All being well? Financial wellbeing, inclusion and risk

SEMINAR SUMMARY

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The seminar 'All being well? Financial wellbeing, inclusion and risk' held on 5 December 2016 was organised and hosted by RMIT and the Brotherhood of St Laurence. Over 100 people from the finance, community, regulatory and academic sectors attended to hear our international panel share their insights and research on the evolving concept of financial wellbeing.

Background

There is an increasing recognition among community, policy and academic sectors that the current financial inclusion policy framework is becoming outdated. The focus of policy and practice in Australia, the United States, the United Kingdom, Canada and New Zealand is shifting from financial inclusion frameworks to the broader notion of financial wellbeing. While this term is gaining currency among policy makers and service providers, there is currently no agreement on what is meant by financial wellbeing (or similar constructs such as financial resilience).

As researchers we believe it is critical to define and understand the terms we use. Measurement is impossible and discussion is meaningless without an agreed definition.

Over the last 15–20 years we have seen research and policy focus shift from 'financial literacy' to 'financial capability' to 'financial inclusion', 'financial resilience' and now 'financial wellbeing'.

The aim of the event was to examine the increasingly popular concept of *financial wellbeing* and discuss its strengths and limitations, including the extent to which it addresses issues relating to poverty and inequality. We hoped the event would inspire the audience to consider:

- the concepts behind the terminology
- how such terminology is used day to day
- how the different terms relate to various cohorts and contexts.

The panel

The event featured panel speakers—Professor Elaine Kempson (United Kingdom), Professor Jerry Buckland, (Canada) and Dr Jack Noone (Australia)—and was moderated by independent writer and researcher, Mr Peter Mares.

We designed the event to examine **concepts**, **contexts** and **concerns** in relation to financial wellbeing.

Elaine Kempson is Professor of Personal Finance and Social Policy Research at the University of Bristol in the UK. She has nearly 30 years of experience in policy development and research into consumer behaviour and the provision of financial services. The areas of her work that are well known internationally include financial capability, financial inclusion, and over-indebtedness and consumer protection. Elaine is currently working with the European Commission on Financial Guidance and the National Consumer Research Centre in Norway on a survey of financial wellbeing and its links to financially capable behaviours and other factors.

Jerry Buckland is Professor of International Development Studies at Menno Simons College in Winnipeg, Canada. His research and teaching areas include research and evaluation methods, financial empowerment and community-based development.

Jerry has published extensively on financial exclusion and is working on a new book that explores development projects around the world and is tentatively titled Financializing Human Development. He has been active in payday lending regulation debates in Canada.

Jack Noone is a Research Fellow at the Centre for Social Impact (CSI), University of New South Wales, working in outcome evaluation across a range of projects. His research interests lie at the intersection of healthy ageing and structural disadvantage with a focus on outcome measurement across the life course. He has developed an internationally validated measure of retirement planning and is involved in the measurement of precarious employment, work ability and workplace disorganisation.

Concepts – What's in a name? More than just semantics

Professor Elaine Kempson traced the shift in **concept** terminology from a focus on financial literacy, capability and inclusion to resilience and wellbeing. She explained *how* and *why* the concepts were developed, what they added to our understandings of financial risk and the inadequacies inherent in each definition, as summarised below.

Financial literacy

- Traditionally about knowledge, and more recently inclusive of skills
- Thought to be a single measurable concept but little consensus about how to measure
- Very much focused on the individual and the belief that financial literacy can be taught
- Essentially a didactic/educational approach through workshops or one-to-one coaching.

Critiques

- Knowledge and skills should not be seen as an end in their own right. Improved consumer behaviour is the ultimate outcome.
- Only mixed evidence of impact on behaviour, which is largely influenced by factors that can't be taught—inbuilt biases, beliefs and social norms, environment.

Financial capability

- Focuses on behaviours and the social factors that influence them
- Highlights need for innovative approaches to tackle low capability—edutainment, social marketing, consumer protection, 'nudge'

Critiques

- Not a single concept that is easily measurable
- Need for more nuance. A person may be capable day to day but not very good at planning ahead: does that make them capable or not?
- Often conflates wellbeing and capability. Capable behaviours not an end in themselves.

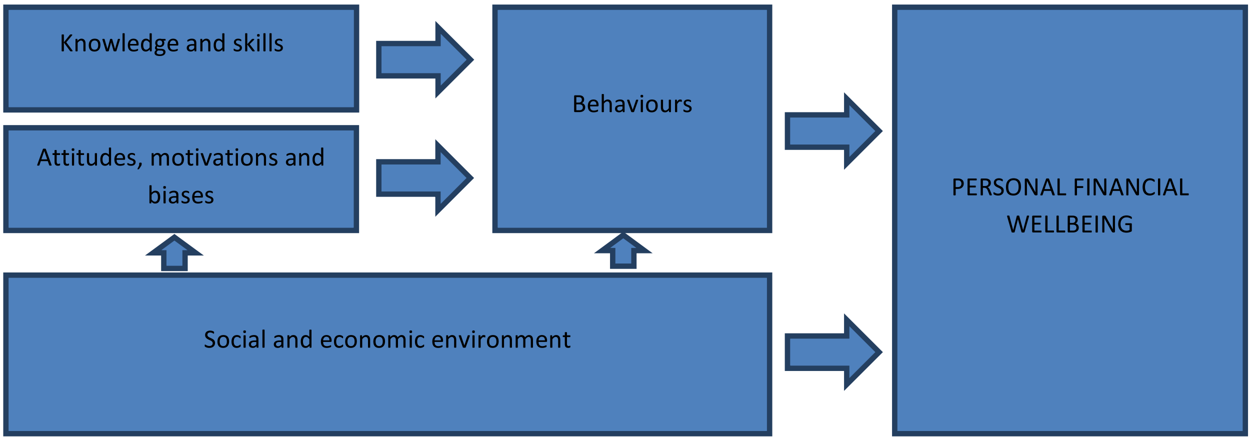
Financial inclusion

- Access to and use of appropriate financial products.
- Measured as number of products held or the holding and using of a transaction bank account
- Policy focus on creating appropriate products and promoting their use

Critiques

- Need for more debate about how access to and use of appropriate products can enhance wellbeing (or reduce it if products are inappropriate)
- Product-based approach is too limited to meet complex financial needs
- Policy and programs need to focus more on need than products
- Access alone is insufficient to deliver wellbeing.

Figure 1 The determinants of financial wellbeing (Kempson 2016)



Financial resilience

The ability to access and draw on internal capabilities and appropriate, acceptable and accessible external resources and support in times of adversity.

- Born out of financial inclusion debates
- Takes a broader view of peoples' situations
- Aggregate measure—takes into account a whole raft of determinants of wellbeing

Financial wellbeing

Being able to meet all one's current commitments and needs comfortably and having the financial resilience to maintain this in the future.

- Born out of financial capability debates
- Framed as a set of financial outcomes

Financial resilience and wellbeing

- Both acknowledge the importance of external and individual factors
- Are often measured similarly but are analysed differently

Elaine provided an overview of **how** the latest broader concept, financial wellbeing, has been developed and measured in Europe, using recent data to show what the concept of financial wellbeing looks like for low-income and vulnerable households.

She observed that qualitative research suggests skills are of secondary importance to behaviour. Research in relation to upbringing, family and friends has shown us that:

- Financial behaviours are influenced by personality traits
- Friends influence behaviour but are secondary to personality
- Socioeconomic and environmental factors are important.

Elaine presented early findings from quantitative research on financial wellbeing in Norway, to argue that there is a need to move away from a product-driven approach and focus on what is 'appropriate' inclusion to build financial resilience and promote wellbeing.

She also pointed out the importance of recognising the socioeconomic environment, especially in the need to maintain secure and adequate incomes and for better regulatory oversight.

Financial inclusion in Canada and the US

Professor Jerry Buckland discussed the **context** of financial inclusion in terms of policy and practice in North America. His mixed-methods research focuses on vulnerable people, investigating the assets and strengths of their financial lives.

Jerry briefly sketched the regulatory and social characteristics in the US and Canada, noting some differences:

- Prevalence of un- and under-banked (Canada 3% vs 8% in US)

- New immigrants greater in US than Canada. This subpopulation is more likely to be un- or under-banked
- Inequality is greater in the US than Canada according to Gini-coefficient estimates
- Greater social protection in Canada than the US
- More financial regulation in Canada than the US
- Policies and regulation play a role in enabling financial inclusion. Currently there is little corporate responsibility with respect to protecting clients in the banking sector. A large market of fringe banks exists in the US. There has been a move away from regulating more equitable access to financial services to a focus on financial literacy There are both benefits and risks associated with a holistic approach to financial education
- Learning not occurring in a vacuum—instead highly influenced by the environment.

Research with Indigenous Canadians found that financial behaviours were dependent on:

- Upbringing and parents' banking habits (use of local store for banking needs)
- Access—absence of a mainstream bank in town may lead to use of fringe banks.

Thought leadership is important, notably from the Consumer Financial Protection Bureau in the US.

For Jerry, financial wellbeing is about linking financial means to financial ends.

It is morally important for people to have the freedom to live a life that they value and ultimately achieve wellbeing, and that is likely to mean different financial ends for different people.

Wellbeing is thus achieved by choosing certain functionings based on one's available capabilities, those capabilities being highly dependent on local context (e.g. neighbourhood). Jerry used the example of banking options for a wealthy person compared with a poor person, showing that financial services are often two-tiered and this perpetuates inequality.

Jerry observed that the policy literature has not kept up with the academic literature, but does endeavour to be more holistic and inclusive of consumer finances, financial literacy, financial access and wellbeing.

Concerns – How do we measure financial wellbeing? What are the gaps?

Dr Jack Noone presented some early findings from an Australian study of financial wellbeing, and then identified some **concerns** that have arisen in defining and measuring these concepts in Australia.

What are the gaps?

Gaps in measuring financial wellbeing were identified during focus group discussions, stakeholder interviews and from experts during steering group meetings:

- Insufficient focus on community and societal level enablers and barriers
- Insufficient integration with a life-course framework that considers how people's financial position changes over time.

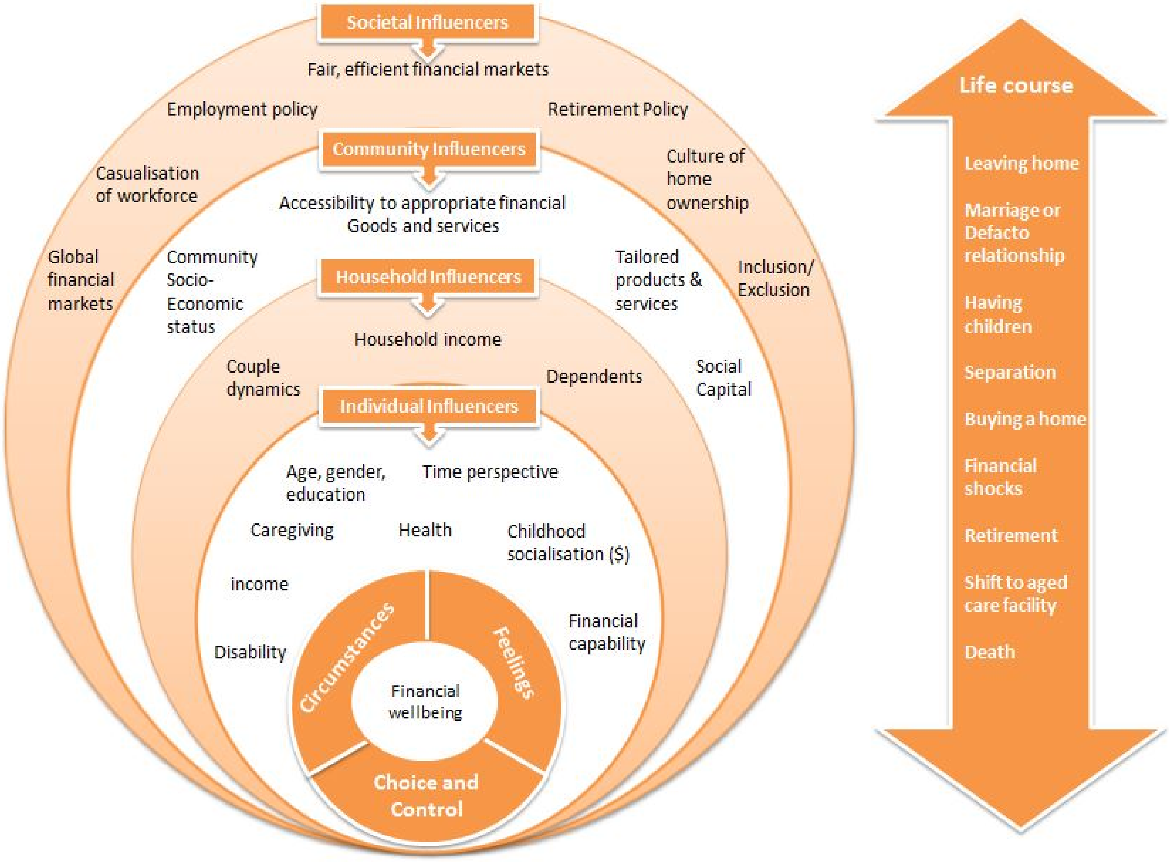
Models need to consider complex scenarios, for example:

- People with similar financial situations may perceive their situations differently.
- People may have similar perceptions of their financial situations despite them being different.
- Some people may have a 'good' financial situation on paper but have no control over it, for example, in cases of family violence and financial abuse.
- A person on low income may have limited ability to control their financial situation.

The goal of the research is to develop a framework that can be used at a national level but is sensitive enough to be relevant for disadvantaged groups, including households living on low incomes.

The life-course ecological model (Figure 2) shows examples of the factors that can influence the financial circumstances, feelings, and degree of choice and control people may have that in turn are important in achieving financial wellbeing. Jack highlighted that people's differing social contexts, their life stage and the regulatory influences must be considered when addressing the risks that people living on lower incomes experience. Qualitative data revealed, for example, that people want control over their financial lives but are often overspending at the same time, and that financial wellbeing for many people is simply an absence of financial worry.

Figure 2 Life-course ecological model of financial wellbeing (Noone et al.)



What should possible responses look like in light of these concerns?

Jack talked about using a systems thinking approach to help assess risk, consider the context and identify other relevant factors. He also emphasised the need for continued stakeholder engagement and commitment at all levels, enabling a multidisciplinary response, and for an outcomes framework to measure progress.

Questions from the audience

Discussion focused around barriers versus capacities, and environments versus individuals—across this range of language, do we see a progression towards a more holistic approach?

The panel emphasised considering both individual and systemic factors in financial wellbeing—and most importantly, the intersection of these factors and how this influences behaviour. Jerry spoke about how we're living increasingly financialised lives—with the proliferation of services, a society highly motivated by money and driven by the finance sector means that vulnerable people are 'vulnerable' to services. We cannot forget the involvement of institutions, and we need to recognise how we are deeply influenced and often manipulated by financial providers because they know how people behave.

Is there evidence that financial wellbeing is better or worse when payday lending is illegal?

Evidence is scarce. Some data from the US suggests that in 'restrictive' states people were cutting back on their payday loans while increasing their borrowing from other sources (e.g. family). Scrutinising the business models of payday lenders has improved practices.

Are there certain factors or characteristics that distinguish between people who benefit from using payday lenders and those that are not?

People who are borrowing repeatedly are obviously using a product that is not meeting their needs, and thus the high interest rates are detrimental for them. Strategic users have a high level of financial literacy and have calculated the savings they can make.

How much literature is there on the link between enablers and barriers of financial wellbeing and poverty?

Quite a lot of literature draws on this connection as it comes out of stress and scarcity theory. Financial wellbeing is about avoiding stress and maximising agency and control. We need to learn from those people on low incomes who are good planners and resourceful with what they have.

What is the effect of technology innovation on the financial inclusion of people with disabilities or older people?

This question sparked conversation about how technology is beginning to exclude people. Sweden is on track to do away with cash money, with more and more people 'paying with plastic'. The movement to online transactions is excluding people with low digital literacy.

SMS loans are also proving detrimental for young people who have high tech literacy but poor financial literacy.

Banks are increasingly pulling out branch services, with a transition to online banking. With many rural locations having poor internet connections, this creates a gap. Financial institutions are beginning to introduce programs to address this.

How does culture play a role in achieving financial wellbeing? Is there a culture around advertising? Is the current culture framing it as a moral problem?

This raised discussion around culture varying across generations (temporality) and places. The Australian culture related to home ownership contributes to financial stress.

About the project

This was a collaborative event organised by researchers at RMIT and the Research and Policy Centre at the Brotherhood of St Laurence.

Dr Dina Bowman is an economic sociologist and Principal Research Fellow in the Research and Policy Centre at the Brotherhood of St Laurence. She is an Honorary Senior Fellow in the School of Social and Political Sciences at the University of Melbourne.

Dr Marcus Banks is a Senior Research Fellow in the Research and Policy Centre with the Brotherhood of St Laurence and also researches at RMIT.

Professor Roslyn Russell is a Principal Research Fellow in the School of Economics, Finance and Marketing at RMIT University.

Associate Professor Ashton de Silva is an applied economist and econometrician specialising in the analysis of household finance and government policy.

The event was supported by RMIT's Governance, Accountability and Law Strategic Research Priority Area and ANZ Banking Group.

For further information

Information about the event and the presentations may be downloaded from the Brotherhood of St Laurence website at <https://www.bsl.org.au/events/all-being-well-financial-wellbeing-inclusion-and-risk/>

For more information about our research on economic security see <https://www.bsl.org.au/knowledge/research-themes/work-and-economic-security/economic-security/>.

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