

# ADULT FINANCIAL LITERACY IN AUSTRALIA

December 2011

Executive Summary of the results from the  
2011 ANZ Survey

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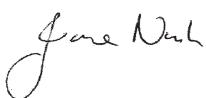
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ANZ is pleased to present this Summary of the fourth Survey of Adult Financial Literacy in Australia. The 2011 Survey captures the complexity of financial literacy to a greater extent than previous surveys through focussing on behaviours indicative of a person's financial literacy and examining the associations of those behaviours with people's demographic and other characteristics, including attitudes to finances. We have chosen to do this in order to provide more nuanced information to policy-makers and others engaged in efforts to lift financial literacy levels in the community.

Comparability with previous surveys has nevertheless been retained through the large number of questions unchanged since they were first asked in 2002. Those with a deep interest in any of the wide range of topics covered - these include incidence and use of financial products, use of the Internet, budgeting, planning, savings, investment, superannuation, insurance, numeracy and financial attitudes - are encouraged to access the full Survey report available on [www.anz.com/cr](http://www.anz.com/cr)

ANZ thanks the people who produced the Survey: David Blackmore from the Social Research Centre and Stephen Prendergast from Prescience Research for their high quality research and analysis, as well as Delia Rickard from ASIC and Catriona Lowe from the Consumer Action Law Centre for their guidance and ongoing commitment to illuminating the issues in financial literacy.

For ANZ the Survey is part of our long-term commitment to improving the financial inclusion and well-being of vulnerable, low financial literacy individuals and communities.



Jane Nash  
Head of Financial Inclusion & Capability, ANZ

# 1.0 INTRODUCTION

This report presents key findings from the 2011 ANZ Survey of Adult Financial Literacy in Australia<sup>1</sup> – the fourth Survey in a series published since 2003.

Financial literacy is the ability to make informed judgements and to take effective decisions regarding the use and management of money<sup>2</sup>. Financial literacy is therefore a combination of a person's skills, knowledge, attitudes and ultimately their behaviours in relation to money.

To capture this concept, we focussed on the behaviours that can be considered indicators of a person's financial literacy. Analysis<sup>3</sup> identified five behavioural indicators:

- > Keeping track of finances, for example monitoring account statements and household expenses;
- > Planning ahead, which includes behaviours such as addressing retirement income issues, using financial advisers and using insurance;
- > Choosing financial products; for example the extent of comparison shopping for financial products and services;
- > Staying informed, for example the extent to which people make use of financial information; and
- > Financial control which includes things like control of general financial situation and debt as well as ability to save money.

Having identified the behaviours that indicate a person's financial literacy, the next step was to examine which groups performed well in terms of these behaviours and which groups did not. In other words, which groups display behaviours that indicate high levels of financial literacy and which display behaviours that indicate lower levels of financial literacy?

Then, to help explain differing levels of financial literacy between groups, associations with peoples' characteristics such as age, education, household circumstances, financial knowledge, numeracy and financial attitudes were examined.

These explanations are not complete, but they do assist in building our understanding of the characteristics of groups in the community who may benefit from improved levels of financial literacy.

<sup>1</sup> A telephone survey of 3,502 randomly selected Australian adults between July 5 and August 18, 2011.

<sup>2</sup> Schagen, S. 'The Evaluation of NatWest Face 2 Face with Finance', NFER, 1997.

<sup>3</sup> This conceptualization draws on work by the Personal Finance Research Centre at the University of Bristol (e.g. 'Measuring financial capability: An exploratory study', June 2005).

Financial literacy is the ability to make informed judgements and to take effective decisions regarding the use and management of money.

### 2.1 GROUPS WITH LOW FINANCIAL LITERACY

The survey identifies groups where lower levels of financial literacy are more likely to be encountered. These groups were much the same in 2011 as in previous surveys and included:

- > People who are relatively young (under 25 years);
- > People with no formal post-secondary education;
- > People with relatively low levels of income and assets (e.g. those whose main source of income is a Government benefit or allowance; those with annual household incomes below \$25,000; those with less than \$2,000 in savings and investments);
- > Those working in lower blue collar occupations; and
- > Females.

It should be kept in mind that, while on average a group may perform relatively poorly on a particular behaviour this does not mean all members of the subgroup perform poorly on that behaviour. For example, as a group those renting their home perform less well than others on financial control; nevertheless, slightly more than one in ten people in this situation have scores that place them in the top 20% of the population on this.

Programs that also take into account and seek to positively influence people's financial attitudes are likely to be more effective than those that do not.

## 2.2 FACTORS THAT HELP TO 'EXPLAIN' DIFFERING LEVELS OF FINANCIAL LITERACY

### Age

Strong positive associations were identified between age and most of the behavioural indicators of financial literacy from the 25-34 year age group on – there was no association for people in the 18-24 year age group. This is consistent with people learning and having more exposure to financial products and transactions as they move through their lives.

### Financial knowledge and numeracy

Positive associations were identified with all behavioural indicators of financial literacy except for financial control. This suggests that having good levels of knowledge about financial matters generally and numeracy are important, particularly when it comes to choosing financial products, keeping track of finances and staying informed, but other factors are more important for financial control (see Household income on the next page).

### Financial attitudes

Financial attitudes have an association (whether positive or negative) with most behavioural indicators of financial literacy. In particular:

- > 'Financial self-efficacy' which is about self-confidence and belief in the ability to make a difference to one's financial situation has a positive association with all behaviours associated with financial literacy; its strongest association is with staying informed suggesting active engagement in managing their finances amongst people with this attitude.
- > Finding 'money dealings stressful' has a negative association with all behavioural indicators except for planning ahead where there is no association. Its strongest negative association is not surprisingly with financial control, likely indicating the stress associated with dealing with financial difficulty. It has a relatively strong negative association with keeping track of finances, choosing financial products and staying informed suggesting a lack of interest or willingness to engage with their finances and shopping around for financial products on the part of some people.
- > A 'thrifty' attitude has a relatively strong positive association with all components of financial literacy except planning ahead.

### Household income

Household income has a relatively strong positive association with financial control, meaning that in general higher household incomes are positive for financial control. Financial control is also positively associated with having savings and investments (those with savings and investments of less than \$2,000 tended to have lower levels of financial control), a thrifty attitude and a high level of financial self-efficacy (i.e. self-confidence and belief in the ability to improve one's financial situation and to reach financial goals).

Household income has a slight negative association with keeping track of finances, suggesting that higher income households tend to track their finances less closely than lower income households who need to manage their finances more closely. It also has a slight positive association with planning ahead, reflecting a tendency for higher income households to make more use of financial planners and insurance.

Household income alone is not a key influence on other behavioural indicators of financial literacy, particularly engaging in choosing financial products and staying informed about financial matters – people do these things whatever their level of income.

### Education and occupation

Education and occupation have associations with some behavioural indicators of financial literacy, suggesting they are important in some areas but not others.

Completion of formal post-secondary education is strongly positively associated with choosing financial products and staying informed but does not appear to be important for keeping track of finances, planning ahead or financial control.

Being in a blue collar occupation has a slight negative association with keeping track of finances and planning ahead. Being in a white collar occupation is positively associated with staying informed about finances.

### 2.3 SOME IMPLICATIONS OF THE FINDINGS

The 2011 Survey provides a guide to the groups in the community who may benefit from efforts to lift their levels of financial literacy: these are the groups listed in section 2.1.

The 2011 Survey also shows that financial literacy is complex. Individuals and groups may perform well on some components of financial literacy but not others and people's financial attitudes affect their level of financial literacy quite strongly.

This provides some guidance for designing financial literacy programs. For example, programs focused solely on raising financial knowledge and numeracy may be effective in improving components of financial literacy such as choosing financial products, keeping track of finances and staying informed; however, their affect on planning ahead is likely to be more limited.

Programs that also take into account and seek to positively influence people's financial attitudes are likely to be more effective than those that do not. Financial self-efficacy, which is a measure of confidence in dealing with money and of willingness to engage with money management, is positively associated with all components of financial literacy. The research finds that 36% of people find dealing with money is stressful, even when things are going well. Together these findings suggest that effective program design needs to:

- > Find a way to engage people; and
- > Help to overcome the stress some people associate with dealing with money and build confidence in managing money.

This in turn highlights the need for support in the form of advice, 'coaching' and tools amongst some groups in the community.

## 2.4 CHANGES OVER TIME

This is the fourth ANZ Survey of Adult Financial Literacy since the first was conducted in 2002 and published in May 2003. When the 2011 results are compared with those from the previous surveys, some changes are apparent. One group of changes relates to the Global Financial Crisis (GFC) and its effects and the other to ongoing efforts to increase awareness of consumers' rights.

### 2.4.1 Changes in financial attitudes and behaviour

Several measures from the 2011 Survey support the view that Australians have become more cautious in their financial attitudes and behaviour since the GFC. Financial resilience of households has generally increased, but this has not been the case for all households.

- > In 2011, the number of people saying they try to save on a regular basis (77%) is at the highest level seen in any of the four surveys; the next highest figure was 72% in 2008. This is in line with Australian Bureau of Statistics data showing a marked increase in the savings ratio of Australian households since the GFC.
- > Fewer people had a personal loan (down 5 points since 2008 to 12%), a line of credit or overdraft (down 2 points to 12%) or a lease/hire purchase agreement (down 2 points to 7%).
- > More people report they are in control of their financial situation all or most of the time (up 4 points to 81% in 2011) and fewer people feel they would be unable to manage for a period of time if they experienced a major loss of income (down by 2 points to 22% in 2011).
- > Financial resilience has not, however, increased for all households. For example, those with household incomes of \$65,000 or less who are supporting children and/or \$300,000 plus mortgages are less likely to feel their financial situation is under control; nor has there been any decrease since 2008 in the proportion who feel this way.

### 2.4.2 Changes in investing

Since the GFC financial markets have been characterised by a higher level of volatility and lower investment returns, particularly in shares, which have resulted in some changes.

- > There was greater awareness of investment volatility with more people agreeing that short term fluctuations in market value can be expected even with good investments (up 7 points to 74%).
- > Fewer people held shares (down by 3 points since 2008 and by 9 points since 2002 to 35%) or managed investments (down by 4 points since 2008 and by 13 points since 2002 to 16%).
- > There was greater uncertainty about how to assess the performance of a superannuation fund or managed investment (19% unsure compared with 13% in 2008 and 8% in 2005). While not a change as the question was asked for the first time in 2011, four in 10 people disagreed with the proposition "I would trust financial professionals and accept what they recommend".
- > The proportion of people saying they read their superannuation statements is down 6 points since 2008 to 69%, which may indicate avoidance of news of somewhat disappointing returns over the past few years. Around a third of people continued to report they found their superannuation statements difficult to understand.



Several measures from the 2011 Survey support the view that Australians have become more cautious in their financial attitudes and behaviour since the GFC.

### 2.4.3 Changes to awareness of consumer rights and responsibilities

Changes relating to awareness of the rights and responsibilities of users of financial services were evident in the areas of complaints and insurance.

- > People were more confident about making an effective complaint against a bank or other financial institution. In 2011, 68% were confident or very confident about doing this; up from 58% in 2005 and 63% in 2008.
- > There was also greater awareness of the industry ombudsman (up 10 points since 2008 to 46%) as a potential source of help in resolving difficulties with the provider of a financial product or service.
- > In 2011, more people were aware of the cooling off period that applies when taking out a new insurance policy (up 6 points since 2008 to 74%).
- > Fewer people were aware that a claim could be refused if the policyholder did not meet their duty of accurate disclosure (down 7 points since 2008 to 47%).

### 2.5 SOME ISSUES REQUIRING ONGOING ATTENTION

Issues which are not new, that may require ongoing attention include: underinsurance and understanding risk in investment.

Recent media coverage of the inadequate/inappropriate flood insurance held by many people appears to have done little to raise awareness of the need to ensure the level/appropriateness of existing insurance cover.

- > In the 2011 Survey, people were less likely to consider the level of cover when renewing an existing insurance policy (27% would do so; down by 3 points since 2008) and hence leave themselves at risk of under-insuring.
- > Also, one in five people who owned or were purchasing their home did not have building insurance while one in four of those who owned, were purchasing or renting their home did not have contents insurance. These figures are unchanged since 2008 and suggest that under-insurance continues to be a significant risk for a considerable number of Australians.
- > At 53%, the proportion of people who said they would not invest in "an investment advertised as having a return well above market rates and no risk" was not significantly different from 2008. While the marked improvement on earlier results (46% in 2002) has been maintained, there remains scope for further improvement.

## 3.0 CONCLUDING REMARKS

In the 2008 Survey Summary Report we noted future surveys could usefully focus on behaviour and the extent to which money management skills and knowledge translate into behaviour.

The 2011 Survey does this by identifying behaviours that are indicators of financial literacy and the groups within the population that perform well against these and the groups that do not. The characteristics of those groups such as age, education, household circumstances, financial knowledge, numeracy and financial attitudes were examined to help explain differences and build a picture particularly of low financial literacy groups. This is a step forward in our understanding of a complex subject.

The 2011 Survey also included some questions which are being used as part of the OECD's program of financial literacy research<sup>4</sup>. This will allow for future comparison of Australian financial literacy measures against international benchmarks.

<sup>4</sup> See for example, <http://www.financialliteracyfocus.org/files/FLatDocs/OECD%20paper.pdf>

To read the complete report,  
visit [www.anz.com/cr](http://www.anz.com/cr)

or contact:

**ANZ**

Jane Nash  
Head of Financial Inclusion and Capability

Tel: (03) 8654 3622  
Email: [jane.nash@anz.com](mailto:jane.nash@anz.com)

