report is accompanied by a research report that summarises the Australian research to date on financial literacy.

This research shows that while Australian society is mostly financially literate, certain groups face particular challenges as a result of low levels of financial literacy. The lowest levels of financial literacy are associated with low education, low income and the unemployed or unskilled workforce. (Gibson 2008, Roy Morgan 2003) In Indigenous communities a low level of financial literacy is one of the key factors to access of financial services. A number of surveys indicate a large number of Aboriginal people struggle with a very low level of financial literacy. Accordingly, many Aboriginal people suffer from a low degree of participation in the mainstream financial service industry. (McDonnell 2003)

Resource Exclusion

Resource exclusion exists where low income consumers are unable to use specific financial products due to limited access to financial funds. This is related particularly to savings products, when people do not have sufficient discretionary income to adequately engage with these products. (Corr 2006)

As discussed elsewhere, this study did find a strong correlation between income and access to financial services products, although the correlation was distorted in relation to transaction accounts by the requirement to have a transaction account in order to receive welfare payments.

New Technology

The ability to use new technology to engage in financial services (e.g. Internet banking), is subject to relatively high barriers of access. Factors that impact the ability of people to adapt to electronic banking systems include language barriers, age, level of education, literacy, technical literacy and reliable phone or Internet access. Indigenous people make up a significant proportion of many of these groups and so should also be recognised as a special segment that are to some degree reliant on the provision of traditional face-to-face banking services. (McDonnell 2003)

This study found that age remains the key determining factor for access to Internet banking, although the level of education also emerged as a significant factor for access to both Internet banking and ATMs.

IMPACT

This study identified a number of substantial impacts for people who are financially excluded. They faced difficulties accessing funds in an emergency, they were more likely to struggle meeting major repayments, and they were significantly less likely to have insurance cover for their key assets such as a motor vehicle. People who were financially excluded were more likely to use fringe credit providers, but they were also more likely to access Government emergency payments and community loan schemes.

Improving our understanding of financial exclusion is important in Australia, because of the significant impact it has on individuals and society. The potential negative impacts of financial exclusion include:

- Lack of access to transaction accounts can raise cost and security issues in managing cash flow and payments;
- Lack of access to short term credit results in the inability to cope with even small financial shocks or unexpected expenses;
- Individuals who are financially excluded may incur higher costs associated with using fringe credit providers;
- Individuals who are financially excluded suffer increased exposure to unethical, predatory and unregulated providers;
- Individuals who lack access to insurance are vulnerable to uninsured risks, and long term or extended dependence on welfare; and
- A strong linkage exists between financial exclusion and financial stress or hardship.

As part of the CSI/PureProfile Validation Survey, we were able to identify many of these impacts amongst the group that we categorise as fully excluded or severely excluded. The following table highlights some of the key areas where the impact of financial exclusion can be identified:

The test of whether or not an individual can raise \$3,000 in an emergency is used in a number of surveys as an indicator of “financial stress”. The question usually asks whether an individual can raise \$2,000 but we have decided to update the figure as it was first used in 1998 and it has never been indexed for inflation.

We also asked those respondents who could raise \$3,000 for the source of these funds – and the results reveal that consumers in all categories expect that they could raise the funds from savings or family and friends. However, when it came to raising funds from a mainstream credit provider, there was a massive difference. Those consumers who we categorise as included or on the margin were more than eight times likely to raise the funds using a mainstream credit product, than those consumers we categorise as severely or fully excluded.

Impact	Can't raise \$3,000 in an emergency	Significant difficulty making major repayments	Have used a fringe lender	Have used a Government or community loan scheme
Included				
Marginally excluded	24.3%	4.8%	3.7%	2.7%
Severely excluded				
Fully excluded	54.5%	8.3%	11.6%	12.8%

Source: CSI/PureProfile Survey 2011

Available Source of \$3,000	Family or Friends	Savings	Bank credit
Included			
Marginally excluded	15.4%	72.6%	14.1%
Severely excluded			
Fully excluded	20.0%	70.0%	1.7%

Source: CSI/PureProfile Survey 2011

Some of the other impacts of financial exclusion that we were able to identify in this study were in more ‘niche’ areas, but they do raise significant concerns.

Both the Roy Morgan data and the CSI/PureProfile Validation Survey identified lack of access to insurance as a significant issue.

Insurance coverage	Have home contents insurance	Have vehicle insurance (excludes CTP)
Included	85.3%	89.7%
Marginally excluded	75.1%	85.8%
Severely excluded	46.4%	59.2%
Fully excluded	0.0%	0.0%

Source: CSI/PureProfile Survey 2011

However, the most concerning finding was that a lack of access to insurance could not be explained by a lack of demand for insurance. For example, we were able to identify which individuals had motor vehicles, and then examine whether or not these vehicles were insured. The following table shows a significant difference between the number of consumers who could not insure this key asset in each of the categories:

Vehicle insurance (excludes CTP)	Have a vehicle, but have NO vehicle insurance
Included	
Marginally excluded	6.6%
Severely excluded	
Fully excluded	28.8%

Source: CSI/PureProfile Survey 2011

FURTHER RESEARCH

This report is just the first step in improving our understanding of financial exclusion in Australia. By developing a methodology for measuring financial exclusion that can be repeated in future years, we hope to provide a tool that can be used by many stakeholders.

During this initial research, we have identified several areas that would benefit from further study:

- Development of a more detailed analysis of geographic factors in financial exclusion. The geographic data used in the current study is very broad, and may hide significant pockets of financial exclusion that could be located using more detailed data.
- Development of more detailed analysis of the barriers to financial inclusion faced by persons born overseas, in Non-English speaking countries – especially new arrivals.
- Development of more detailed analysis of the barriers faced by Indigenous consumers. We expect that more data on Indigenous consumers will be available as part of the indicator in future years.
- Consider the inclusion of additional financial products in future versions of the indicator – or consider conducting additional ‘top-up’ studies of particular products, such as access to savings and superannuation.
- Further consideration of financial capability and understanding. We note the impact of general education on financial exclusion in this year’s indicator. It is therefore likely that financial literacy is a significant factor. However, care needs to be taken not to overlap with the body of research being developed by ASIC regarding financial literacy.
- Consideration of financial stress. There is a strong potential that some individuals that we are categorising as financially included are actually suffering financial stress as they are spending a significant proportion of their income on financial services. Note recent studies of financial stress highlight the significant personal and social impact of financial stress (Livingstone and colleagues 2009).

Potential Government, business and community responses to financial exclusion are not the subject of this study, but are also of great interest and importance.

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APPENDIX 2 – Methodology

Product ownership exclusion

In order to determine the degree of overall financial exclusion in Australia, we measured the level of product ownership for three key financial services. This was based on the level of product ownership amongst the Australian population who are 18 and older. Those three services are:

- **The ability to manage day to day transactions and payments:** We measured ownership of Transaction Accounts including a wide variety of accounts from all financial institutions, but excluding term deposits.
- **Access to a moderate amount of credit:** We measured ownership of credit cards which enable access to a moderate amount of credit (defined in this year's report as \$3,000). Note that credit cards were chosen as a proxy for measuring access to mainstream credit products, as the study revealed that personal loans were not generally available for small or moderate amounts of credit.
- **The ability to protect key assets:** We measured ownership of general insurance products providing basic asset protection, narrowly defined to only include home contents insurance and/or vehicle insurance (excluding Compulsory Third Party vehicle insurance).

Based on those services eight combinations of product ownership exclusion have been created ranging from people holding none of the key financial services identified to individuals holding 1-2 services and people owning all three services. In the next step those combinations were pooled into categories of financial exclusion ranging from individuals being:

- Included (owning all three services)
- Marginally excluded (lacking one service)
- Severely excluded (lacking two services)
- Fully excluded (lacking all three services)

Based on this framework, search queries have been created within the Roy Morgan Research financial services database. The financial services database holds data collected from over 50,000 interviews per annum, with individuals in Australia. The results are weighted to reflect geographic, age and sex distribution of the population according to the latest ABS statistics.

Limitations

This model has a few limitations which need to be acknowledged. When categorising the population into groups of people owning a specific type of service, it causes each service to receive the same value of importance.

Furthermore, the data used in this year's report contained limited information on some demographic groups who are of importance when quantifying financial exclusion in Australia. For example, data on Indigenous consumers was limited in this year's analysis, although this weakness was partly addressed by including a strong focus on Indigenous data in the CSI/PureProfile Validation Survey. It is expected that more data on Indigenous consumers will be included in future years.

Cost Exclusion

To quantify the average cost of financial services, we examined the average annual costs of maintaining transaction accounts, credit cards and general insurance.

Transaction Account

An analysis of NAB internal customer data enabled us to track and measure average transaction account activity. By using Canstar Cannex, a database that summarises and compares the cost and fee structure of financial services, we were able to calculate the average cost of a transaction account for a specific financial institution. To get an industry wide average we analysed the cost of basic transaction accounts at the 10 largest financial institutions (by market share).

Transaction Account	Credit Card	General Insurance	Category
x	x	x	Included
x	x	o	Marginally Excluded
x	o	x	
o	x	x	
x	o	o	Severely Excluded
o	x	o	
o	o	x	
o	o	o	Fully Excluded

Credit Card

Similar to calculating the average annual cost for transaction accounts, NAB customer data and Canstar Cannex data was combined to calculate the average cost for holding a credit card. In order to calculate an industry wide annual average, the 10 most common credit card providers and their most simple low interest credit cards were selected.

General Insurance

Within the insurance sector the focus has been on insurance policies that provide asset protection for the customer (i.e. home content and vehicle insurance). The national average cost for those insurance services is available through Insurance Statistic Australia (ISA).

Overall cost calculation

After estimating the average cost of each financial product the next step is to calculate the overall annual cost of financial services. As an indicator for cost exclusion the ratio of cost to annual income is being used

Included	< 5%
Marginally excluded	5-10%
Severely excluded	10%-15%
Fully excluded	> 15%

To measure how many people fall into each category, Roy Morgan demographic data has been used.

Within the lowest income bands there are about 15% of the population which earned less than the minimum Centrelink payment. Of those 15% about one third are the main income earner. Those were included in the calculation. The remainder are likely to be dependents, and they have been excluded from this particular calculation.

Limitations

The cost data is based on the average cost of products for the average transaction pattern and average account balance of customers. Within these averages there will be a wide divergence of actual costs incurred by specific customers.

Also, our data on transaction patterns and account balances is based on NAB internal data. The average NAB customer tends to be slightly wealthier than the national average and this may have a small impact on the representative quality of the data. However, we have only used cost data from low cost products, such as basic accounts and low interest credit cards. This should help to offset any bias that exists in the NAB data.

Accessibility

The accessibility component of the financial exclusion index is divided into three indicators;

Internet Banking

In order to measure Internet banking penetration within the population, two data sources have been used. Those are the Roy Morgan survey data as well as the results from the CSI validation survey.

Access to Branches

To quantify access to branches, two sub components are being measured. The first is the total number of branches per population in Australia and focuses on national access to branches. This data is being provided by APRA (branches) and ABS (population).

The second subcomponent tries to measure regional changes in access to branches. For this component a pool of 23 disadvantaged Local Government Areas (LGAs) has been created. Those LGAs have been identified through the use of three filters.

- The LGA must be one of the 10 highest disadvantaged LGAs in the state by the Socio-Economic Index for Areas (SEIFA index) and within the 250 most disadvantaged LGAs nation wide;
- The LGA must be Moderately Accessible or less on the Australian Index of Remote Areas (ARIA); and
- The LGA must have a population of at least 5,000 people.

For both subcomponents the number of Bank@post outlets (post offices which offer banking services) has been included since those provide similar services as bank branches. For each of the LGAs the average number of branches/Bank@post per population has been calculated with the use of APRA and ABS data.

ATMs

Similar to the calculation of accessibility to branches, the ATM calculation contains two subcomponents. The first component is the total number of network ATMs based on national data published by the Australia Payment and Clearing Association (APCA). The second source is using the same pool of 23 disadvantaged and remote LGAs, measuring how many network ATMs are available per population. ATM locations have been determined by using online ATM finders.

Limitations

The online ATM locators provide information only on ATMs operated by major networks. However a significant proportion of ATMs currently in Australia are being operated by independent ATM providers. These providers charge direct fees for the use of their ATM that apply to all cardholders. Data regarding the exact location of those ATM is currently not available, although it is expected that this limitation can be addressed in future years.

CSI/PureProfile Validation Survey

A small validation survey was designed and carried out to determine levels of financial exclusion in both a representative sample of the general population and targeted samples of groups identified as vulnerable in the literature review (young people, single parents, people with low levels of education, low-income earners and those born in non-English-speaking countries). The survey was delivered online through panel provider PureProfile, and took between 5 and 10 minutes to complete.

The survey asked a variety of questions around access to and use of transaction, savings, credit and insurance products, and how important respondents saw these products. Questions were also asked to determine levels of financial stress faced by respondents, including whether they had experienced difficulty in paying or were unable to pay a range of household and other usual expenses, whether they were able to meet an unexpected payment of \$3000 in an emergency and whether they had accessed fringe or government or community credit. There was also a set of basic demographic questions to provide further details on respondents.

The full set of validation survey questions is available from the Centre for Social Impact on request.

Data sources

The following table provides a summary of the key data sources used in the calculation of the 2010 financial exclusion indicator.

Key Data Sources	Use	Strengths	Limitations
Roy Morgan Single Source Survey	<ul style="list-style-type: none"> Product ownership Demographic data Means of accessing financial services 	<ul style="list-style-type: none"> 50,000 interviews per annum Extremely detailed data on every aspect of financial services Weighted against ABS population data Year to year comparative data 	<ul style="list-style-type: none"> Absence of data on Indigenous consumers (for this project/year – can be addressed in future research) Proprietary data
NAB internal data	<ul style="list-style-type: none"> Transaction patterns Average account balances 	<ul style="list-style-type: none"> Data on several million consumers available Reveals actual transaction data (no self reporting bias) National scope Year to year comparative data 	<ul style="list-style-type: none"> Not weighted against ABS data – slight bias towards higher income consumers Proprietary and commercially sensitive data that can be difficult to access
Canstar Cannex	<ul style="list-style-type: none"> Average cost of maintaining basic transaction account/basic credit card 	<ul style="list-style-type: none"> Comprehensive, detailed data Up to date cost information 	<ul style="list-style-type: none"> Proprietary data
Insurance Statistics Australia	<ul style="list-style-type: none"> Annual premium costs 	<ul style="list-style-type: none"> Comprehensive, detailed data Up to date cost information Year to year comparative data 	
Pure Profile	<ul style="list-style-type: none"> CSI validation survey 	<ul style="list-style-type: none"> Use of quotas enables access to data on minority groups 	<ul style="list-style-type: none"> Based on a 'one-time' survey – not an ongoing panel of consistent respondents
APRA/APCA	<ul style="list-style-type: none"> Data on availability and location of bank branches, bank@post branches and ATMs 	<ul style="list-style-type: none"> Free/public data National coverage by postcode Year to year comparative data available 	<ul style="list-style-type: none"> Limited data available on some privately operated ATMs (now a significant part of the market).

NAB'S COMMITMENT TO PROMOTING FINANCIAL INCLUSION

Financial exclusion is a somewhat invisible problem in Australia, with few people aware of that fact that some people, particularly those on low income and those that are financially disadvantaged, don't have access to mainstream financial products and services such as small amounts of affordable credit.

While, the great majority of Australians are well served by a strong financial services sector, there is a significant group of Australians who are excluded from, or have limited access to, mainstream financial products and services.

There are many definitions as to what constitutes financial exclusion, at NAB we look at it as:

Financial exclusion is the process whereby a person, group or organisation lacks or is denied access to affordable, appropriate and fair financial products and services, with the result that their ability to participate fully in social and economic activities is reduced, financial hardship is increased and poverty (measured by income, debt and assets) is exacerbated." (Burkett and Sheehan, 2009)

Core to NAB's corporate responsibility strategy and activities, is an agenda to address financial exclusion and promote financial inclusion in Australia - providing financial services for all Australians.

We have four key platforms to achieve this:

1. World leading microfinance programs for low income earners - a partnership with Good Shepherd, governments and more than 200 community agencies around Australia that draws on a capital commitment from NAB of \$130m and equates to 15,000 loans per annum;
2. Indigenous programs, to provide better access to banking services to some of the most financially disadvantaged communities in Australia;
3. "More give, less take" - making banking more accessible, by abolishing a range of fees, doubling our ATM network, providing essential credit for small businesses and ensuring all customers have support when in financial difficulty; and
4. Research and advocacy, to better understand the problem, provide a voice to those excluded and gain insights into what works to address it.

Microfinance programs

Since 2003 NAB, in partnership with Good Shepherd, State and Federal Governments and other community agencies, has been developing microfinance programs to help address financial exclusion and to help financially disadvantaged Australians climb out of poverty by providing safe, ethical and affordable financial products, services and advice; helping them avoid exploitation; and helping them develop financial capability.

What is microfinance?

Microfinance seeks to provide fair, safe and ethical financial services (such as loans, savings accounts and insurance) for people who, because of their circumstances, are not able to access mainstream financial services. Microfinance's purpose is to alleviate and eliminate poverty. (Burkett and Sheehan, 2009)

Why microfinance?

Microfinance programs work. Different to grant programs, microfinance programs being a loan, or an opportunity to establish savings offer "a hand up, not a hand out" (www.kiva.org) and provide the individual with an opportunity to take responsibility for themselves.

Microfinance programs offer people real solutions to essential needs; they help people experiencing real distress and hardship, improving lives; they reduce welfare dependency; they help strengthen money management skills; and they help people feel more positive about the future.

NAB's commitment, which is in excess of \$130 million is focussed on delivering the following microfinance programs:

No Interest Loan Scheme® (NILS)

Developed by Good Shepherd Youth & Family Services 30 years ago, NILS is based on the concept of circular community credit. Through NILS, low income consumers are provided with access to funds so they can purchase essential household items.

NAB has provided loan capital to NILS since 2003, this is currently \$23 million and 200 of the community agencies that offer NILS run their loan books using NAB capital, operated via an overdraft facility provided free of charge.

As well as the loan capital, NAB covers the costs of loan defaults for the programs it funds, is a sponsor of the annual NILS Forum and provides a range of in-kind support.

NILS is a registered trademark of Good Shepherd Youth & Family Service.

StepUP Loans

In 2004 NAB and Good Shepherd Youth & Family Service designed and launched StepUP Loans – a low cost credit product for financially disadvantaged Australians.

StepUP Loans sit between NILS and mainstream credit, helping low income consumers transition into mainstream products and experiences. The program enables individuals to develop a credit history and improve their financial literacy and confidence, thus providing them with an informed entry into mainstream banking.

These safe, affordable, low interest loans (the current annual percentage rate is 3.99%) of between \$800 and \$3,000 are for individuals or families to purchase essential personal, household and domestic goods and services.

Unlike NILS, StepUP Loans are essentially a bank product. StepUP Loans are offered at more than 40 community agencies Australia, where applicants participate in a face-to-face interview with a microfinance worker who helps them complete an application form and then mentors them throughout the life of the loan. The customer then goes to the nearest NAB branch to drawn down the loan.

AddsUP Savings Plan

In May 2009, NAB and Good Shepherd Youth & Family Service launched the AddsUP Savings Plan, which aims to help low income Australians achieve their savings goals and build on the discipline of putting money aside regularly, developed through repaying a loan. The AddsUP Savings Plan does not specify what people need to save for.

AddsUP is offered through close to 100 community agencies providing NILS and is offered to clients who have successfully paid a NILS or StepUP Loan. All customers have a discussion with a community worker about saving and setting realistic goals and are then referred to NAB to open a NAB Concession Account.

Once an individual has saved \$300 on a designated NAB Concession Account, they have the opportunity to have these funds matched by NAB, once in the lifetime of the account. NAB will match amounts up to \$500.

If someone saves \$20 a fortnight, in a year they can earn a total of \$1,020 with NAB's matching.

NAB Microenterprise Loans

NAB developed these unsecured business loans between \$500 and \$20,000 in 2007, for people who have few or no avenues to access affordable business credit.

The loans are provided on a not-for-profit basis at a low interest rate (the current annual percentage rate is 5.99%) and are available to help start up or support an existing business.

The loans are offered through a number of program partners who provide loan recipients with business skills training and advice during the first year of their business such as the New Enterprise Incentive Scheme (NEIS), and Business Enterprise Centres Australia. (BECA)

After developing a business plan and receiving a letter of support from a program partner, the program partner will forward this and an application form to NAB and clients are then managed by a small business banker and the loan is essentially a bank product.

Community Finance Hubs

NAB, Good Shepherd Youth & Family Service and the Victorian Government, are developing three 'community finance hubs' to service the further delivery of financial services to Victorians living on low incomes.

The hubs will operate as three 'shop fronts' – a unique distribution model to take on payday lending and provide microfinance products, and referrals to financial counselling and other community services for people living on low and limited incomes. This initiative is the first of its kind in Australia and represents a unique opportunity to shift microfinance from the periphery to the mainstream or 'high street'.

The hubs will strengthen the financial capability of low income Victorians providing:

- access to appropriate and affordable financial products such as NILS, StepUP, AddsUP, and a pilot product called Debt Deduct loans to help low income earners out of existing debts;
- access and referral to relevant local support services such as Financial Counselling, Emergency Relief and Gambler's Help; and
- access and referral to information and programs which enhance financial understanding, including training to establish a small business.

The new community finance hubs will open starting July 2011 in Collingwood, Dandenong and Geelong.

Community Development Financial Institution Pilot

In 2011 the Federal Government, through the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA), is running a \$7.5 million Community Development Financial Institution (CDFI) Pilot to test the potential of the community finance model to provide access to financial services and products to disadvantaged Australians. This model seeks to build on and complement the activities of mainstream financial institutions.

NAB has committed to support the CDFI Pilot by participating in the Investment Circle and is supporting two participants, Foresters Community Finance (through a new business called Fair Finance) and the Fair Loans Financial Health Foundation (Fair Loans), with \$1 million each in loan capital at no charge.

The Fair Loans (formerly Money Fast) ran the Small Loans Pilot with NAB in 2008-2009, a pilot to demonstrate the costs of offering short-term, small loans in the fringe credit market and to draw attention to the high interest rates and charges prevalent in that market. A report detailing the findings of the pilot titled, *Do you really want to hurt me?*, was released in March 2010. As a participant in the CDFI pilot, Fair Loans is offering online loans between \$1,000 and \$3,000 at a break even interest rate (currently 35%) and a telephone Money Mentoring service through Baptist Community Services.

Fair Finance is establishing a shop front in Brisbane to provide small personal loans between \$1,000 and \$3,000 at a break even interest rate (to be 35%) and a face to face debt counselling service.

The CDFI pilot will run until March 2012.

To find out more about NAB's microfinance programs visit: www.nab.com.au/microfinance

Programs for Indigenous Australia

Since launching its first Reconciliation Action Plan (RAP) in 2008, NAB's strategy for Indigenous Australia aims to build on what a financial services organisation can bring to address areas of Indigenous disadvantage and focuses on three areas:

- providing greater access to financial products and services to promote financial inclusion;
- building access to real long-term jobs in a sustainable way; and
- supporting greater organisational understanding of and respect for Indigenous Australians, their culture and aspirations.

We believe many Indigenous people on low incomes are financially marginalised as a result of specific cultural and geographic challenges and a strong focus of NAB's commitment to addressing financial exclusion is about providing greater access to financial products and services for Indigenous Australians. These are delivered through a couple of key strategic programs:

Partnership with the Traditional Credit Union

NAB has a partnership with the Traditional Credit Union Limited (TCU) to provide in-kind support and strategic advice with the aim of expanding the TCU's branch network and providing access to financial services for more Indigenous customers.

This partnership has offered opportunities for two-way learning - NAB employees have the opportunity to work with the TCU through secondment and have assisted the TCU in expanding its branch network, and at the same time gained an enormous appreciation for the challenges of banking in remote communities.

NAB has also provided interest free loans to the TCU to enable them to open branches in remote locations in the Northern Territory and has given the TCU a grant of \$200,000 to fund activities as the new branches are opened such as advertising, legal costs, development of brochures and website upgrades.

Indigenous Money Mentor Network

To promote financial inclusion, NAB is piloting an Indigenous Money Mentor network to provide Indigenous people with access culturally appropriate financial literacy information and assistance with money management issues.

NAB has established partnerships with seven Indigenous and community organisations to host Money Mentors in Western Sydney, Alice Springs, Mackay, Lismore, Darwin, Melbourne and a state-wide position based at the NSW Aboriginal Land Council.

The primary functions of the Money Mentors are to:

- provide ongoing financial literacy education for Aboriginal and Torres Strait Islander communities using culturally appropriate materials, including a DVD, and education techniques.
- engage in casework with clients to improve the clients' financial wellbeing (including assistance when in financial crisis and supporting the client to adopt preventative strategies).
- provide a supported referral service to help clients obtain assistance from other service providers to address broader issues which may be impacting on a clients' financial wellbeing (eg. financial counselling, consumer protection agencies, health, housing, employment and education services).
- provide access to microfinance products (No Interest Loans Scheme (NILS), StepUP Loans and AddsUP Savings Program) in circumstances where the client identifies that such products will improve their financial wellbeing.

Over 400 clients were assisted by Mentors, during the first year of operation and 130 of these accessed a community microfinance product.

To find out more about NAB's Indigenous programs visit: www.nab.com.au/indigenous

More give, less take – making banking more accessible

We aim to do the right thing for all our customers by delivering fairer banking with clear value and making quality advice available to Australian consumers and businesses – this underpins NAB's More Give, Less Take approach.

More Give, Less Take began by listening and then taking meaningful action on the issues that most annoyed our customers - fees and charges. In 2009, 73% of complaints received by NAB related to fees & charges. In September 2009, we took our first steps of the More Give, Less Take journey to deliver fairer banking. In 2010, we'd reduced the percentage of complaints related to fees & charges to 61%. Our action on fees to date is estimated to put \$200 million back in the pockets of our customers per annum.

Priorities include:

Addressing fairness concerns - Fees and charges continue to be important issues for our customers. We continue to review our fees and charges and look for ways to ensure we charge an appropriate fee for a commensurate service.

Providing access to financial services and help - We offer assistance to customers who find themselves in financial difficulty. In fact, we want to work with our customers and help them before they get into financial difficulty.

Improving customer service - We are constantly working on opportunities to improve and enhance the banking and customer service available to our customers.

Some recent examples include:

- Helping customers avoid ATM direct charges by setting up an alliance with the RediATM network.
- Introducing a free email or SMS alert service to remind customers of upcoming credit card payment and better help them manage their monies.
- Extending the hours of our Customer Contact Centres to be available at more convenient times for our customers.
- Continuing to invest more than ever to open, refurbish and relocate branches to more convenient locations for our customers.
- Hiring an additional 150 business bankers and specialists with plans for 200 more in 2010, ensuring we are well placed to continue providing guidance and support to our business customers.
- Introducing the Bushfire Recovery Network an online directory that promotes businesses affected by the fires - to connect businesses with their local community.
- Lending to during a time of immense economic uncertainty, NAB lent more to business than any other major Australian bank*, during a time of immense economic uncertainty.

* Source: APRA Monthly Banking Statistics, October 2008–October 2009. Based on actual lending dollar value of new and existing lending.

Research and advocacy

Given public awareness of financial exclusion in Australia is low, it's NAB's view that research is important to define and raise awareness of the problem and its relationship with social and economic disadvantage.

To do this, NAB has partnered in a number of research projects such as with the Centre for Social Impact to develop an indicator to measure the extent of financial exclusion in Australia; research to look at the experiences of using fringe lenders with University of Queensland and Good Shepherd; a study of financial exclusion in not-for-profits with Foresters Community Finance; and the small loans pilot which explored the costs of fringe lending, through an independent lender, Money Fast.

We also publish reports on our microfinance programs and conduct regular awareness raising campaigns and government lobbying on financial exclusion issues.

To find out more about NAB's financial inclusion agenda visit: www.nab.com.au/microfinance

