

*Understanding Personal Debt &
Financial Difficulty in Australia*

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ANZ Team: Jane Nash & Andrew Jenkinson

ACNielsen Team: Amber Vayro & Richard Sandlant

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Foreword from ANZ

This study of why some people in Australia get into financial difficulty is part of ANZ's ongoing commitment to undertake research into the broader issue of Adult Financial Literacy in Australia.

Our choice of topic is a response to the growth that has occurred in household debt in Australia and the questions asked about this growth, including about the marketing practices of lenders. Over the last 15 years what households owe as a percentage of household disposable income has more than doubled from 71 per cent to 158 per cent.¹ Of course, household debt is not evenly spread: the top 20 per cent of households by income account for 44 per cent of the debt and the bottom 20 per cent of households for four per cent.² The higher-income households are generally well placed to service their debt compared with lower income households who have less to fall back on in adverse circumstances. Those who have recently taken out loans and those who are highly geared are also relatively more exposed in adverse circumstances.³

ANZ's objectives for research into why some people get into financial difficulty are to:

- make an informed contribution to the debate;
- inform responses by governments, regulators and others in the finance industry; and
- further inform ANZ's business practices, programs and initiatives that are part of our broader financial literacy agenda.

This research provides a *consumer perspective* on financial difficulty. Its focus is on a small number of consumers and their articulation, in hindsight, of the factors leading to their experience of financial difficulty. The picture that emerged is quite complex with usually more than one factor and a range of influences explaining how an individual came to experience financial difficulty. Those interviewed also described the impact that financial difficulty had on them – ranging from feeling financial pressure to severe financial hardship and crisis – and the paths they took to overcome their financial difficulty.

While the focus of the research was not on the role of lenders or marketing practices, the researchers have been able to draw out some observations about this. In ANZ's view, both responsible consumer behaviour and responsible lending practices are required. Where either or both of these break down, financial difficulty can result.

¹ *Parliament of Australia, Senate, Consenting adults deficits and household debt – Links between Australia's current account deficit, the demand for imported goods and household debt, 13 October 2005, page 62.*

² *Op cit. page 65*

³ *RBA, Financial Stability Review, September 2005, page 11*

Acknowledgements

Both ANZ and ACNielsen wish to acknowledge and thank the people that participated in this research. Without their openness to share this sensitive area of their lives, this research would not have been possible. We would also like to acknowledge and thank the following people: Jan Pentland (Chair of the Australian Financial Counselling and Credit Reform Association), Gregory Mowle (President of Financial Counsellor Association of Queensland), and Lyn Park (Financial Counsellor) who assisted with the recruitment of people for this research, Carolyn Bond (Manager, Consumer Credit Legal Service; Chair, Consumer Federation of Australia), Delia Rickard (Regional Commissioner & Deputy Executive Director, Consumer Protection & International, Australian Securities & Investments Commission) and Catherine Wolthuizen (then Financial Services Policy Officer, Australian Consumers Association) whose guidance was invaluable in shaping this research.

Executive Summary

This report presents the findings of a qualitative study into why some people fall into financial difficulty and what role financial literacy plays in that outcome. In total, around 160 people were interviewed, 120 alone or in pairs and the rest in mini-focus groups of 4-5 people. It is the first comprehensive study of this issue to be conducted in Australia and forms the second part of a wider examination of adult financial literacy.⁴

The first part of the wider examination of financial literacy involved a quantitative survey of 3,500 adults conducted in 2005. Findings from that survey are reported separately but a number of its findings are relevant to this second, qualitative examination. From the quantitative survey we found that: 80 per cent of people felt in control of their finances; 17 per cent said they fluctuate between being in control and out of control of their finances; and three per cent said they felt out of control either most of the time or all of the time. Of this three per cent who felt out of control, two thirds had borrowings from a lender, and one third had no borrowings at all. This qualitative study focuses on the two per cent who said they felt out of control with their finances either most of the time or all of the time, and had borrowings from a lender.

The quantitative research shows that people from a broad range of employment, education, occupation and household income levels were affected by financial difficulty. Both households with income under \$15,000 and households with income over \$90,000 a year felt out of control with their finances. However, compared with those who felt in control of

their finances, low income households (under \$15,000 a year) were significantly more likely to experience financial difficulty. Financial control appears to increase with age. Forty-one per cent of those aged 30-44 years felt out of control with their finances, and 25 per cent of those aged under 30 years felt out of control with their finances.

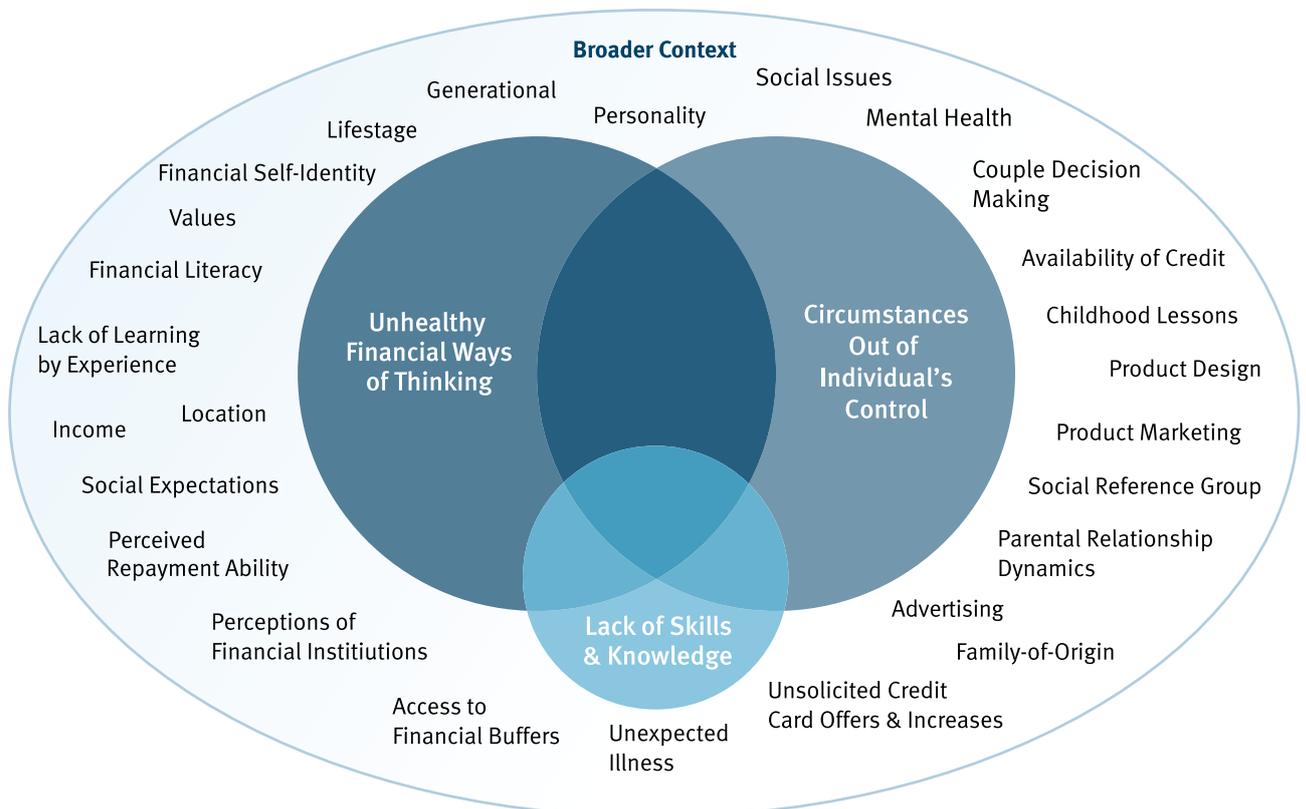
Financial difficulty for the purposes of this study refers to both those who, while they had not missed repayments or defaulted on their commitments, nevertheless felt out of control and to those who had missed repayments and defaulted and felt severely out of control.

Three core factors emerged from this study as causes of people falling into financial difficulty:

- ‘unhealthy’ ways of thinking about finances (predominant factor);
- circumstances or events outside a person’s control (predominant factor); and
- lack of financial skills and knowledge (for a minority of people).

In addition, there were an extensive range of influences acting on these factors, including individual, social, family, circumstantial, lender and product variables. These influences both predisposed people to these factors and accelerated the dominance of these factors.

Figure 1. Factors Leading to Financial Difficulty



⁴ This is the second report of three reports. The first is the ANZ Survey of Adult Financial Literacy in Australia, and the third is a Summary Report of the two studies.

Executive Summary

Core Factors

People in the study displayed a number of ways of thinking about their finances that guided their actions and behaviours, and had a negative impact on their finances. It is in this context that these ways of thinking are termed ‘unhealthy’. These unhealthy ways of thinking accounted for a sizable portion of the sample. These included:

- ‘*living for today*’ – focusing on the present not the future and the consequences of today’s spending;
- ‘*financial disengagement*’ – no interest in managing finances either current or future, so no monitoring and taking responsibility for spending;
- ‘*aspirational*’ – spending to ‘keep up with the Joneses’;
- ‘*emotional enhancement*’ – spending to feel better;
- ‘*ownership of credit*’ – over time an attitude of ‘it’s my money’ as opposed to credit that needs to be repaid; and
- ‘*credit as supplementary income*’ – ‘I need more to live’: to supplement a low income, to replace a loss in income or for those with higher incomes to support a ‘lifestyle’.

In many cases, events outside of people’s control occurred that had the effect of either decreasing income or increasing expenses or both. Circumstances that fitted this category were job loss, poor health, divorce and relationship breakdown and small business struggle or failure. This factor alone accounted for a sizable portion of people in this sample.

The third factor, lack of financial skills and knowledge, generally applied to people having too low a skills base to conduct their affairs effectively, such as: not understanding how products worked; not recognising when they should seek advice about a financial matter; or, in a small number of instances, being unable to identify a financial ‘scam’.

A lack of financial skills and knowledge alone was responsible for a small group of people experiencing financial difficulty. There is undoubtedly a small group of people whose low level of financial literacy leaves them vulnerable. Their experience of financial difficulty was often compounded by accepting poor advice from lenders or being persuaded by a salesperson - this was typically more fringe lenders than mainstream lenders. *For this group the challenge is to lift financial literacy levels so they are equipped with the knowledge and skills they need to manage their finances more effectively, as well as challenges for lenders in terms of responsible lending.*

Factors Operating in Combination

For the majority of people, it was the interplay of two or three of these factors that led to experience of financial difficulty. A large number of people in the study appeared to have an awareness of basic financial concepts and the way they should behave in order to achieve positive financial

outcomes. However, for a variety of reasons they did not exercise their knowledge. Rather, their unhealthy ways of thinking about their finances, which in some cases meant disengagement, over-rode this knowledge and guided their behaviour. It was not until a crisis point had been reached, typically experience of financial hardship, that this knowledge that had been ‘dormant’ tended to be activated with many starting to budget and control their spending. Before this point was reached, many people did not seem to understand the relevance and benefits to them of this knowledge and so did not use it. *For this group the challenge is to encourage people to use the knowledge and skills they have already and to recognise the benefits to them of doing this.*

Role of Lenders

For the majority of people in this qualitative study - reflective of the two per cent of the population who felt out of control and also had borrowings - lenders could be seen as indirectly influencing an individual’s path to financial difficulty. For example, the majority of people in this study with credit cards had received unsolicited credit limit increase offers and around half had accepted them. Acceptance in many cases occurred where there were pre-existing unhealthy ways of thinking and the offer provided the opportunity to access credit. Acceptance was also underpinned by a perception that ‘it must be okay’ because the lender had sent it out, coinciding with a behaviour of not reading the parameters of the offer. Once in financial difficulty, a small number of people felt powerless to negotiate with lenders, and said they received little understanding and flexibility from lenders overall. Experience of financial difficulty also tended to coincide with reduced or no choice about where people could borrow, forcing people to borrow from fringe lenders rather than from mainstream lenders. *The challenge here is for lenders to market their products responsibly, and to be responsive and appropriately flexible in dealing with customers in financial hardship.*

Overcoming Financial Difficulty

In addition to identification of factors leading to financial difficulty, this study documents the experience and impact on individuals of financial difficulty and outlines some of the ways that financial difficulty was overcome. These sections of the report highlight the ways that people responded to the experience of financial difficulty, the emotional impact of financial difficulty, and the variety of pathways people used to overcome their difficulties. *In particular, it is clear that community based financial counsellors play a powerful positive role in assisting individuals to address the financial difficulties and hardships that they face.*

Report Structure

The remainder of this report is in three parts:

- **Part A – Summary Report.** This section sets out a concise summary of the key findings.
- **Part B – Detailed Report of Findings.** This section builds on Part A and reports the research findings in more detail. This section assumes that readers have read Part A.
- **Appendices** – The six appendices contain further detail on the demographic profile of those in financial difficulty, an overview of the influences on the factors causing financial difficulty, an overview of the research objectives, scope of this study and the methodology employed, the recruitment questionnaire, fieldwork protocols and discussion guide.

PART A: SUMMARY REPORT OF KEY FINDINGS

This section provides a summary of the key findings from this qualitative study into financial difficulty in Australia. It highlights the extent of the problem, identifies the key causes of financial difficulty, examines the impact of financial difficulty and highlights some of the ways that financial difficulty was overcome.

1.1 A Quantitative Snapshot of Financial Difficulty in Australia

As part of the quantitative investigation into financial literacy in 2005, ACNielsen interviewed over 3,500 adult Australians. Amongst a range of issues discussed, respondents were asked the extent to which they felt in control of their financial situation.

The majority of respondents (79%) said that they were in control of their financial situation all or most of the time. A sizable proportion (17%) said they fluctuated between being in and being out of control with their finances. A small proportion (3%) stated they felt out of control all or most of the time and of this three per cent two thirds had borrowings from a lender, and one third had no borrowings at all. This qualitative research focuses on two per cent of people who felt out of control with their finances and borrowings.

Of the three per cent of the population that felt financially out of control, the quantitative research shows that people from a broad range of employment, education, occupation and household income levels were affected by financial difficulty. Both households with income under \$15,000 and households with income over \$90,000 a year felt out of control with their finances. However, compared with those who felt in control of their finances, low income households (under \$15,000 a year) were significantly more likely to experience financial difficulty. Financial control appears to

increase with age. Forty-one per cent of those aged 30-44 years felt out of control with their finances, and 25 per cent of those aged under 30 years felt out of control with their finances. (Please see Appendix A for a more detailed demographic profile.)

1.2 The Role of Financial Literacy in Financial Difficulty

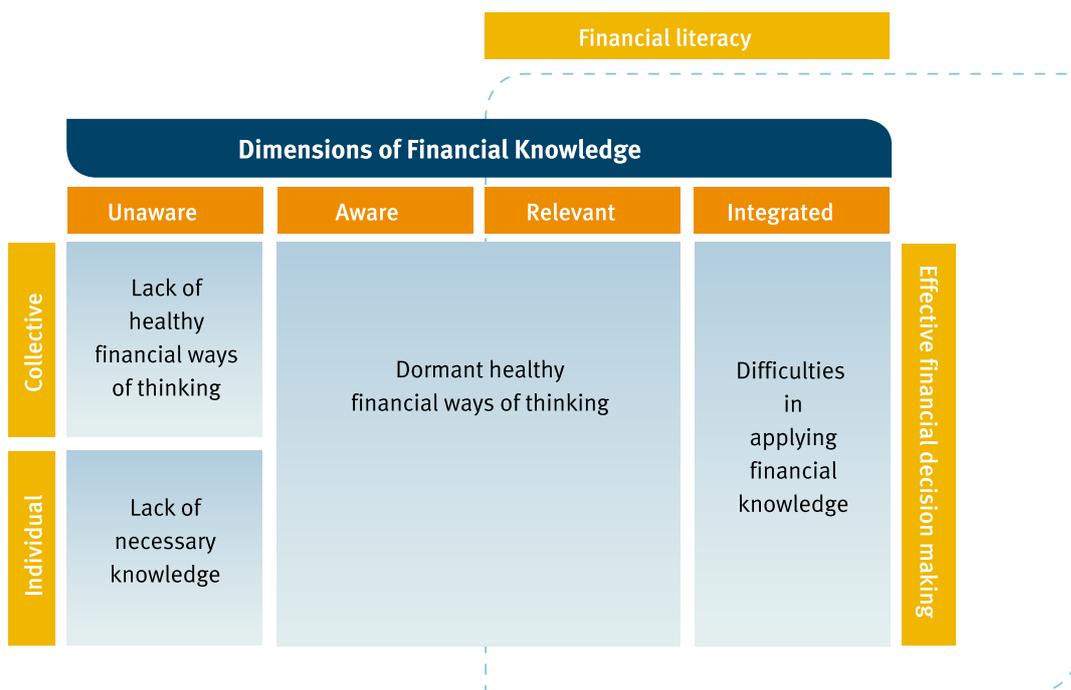
Financial literacy in this study is defined in the same way as for the quantitative surveys:

'The ability to make informed judgements and to take effective decisions regarding the use and management of money⁵.'

Consideration of the overall levels of financial literacy of those in financial difficulty indicates that low levels of financial literacy is a contributing influence to each of the specific causes of financial difficulty identified in this study.

For those who were in financial difficulty, there was a lack of particular dimensions of financial knowledge and ways of thinking that inhibited people in making effective financial decisions. These can be seen as elements of low financial literacy. In pulling together all the themes of financial literacy in this research, four particular areas were uncovered as indicators of low financial literacy for those in financial difficulty, highlighted in the diagram below.

Figure 2. Indicators of Low Financial Literacy for Those in Financial Difficulty



⁵ Schagen, S. 'The Evaluation of NatWest Face 2 Face with Finance' NFER, 1997

1.0 Key Findings

Effective financial decisions can be seen to be those decisions that are driven by relevant and integrated dimensions of financial knowledge, that is both general and specific to the individual's situation. For those in financial difficulty, the four areas that contributed to ineffective financial decisions and thus low financial literacy were:

- Lack of necessary financial knowledge;
- Lack of healthy financial ways of thinking;
- Dormant healthy financial ways of thinking;
- Difficulties in applying financial knowledge.

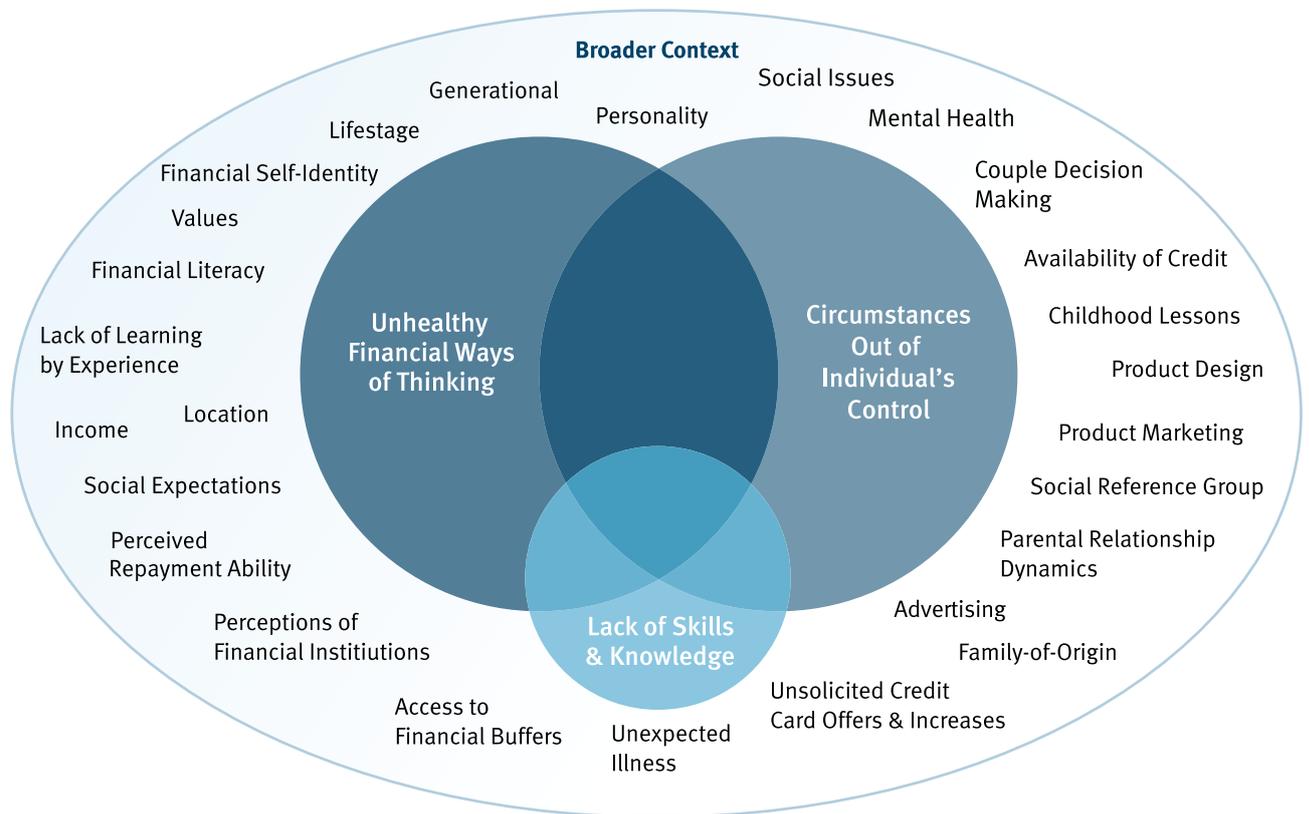
A number of barriers to acquiring financial knowledge were also identified in this study.

1.3 Factors Leading to Financial Difficulty

The qualitative research identified three core factors that led to financial difficulty, operating in a broader context with a range of influences. These three core factors were:

- Ways of thinking that were unhealthy for people's financial situation;
- Circumstances that were outside people's control; and
- Lack of skills and knowledge.

Figure 3. Factors Leading to Financial Difficulty



Each of these broad factors is explained in more detail in the following sections, with influences discussed in Part B and/or Appendix B.

Unhealthy Financial Ways of Thinking

There were a number of ways of thinking that dominated people's beliefs and influenced the unhealthy financial behaviour of over-spending or over-commitment. This was termed 'guiding unhealthy ways of thinking', which refers to the key thought patterns that were at the forefront of people's minds when making decisions and acting. 'Unhealthy' ways of thinking refers to where these thought patterns had a negative outcome on people's personal debt levels and experience of financial difficulty.

The guiding unhealthy ways of thinking evident in this research had the following characteristics:

- There were important key distinctions between the ways of thinking, but they were not mutually exclusive;
- Typically, the one person had many ways of thinking operating at a point in time, but with a dominant way of thinking being the 'guiding force' for behaviour;
- There were some ways of thinking that pertained more to expenditure, and others specific to credit facilities;
- The ways of thinking that guided people's behaviour could and did change over time for people. They were not stable individual characteristics but dynamic, impacted by external and internal forces. It was often the case that one way of thinking was swapped for another.

Another dimension to the outcome of over-spending or over-commitment was the presence of 'dormant healthy ways of thinking'. In particular, ways of thinking that people knew they *'should'* have exercised but did not. This was typically because they were not perceived as relevant to them, or the 'guiding unhealthy ways of thinking' over-rode them.

'I understood everything I just didn't do it... I thought I'll have plenty of time in my 30s, 40s and 50s to save. You only live once, I've had a strict upbringing, I want to play, I want no limits, I want no control.'

Young Single Female

Further to this, the study identified the absence of 'healthy filters' or 'healthy ways of thinking' in general within the group experiencing financial difficulty. While this research did not focus on what constitutes 'healthy ways of thinking' per se, there were certain clear absences of core financial concepts amongst those who experienced financial difficulty.

The impact of this was a lack of 'filters' or 'alarm bells' used in people's decision making processes when making financial decisions that led to financial difficulty.

(Context for quote: Approached at train station by lender to sign up for a credit card) 'I thought... credit card, cool... there was absolutely nothing that struck me except for the fact that I was wondering if the guy was going to take my details and rack a debt on me, is this guy legit, that was the only thing that made me think...I didn't have the same concerns as I have today.'

Young Single Male

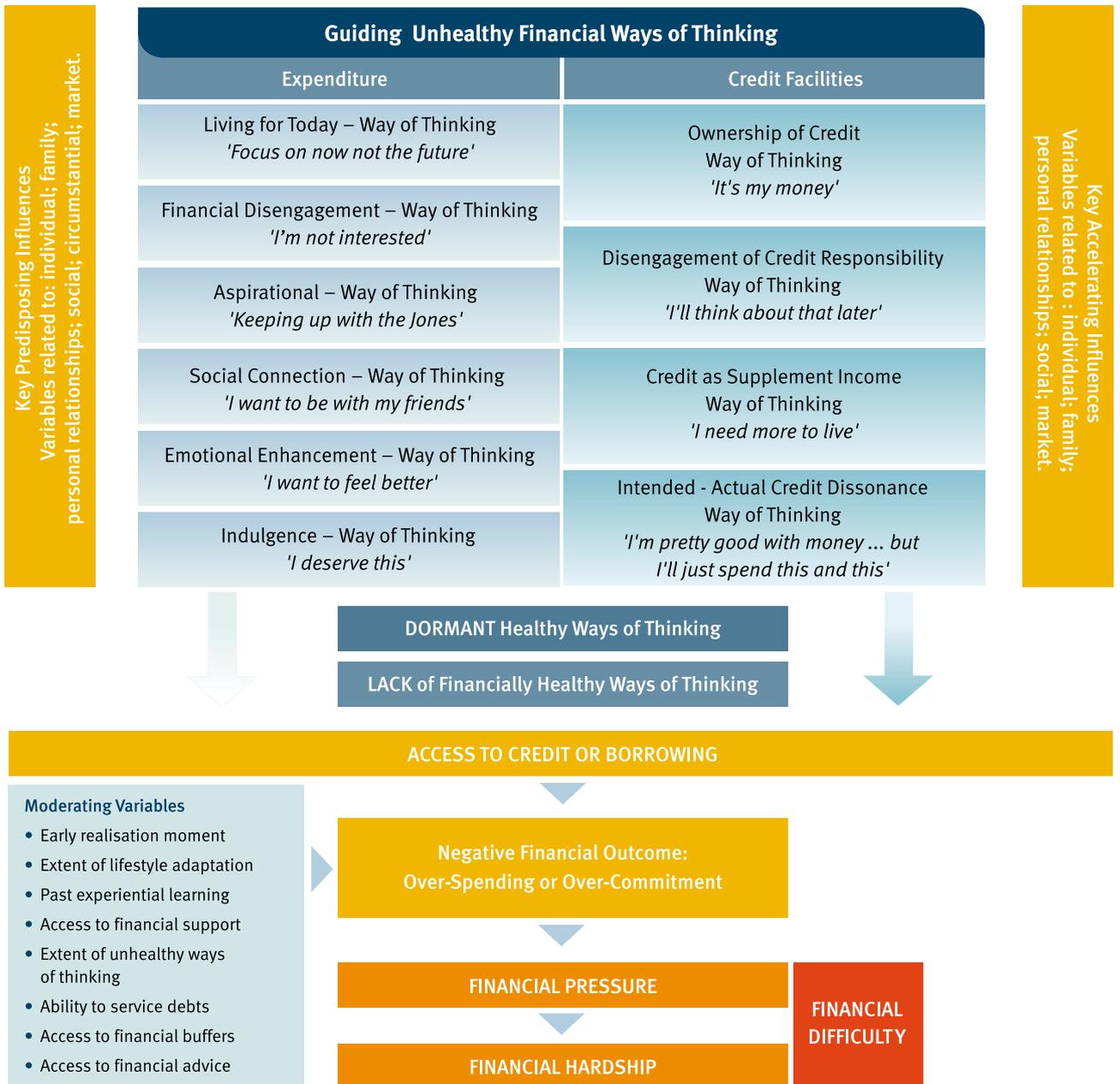
Another important part of the process of getting into financial difficulty was a person's access to personal debt. This was the means by which the unhealthy ways of thinking were played out, and it facilitated the outcome of over-spending or over-commitment.

There were also a number of influences that had an impact on these ways of thinking. The influences are differentiated between those that appeared to predispose people to these ways of thinking ('predisposing influences'), and those that accelerated the dominance of this way of thinking in a person's mind ('accelerating influences'). These influences ranged from individual variables, family and personal relationship characteristics, social and market variables, and circumstantial factors.

In addition, there were some moderating variables evident that determined the severity of an individual's financial situation. That is, the presence or absence of these variables determined whether financial pressure was experienced or whether the more severe scenario of financial hardship occurred.

Figure 4 (on the following page) provides a schematic diagram of the wide range of factors that are involved in the manifestation and outcomes of unhealthy financial ways of thinking.

Figure 4. Overview of Unhealthy Financial Ways of Thinking



Key Predisposing Influences
Variables related to: individual; family; personal relationships; social; circumstantial; market.

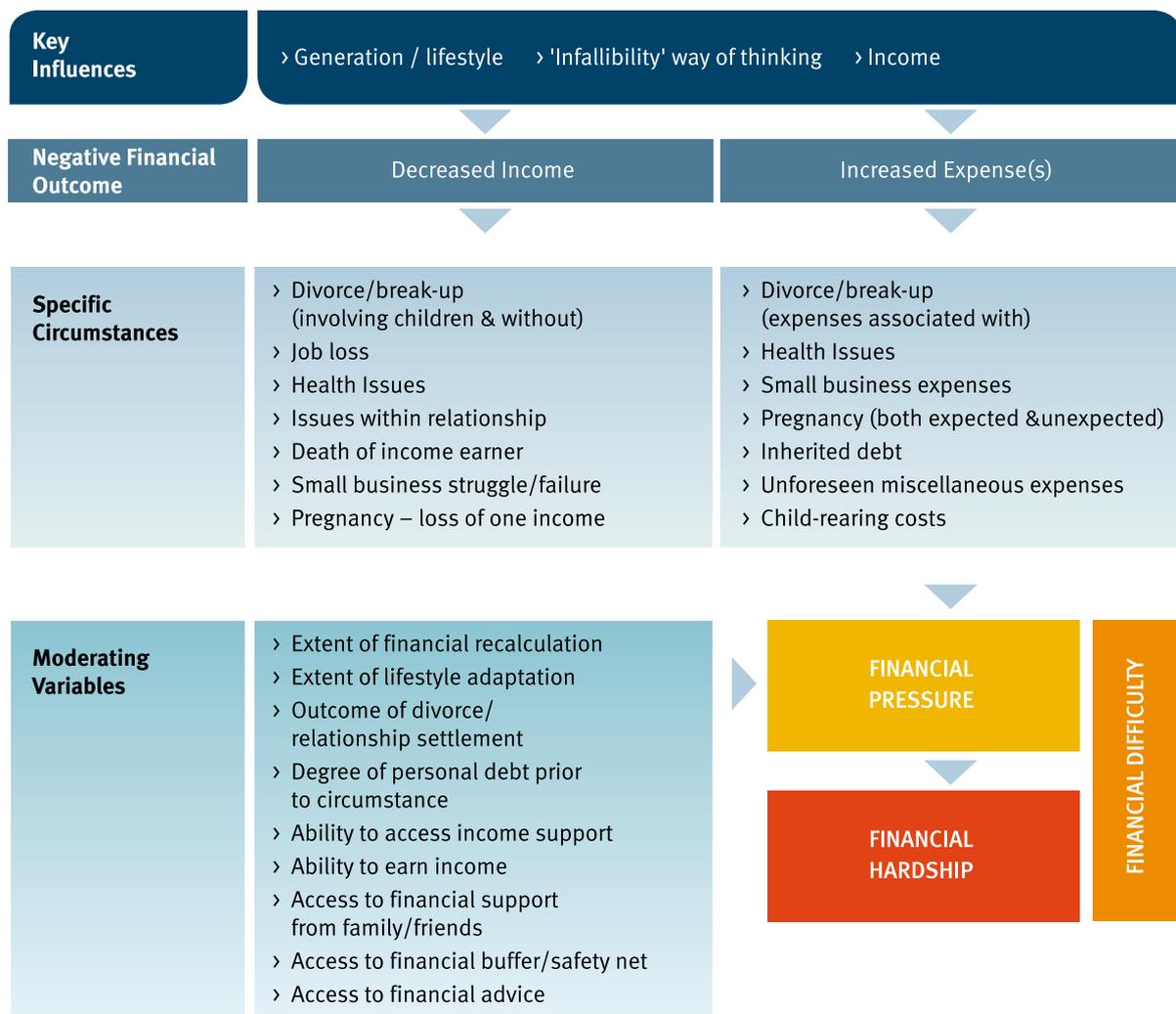
Key Accelerating Influences
Variables related to: individual; family; personal relationships; social; market.

Circumstances Out of Individual's Control

'I have been in financial difficulty, but it's been a place that I haven't put myself.'
Single Mother.

In many cases the catalyst for the experience of financial difficulty or hardship was the occurrence of circumstances that were outside of an individual's control. As with unhealthy ways of thinking, in relation to this contributing factor to financial difficulty there exists both a range of specific circumstances that trigger negative financial outcomes and a number of influences and moderating variables that affect the extent to which these circumstances lead to financial difficulty or hardship. Figure 5 provides an overview of these circumstances, influences and moderating variables.

Figure 5. Overview of Circumstances Out of Individual's Control



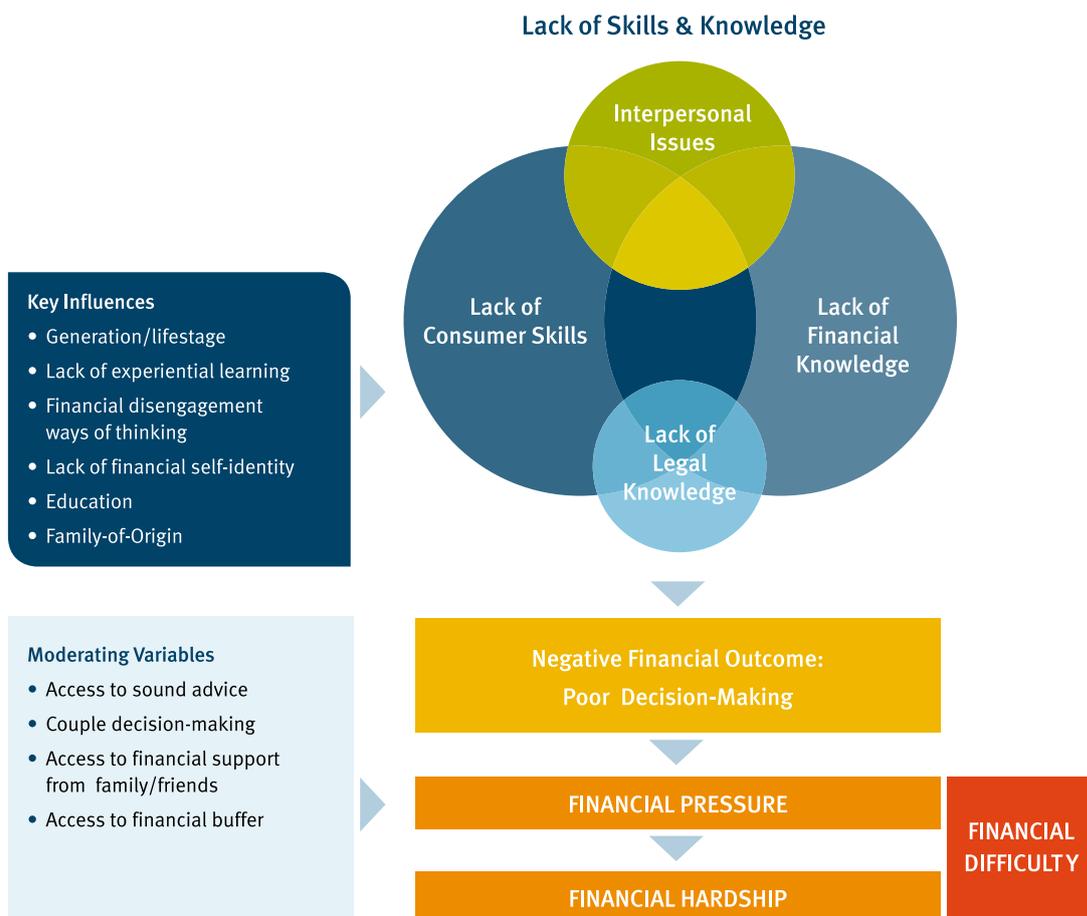
Lack of Skills and Knowledge

A lack of skills and knowledge were rarely observed to be the sole cause of financial difficulty, but generally played a role along with other factors. However, a lack of financial skills and knowledge alone was responsible for a small group of people in the study experiencing financial difficulty. There is undoubtedly a small group of people in the community whose low level of financial skills and knowledge leaves them highly vulnerable to the experience of financial difficulty or hardship.

‘You sign so many pages in this document that you couldn’t possibly ever read and understand them all. ‘Oh, no this is fine. You have just got to be long-term in the market and you will make money’, sort of stuff. And it didn’t work out that way.’
Mature Pensioner.

As with ‘ways of thinking’ and ‘circumstances beyond people’s control’, a number of specific aspects of this contributing factor have been identified, along with those key influences and moderating variables that determined the extent to which a lack of skills and knowledge was manifested in the experience of financial difficulty. Figure 6 provides an overview of these specific skill and knowledge gaps, influences and moderating variables.

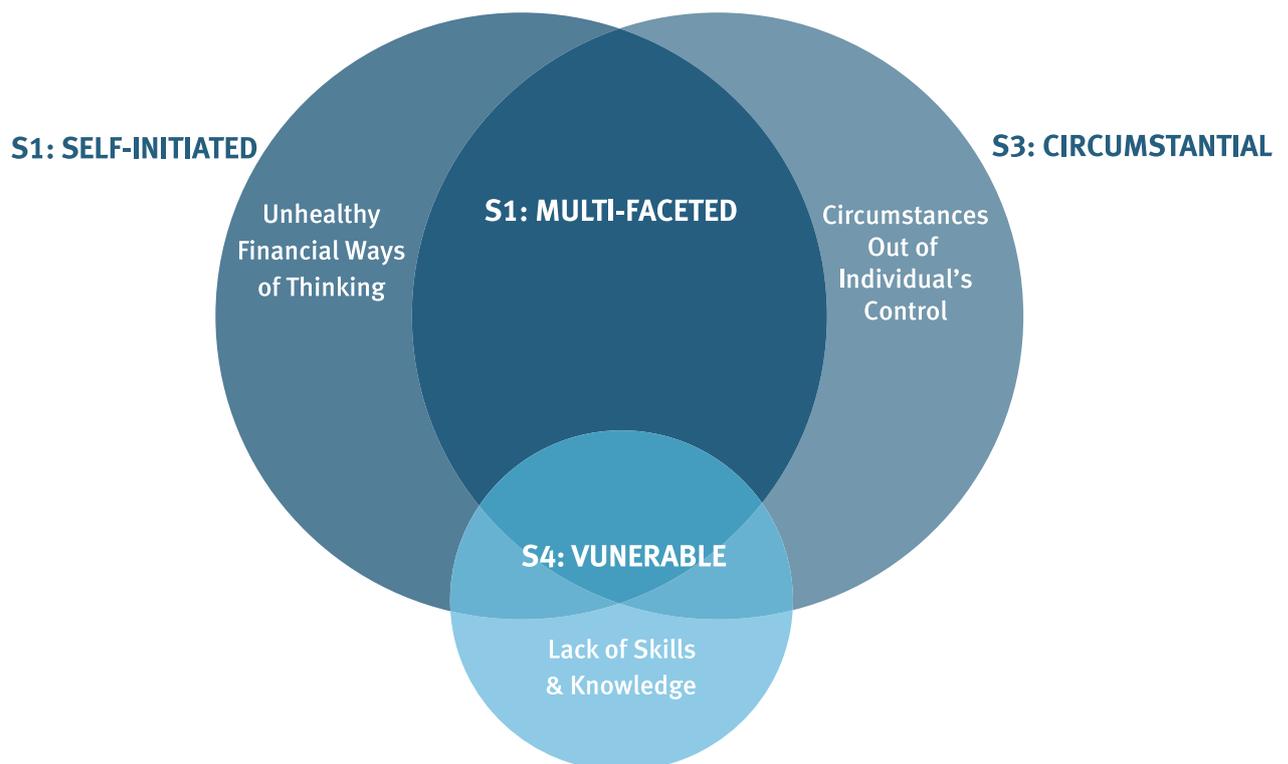
Figure 6. Overview of Lack of Skills and Knowledge



1.4 The Role of the Factors in Financial Difficulty

There were four main segments of people evident in the qualitative sample depending on the factors that played a role. These segments of people experiencing financial difficulty are illustrated in Figure 7.

Figure 7. Segmentation of Factors Leading to Financial Difficulty



Segment 1 – Multi-Faceted, was the largest in the qualitative sample, and represented those people where an interplay of two or three factors impacted on their negative financial situation. Importantly, there was an interaction effect evident where there were multiple factors at play, with one factor contributing to another factor. For example, a circumstance outside their control combined with lack of skills and knowledge, lead to an unhealthy financial way of thinking.

Segment 2 – Self-Initiated, was a small segment of the sample whose core reason for financial difficulty was unhealthy financial ways of thinking.

Segment 3 – Circumstantial, was also a small segment of the sample where the core determinant for financial difficulty was circumstantial.

Segment 4 – Vulnerable, represents the very small portion of the sample for whom lack of skills (consumer and social) and knowledge (financial and legal) was the core determinant for experiencing financial difficulty.

In general, over time multiple factors played a key role in leading up to the experience of financial difficulty, whereby a series of ways of thinking, events outside their control, and/or lack of skills and knowledge led up to individual's experiencing financial difficulty. However, it is important to note there were some exceptions to this, most noticeably for those in segment three who were suddenly thrown into financial difficulty through circumstances beyond their control.

1.0 Key Findings

1.5 Sources of Borrowings – Decision-Making Process

Broadly, there were two key decision-making scenarios evident in this research when people were determining their choice of borrowing(s):

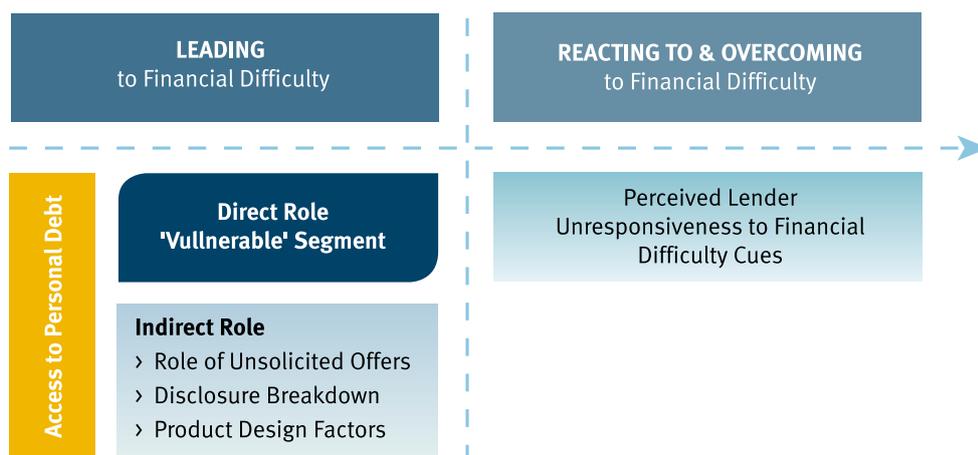
- **‘Having Choices Decision-Making Scenario’** – this is where people felt they had choices in where they borrowed from, typically before experience of financial difficulty. Mainstream lenders were typically utilised;
- **‘Limited Choices Decision-Making Scenario’** – this is where people felt they had reduced or no choices. The entry point for this decision-making state was the absence of alternatives from mainstream lenders once people were experiencing financial difficulty. People who used pawnbrokers or pay day lenders often felt they had no other choice but to use these lenders, and would not have chosen this form of borrowing if they had had the choice.

1.6 Role of Lenders in Contributing to Financial Difficulty

There were some consistent areas highlighted in this research where it was evident in people’s stories that lender’s played a role in their path to financial difficulty.

For a minority of people with low levels of financial literacy (‘vulnerable’ segment), lenders appeared to play a direct role in leading to financial difficulty. Examples of this in this research was where there was poor advice given by lenders or there was persuasion evident by a salesperson. However, for the majority lenders played an indirect role where it was one of the many influences that impacted on the three core factors contributing to financial difficulty. This is discussed in more detail in section 8.

Figure 8. Indicative Overview of Lender’s Role



1.7 The Experience and Impact of Financial Difficulty

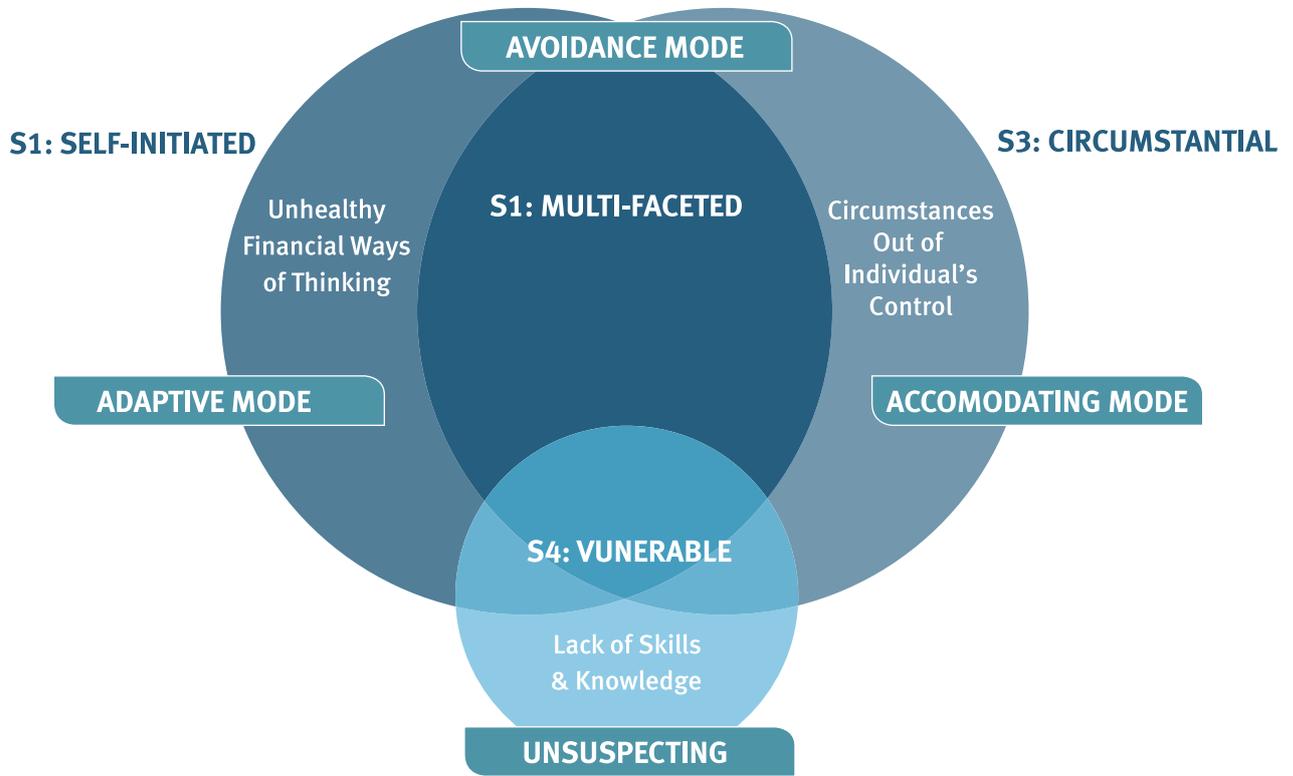
The sample group in this study encompassed a range of experiences of financial difficulty, ranging from the experience of financial pressure at the mildest end of the spectrum through to experience of financial hardship and finally the experience of bankruptcy at the most extreme end of the spectrum. How people reacted to their situation and the impact this had on their lives tended to vary according to both the severity of the financial difficulty that they experienced and the particular factor or factors that led to their financial difficulty.

Experience of Financial Pressure

People reacted to perceived *financial pressure* (moderately ‘out of control’, as opposed to financial hardship) in a number of different ways, typically depending on the factor that had led to their financial difficulties in the first instance. This reaction to the experience of financial difficulty was termed a ‘reaction mode’.

1.0 Key Findings

Figure 9. Reaction Modes to Financial Pressure



These reaction modes were not mutually exclusive, and the avoidance and adaptive modes in particular tended to operate simultaneously within the one person.

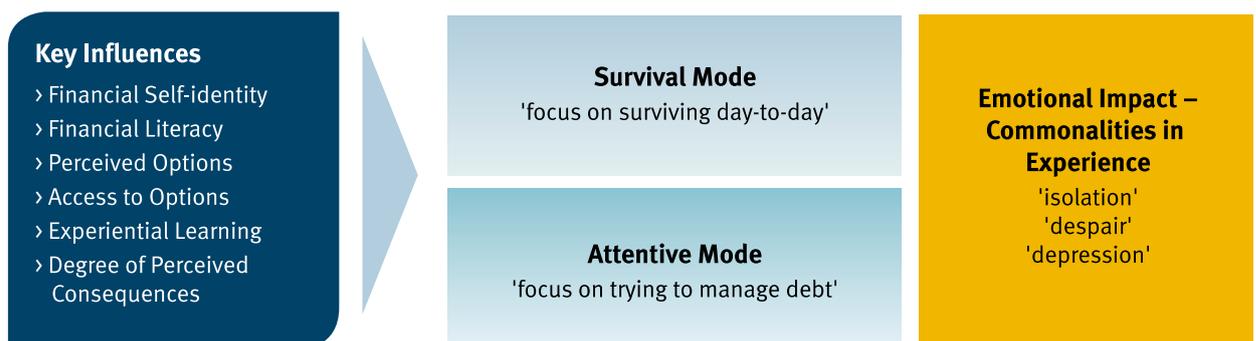
People in the 'multi-faceted' segment experiencing financial pressure tended to display an array of reactions depending on whether their situation was predominantly a result of 'unhealthy ways of thinking' or 'circumstances outside their control'. People in the 'self-initiated' segment tended to typically display the avoidance mode and/or the adaptive mode. For those in the 'circumstantial' segment experiencing financial pressure, a characteristic reaction mode was the accommodating mode. Lastly, for the 'vulnerable' segment, typically they were unsuspecting that their financial situation was pressured or they had made a bad financial decision.

When they did realise the state of their financial situation, they typically had a feeling of financial hardship. These are discussed in more detail in the next section.

Experience of Financial Hardship

There were fundamentally two different reaction modes to *financial hardship* (severely 'out of control', as opposed to financial pressure) evident in this research – the 'survival mode' and 'attentive mode'. Unlike the experience of financial pressure, the predisposition of people to react in a certain way once in financial hardship tended to be linked with a number of specific influences that were both related to the individual and their circumstance.

Figure 10. Consumer Reaction, Emotional Impact and Key Influences of Financial Hardship



These reaction modes were not mutually exclusive, but an individual tended to display a dominance of one or the other. It was also evident that there were shared commonalities in experience across all people experiencing financial hardship, that of experienced *'isolation', 'despair' and 'depression'*.

The segment that was least likely to experience financial hardship was the 'self-initiated' segment. This appears to be for a number of reasons:

- The key lifestyle is the younger generation, who typically have fewer financial responsibilities relative to other lifestyles and consequently have more disposable income;
- The characteristic debt of the 'self-initiated' segment was credit card debt, which was typically 'serviceable' by simply paying off the minimum amount each month.

Experience of Bankruptcy

A small number of people in this research had experienced bankruptcy (11 people in total, across both depth interviews and focus groups). Stated financial hardship in all cases was a precipitating experience prior to declaring bankruptcy, with many experiencing a sense of desperation in their situation.

There appeared to be two main circumstances for declaring bankruptcy – one where the person perceived this to be their *'only'* option and the other where people perceived it to be their *'best'* option.

For people in financial hardship who perceived bankruptcy as their *'only'* option, this tended to be due to the perceived desperateness of their situation or because they were forced to by a lender. Where people were forced to, there was often a lot of blame and bitterness towards the institution for being so inflexible.

In other cases, people in financial hardship considered declaring bankruptcy their *'best'* option given their circumstances. The important point here is that they were not forced to by external events or perceived pressures. It tended to be a more pragmatic decision.

Where people perceived bankruptcy as their *'only'* option, this often had a more negative emotional impact than for those who saw it as their *'best'* option. There was a sense of shame and failure, and for those who were perceived to be forced into bankruptcy, a sense of devastation.

For people who saw bankruptcy as their *'best'* option, there was a sense of relief, as well as residual shame and failure.

In all cases, the option of bankruptcy was recommended to them by an external party, typically a solicitor and for some a financial counsellor.

1.8 Overcoming Financial Difficulty

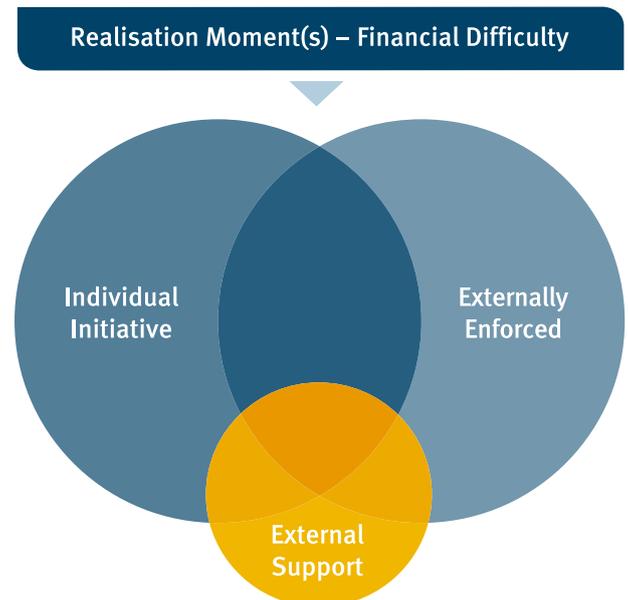
In addition to exploring the causes and impact of financial difficulty in Australia, this study explored some of the ways that people overcame financial difficulty and the impact that this has had on their future financial behaviour. In addition, the study gathered insights on the role that free community-

based financial counsellors played in assisting people to overcome financial difficulty.

Ways of Overcoming Financial Difficulty

For those who were formerly in financial difficulty, there appeared to be three main ways utilised to overcome their debts. These were not mutually exclusive, and one person could employ a number of strategies, as outlined in the diagram below.

Figure 11. Ways of Overcoming Financial Difficulty



Importantly, a key catalyst for implementing these ways of overcoming financial difficulty was realising that they either had to or needed to overcome their debts. This was particularly the case for the 'individual initiative' and 'external support' ways of overcoming financial difficulty. These 'realisation moments' were also typically linked into the experience of financial hardship. Those experiencing financial pressure did not appear to employ these ways to overcome their debts as they perceived their situation to not be severe enough (except for a few in the accommodating reaction mode). Realisation moments did also play the dual role of acting as a moderating variable on the severity of the financial situation (where these realisation moments occurred earlier in the financial journey acting as a preventative measure of a more severe financial situation).

Impact of Overcoming Financial Difficulty

For the majority of people who had formerly been in financial difficulty, they stated the experience of financial hardship had changed their ways of thinking and financial behaviour. Importantly, it was not the means of overcoming financial hardship that changed their perspective, but the *experience* of financial hardship that was a catalyst for long-term change. That is, they had learnt from their past mistakes.

The Role of Financial Counsellors

People who had seen a financial counsellor and were no longer in financial difficulty were included in this research to understand the role that financial counsellors played in overcoming their financial difficulty (4 mini-focus groups conducted).

For people who saw a financial counsellor, it was unanimously a positive empowering experience for them, albeit at a negative point in their life. In addition, the majority stated it had changed the way they viewed their finances and changed their financial behaviours.

'It empowers your thinking (seeing a financial counsellor) – you go home and reassess your thinking – it's inspirational... You think I'm entitled to have money in the bank and I'm entitled to save for that rainy day and I'm entitled to save for that holiday.'
Single Mother.

While unanimously a positive empowering experience there were naturally variations in the strength of this positive experience and its impact on individuals' lives. Some found seeing a financial counsellor a profoundly life-changing experience both financially and emotionally. This appeared to be more the case where the financial counsellor worked in conjunction with a psychologist or counsellor. In addition, the 'life-changing' element appeared to be attributed to both the sound financial advice and emotional support of the financial counsellor, as well as the perceived life-changing event of financial hardship that precipitated their visit to a financial counsellor.

For others, the positive experience of financial counselling appeared to be more a functional experience, where sound financial advice was received which had a positive impact on their financial situation.

1.9 Summary of Findings

Financial difficulty impacts three per cent of the Australian population of whom two thirds had borrowings. The three core factors that emerged from this study as causes of financial difficulty include:

- 'unhealthy' ways of thinking about finances;
- circumstances or events outside a person's control; and
- lack of financial skills and knowledge.

In addition, consideration of the overall levels of financial literacy for those in financial difficulty indicated that low levels of financial literacy was a contributing influence to each of the three specific factors leading to financial difficulty identified in the study. However, this is with the exception of some who were suddenly thrown into financial difficulty through circumstances beyond their control.

For only a small number of people, lack of skills and knowledge was the main cause of their experiencing financial difficulty. Their experience of financial difficulty was often compounded by accepting poor advice from lenders - typically fringe lenders rather than mainstream lenders - or being persuaded by a salesperson. *For this group the challenge is to lift financial literacy levels so they are equipped with the knowledge and skills they need to manage their finances more effectively, as well as challenges for lenders in terms of responsible lending.*

For the majority of people, however, it was the interplay of two or three of these factors that led to their financial difficulty. Many of these people had knowledge that had been 'dormant' which was activated with the experience of financial hardship, with many starting to budget and control their spending. The exception to this is those people who were suddenly thrown into financial difficulty by circumstances outside of their control. *For this group the challenge is to encourage people to use the knowledge and skills they have already and to recognise the benefits to them of doing this.*

For the majority of people in this qualitative study - which reflects two per cent of the population who felt out of control with borrowings - lenders could be seen as indirectly influencing an individual's path to financial difficulty, as outlined. Once in financial difficulty, a small number of people felt powerless to negotiate with lenders, and said they received little understanding and flexibility from lenders overall. Experience of financial difficulty also tended to coincide with reduced or no choice about where they could borrow, forcing some into the fringe lender market. *The challenge here is for lenders to market their products responsibly, and to be responsive and appropriately flexible in dealing with customers in financial hardship.*

In addition to identification of causes of financial difficulty, this study documents the experience and impact of financial difficulty and outlines some of the ways that financial difficulty was overcome. People respond to the experience of financial difficulty in a number of ways and there are a range of detrimental circumstances associated with the experience of financial difficulty. There were a variety of pathways that people had in overcoming financial difficulty. *In particular, it is clear that free community-based financial counsellors can play a powerful positive role in assisting individuals to address the financial difficulties and hardships that they face.*

PART B: DETAILED REPORT OF FINDINGS

2.0 The Role of Financial Literacy in Financial Difficulty

This section highlights the link between levels of financial literacy and the experience of financial difficulty, and identifies the four particular dimensions of financial knowledge that were uncovered as indicators of low financial literacy for those in financial difficulty.

2.1 The Quantitative Link Between Financial Literacy and Financial Difficulty

This research is the second part of a wider investigation into levels of adult financial literacy in Australia. For the purposes of this research, the following definition of financial literacy was utilised:

‘The ability to make informed judgements and effective decisions about the use and management of their money’.¹

In order to understand the distribution of financial literacy throughout the adult population, an overall measure of financial literacy for all respondents was required for the quantitative research. The result was a quintile analysis of financial literacy, with the following groupings:

| Quintile Groupings | Level of Financial Literacy | Average Survey Response |
|--------------------|-----------------------------|-------------------------|
| Level 1 | Lowest | 20% |
| Level 2 | | 20% |
| Level 3 | | 20% |
| Level 4 | | 20% |
| Level 5 | Highest | 20% |

Base: all respondents (n=3513)

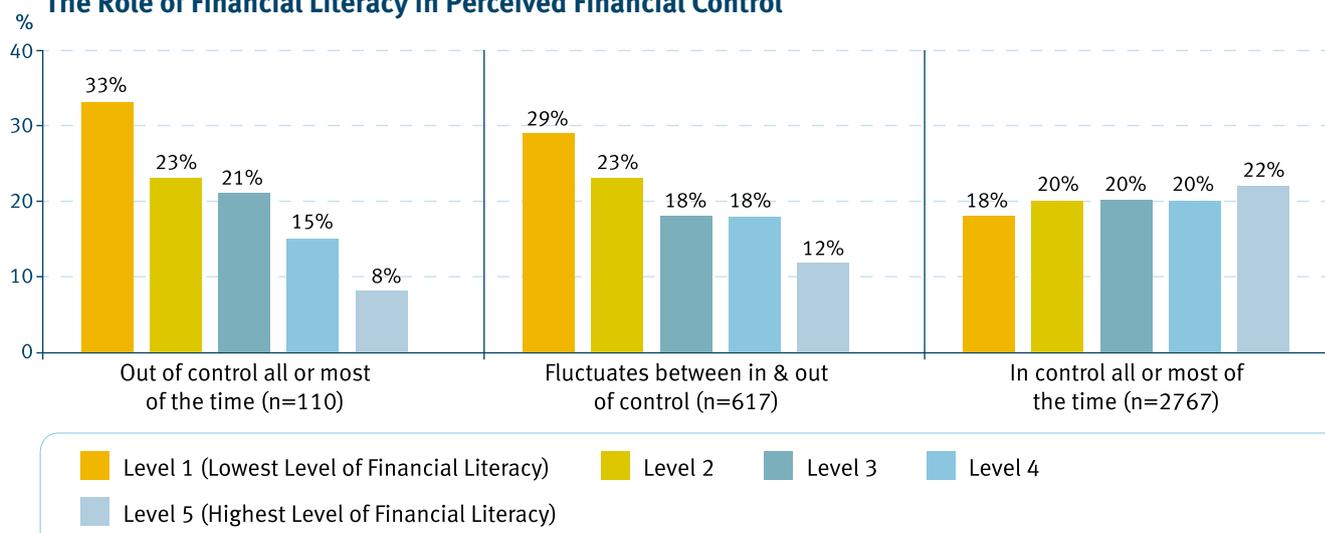
(Source: ANZ Survey of Adult Financial Literacy in Australia, 2005)

This research report highlighted a number of findings about financial literacy’s role in the decision-making of people who were in financial difficulty. It identified a lack of particular dimensions of financial literacy that played a role in leading to financial difficulty, and how they reacted once in the situation, discussed later.

The quantitative research further sheds light on the role of financial literacy in perceived financial control. 56% of people who stated they were out of control with their finances were in the lowest two levels of financial literacy, compared with only 38% of people who stated they were in financial control. This is a significant difference at the 99% confidence level.

A minority of the qualitative sample – the ‘vulnerable’ segment – ended up in financial difficulty due to lack of skills and knowledge only. However, lack of financial literacy was a contributing influence on unhealthy ways of thinking linked to over-spending or over-commitment and the ‘infallibility’ way of thinking (the belief that nothing bad would ever happen to them) leading to lack of precautionary planning. This accounted for the majority of the research sample, including the ‘multi-faceted’, ‘self-initiated’ and ‘circumstantial’ segment.

The Role of Financial Literacy in Perceived Financial Control



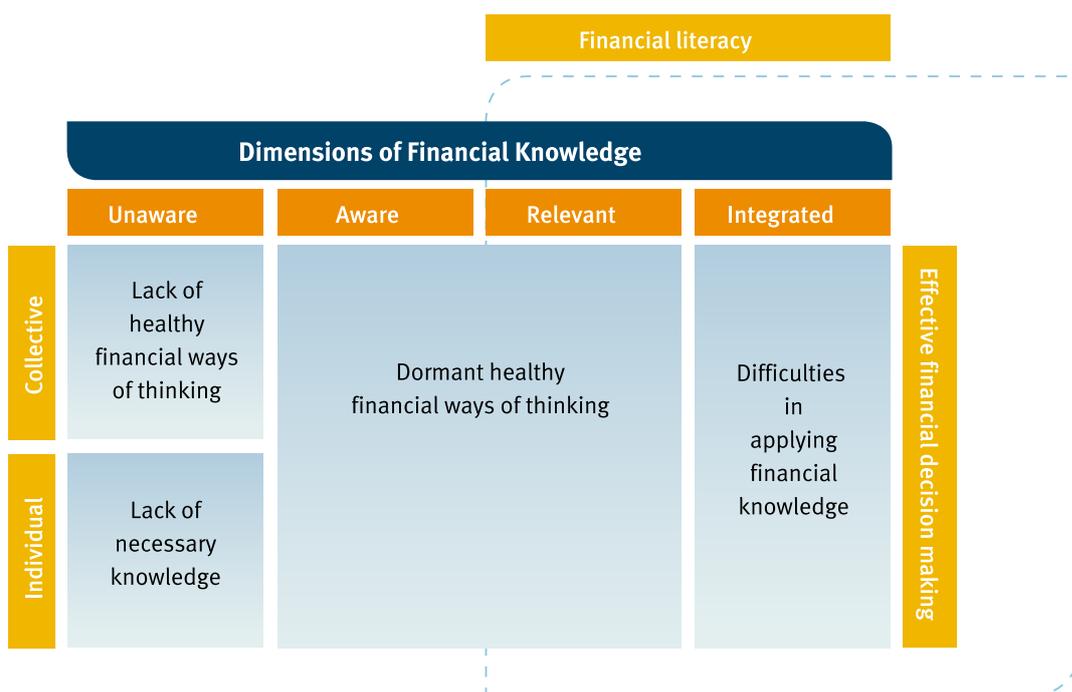
⁶ Schagen, S. “The Evaluation of NatWest Face 2 Face With Finance”: NFER, 1997 (this definition was adopted from UK research with a view to international consistency).

2.0 The Role of Financial Literacy in Financial Difficulty

2.2 Role of Financial Literacy in Financial Difficulty

For those who were in financial difficulty, there was a lack of particular dimensions of financial knowledge and ways of thinking that inhibited people in this research in making effective financial decisions. This can be seen as elements of low financial literacy.

Figure 12. Indicators of Low Financial Literacy for Those in Financial Difficulty



Briefly, the broad dimensions of financial acumen outlined above include:

- **Collective.** Collective financial knowledge that is the entry point for effective financial decision-making. It is knowledge that most people need to know in order to achieve a positive financial outcome, such as budgeting or saving;
- **Individual.** Financial knowledge that people need to know, which is specific to an individual's circumstance. They only need this knowledge when and if it pertains to their financial situation;
- **Unaware.** Financial knowledge that people are unaware of;
- **Aware.** Financial knowledge that people are aware of, but do not necessarily understand or think it is relevant to them;
- **Relevant.** Financial knowledge that people are aware of, understand and consider relevant to them;

- **Integrated.** Financial knowledge that people are aware of, understand, consider relevant to them and that people apply in their financial decision-making.

Effective financial decisions can be seen to be those decisions that are driven by relevant and integrated dimensions of financial knowledge, that is both general and specific to the individual's situation.

In pulling together all the themes of financial literacy in this research, four particular dimensions of financial knowledge were uncovered as indicators of low financial literacy for those in financial difficulty. For those in financial difficulty, the four areas that contributed to ineffective financial decisions and thus low financial literacy are discussed in the following sections.

Lack of Necessary Financial Knowledge

There was a lack of ‘necessary’ knowledge evident, that the individual needed to know for a product or finances in general that was relative to their circumstances. For example, if an individual had a line of credit, they clearly needed to know how to use it, and be informed when they were choosing this for their circumstances. However, if an individual did not have a line of credit, they did not need to know this. Instances where people did not have the knowledge when they needed it included:

- Lack of knowledge about more complex or less widely understood financial products for those with these products (such as investment, superannuation, some mortgage products, such as line of credit, even hire purchase);
- Lack of more detailed knowledge about ‘common’ personal debt products for those with these products, such as credit cards, personal loans and mortgages. For example, not knowing fees and charges or consequences of default;
- Lack of legal knowledge or seeking advice as it pertained to their financial situation (for example, rental agreements, small business finance arrangements, debt collection agencies, credit rating);
- For some small businesses, lack of knowledge about business financial management skills.

Lack of Healthy Financial Ways of Thinking

As discussed previously, it was evident that there was an absence of financially healthy ways of thinking for some people. The evidence of this was the absence of ‘filters’ or ‘alarm bells’ in people’s decision-making at the time of spending or taking on loans. This was in relation to more general financial information as opposed to specific to the individual’s circumstance. Whilst this research did not focus on healthy ways of thinking per se, just that there was an apparent absence, there were some clear instances that were incongruent with ways of thinking that were advantageous for an individual’s financial situation and were not unique to the individual’s circumstance. For example:

- Not looking out for one’s own financial self-interest;
- Not understanding the importance of financial recalculation. That is, recalculation of expenditure relative to income when circumstances changed. The lack of doing this was a frequent contributing factor to a more severe financial situation;
- Not checking for oneself whether they could afford the credit when offered a credit limit increase;

- Overall lack of caution in applying for personal debt products;
- Not recognising when financial advice is needed;
- Not having precautionary planning in place;
- Not being able to distinguish between valid business ventures and scams.

Dormant Healthy Financial Ways of Thinking

As discussed previously, people in this research exhibited dormant healthy ways of thinking leading up to financial difficulty. That is, they were aware of basic financial concepts or the ‘*shoulds*’, such as the benefits of budgeting or saving, but it was not relevant to them, and therefore there was a lack of motivation to exercise this. There were a number of barriers that contributed to this lack of personalised, relevant and thus ‘dormant’ knowledge. Key barriers included:

- A lack of thinking about the future or seeing the ‘bigger picture’ of how their current behaviour would impact on the future;
- A disengagement with financial information in general. This was particularly the case for perceived ‘financial jargon’ such as terms and conditions, frequently resulting in a dismissiveness of ‘financial jargon’;
- A lack of learning by experience. This appeared to be the key means for acquiring relevant knowledge. For those who were younger or those who had previously taken a more passive role in finances, they tended to display less personalised and often greater ‘dormant’ financial knowledge.

For those people in financial hardship, this experience often sparked ‘realisation moments’ that tended to activate dormant knowledge. This knowledge tended to ‘rise to the surface’, with many commencing budgeting and controlling their spending as a result of this experience.

Difficulties in Applying Financial Knowledge

For some people, they were aware of financial knowledge and it was relevant to them, but they had problems integrating or applying it. Some examples include:

- Not having the skills or confidence to withstand persuasion from salespeople;
- Individual’s misjudging their ability to service their debts (‘perceived repayment ability’);
- Individual’s finding it difficult, and for some not knowing how, to adapt their lifestyle if their income levels had changed (‘lifestyle adaptation’).

2.3 Barriers to Acquiring Financial Knowledge

There were a number of barriers identified that impacted on people's openness to acquiring further financial knowledge. Of particular note:

- Lack of financial self-identity, where people did not see themselves as a '*financially minded*' person. This appeared to be linked into low perceived maths ability and for some a rejection of the social identity of being a '*financially minded*' person;
- Predominance of non-financial values over-riding financial values;
- Financial disengagement way of thinking where people were disinterested and/or apathetic about their finances in general, including those relationships where one partner took a more passive financial role.

This section considers the first broad factor contributing to financial difficulty – unhealthy financial ways of thinking. This broad factor is broken down into four sub-factors, namely: unhealthy expenditure ways of thinking; unhealthy credit facility ways of thinking; dormant healthy ways of thinking; and, lack of financially healthy ways of thinking. Both the features of each of these sub-factors and some of the influences and moderating factors that relate to them are explored.

3.1 Unhealthy Expenditure Ways of Thinking

These ways of thinking and the behavioural outcome of over-spending were inherently linked to the psychology of purchasing. In particular, unhealthy ways of thinking about financial purchases and finances in general.

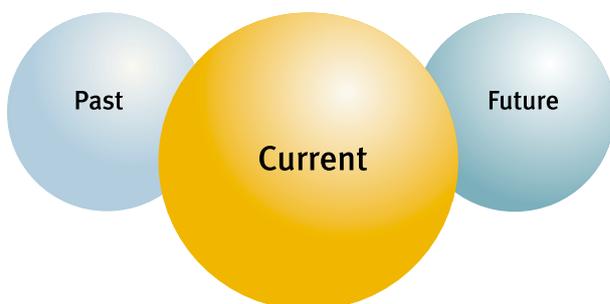
*‘I’ve just got a hole in my pocket – the money just slips through my hands as soon as I get it.’
Single Father.*

There were six distinct expenditure ways of thinking identified in this research that contributed to a negative financial outcome of over-spending or over-commitment, discussed in detail in the following sections. The most prevalent way of thinking in this research was the ‘living for today’, ‘financial disengagement’ and ‘aspirational’ way of thinking.

Living for Today Way of Thinking

The ‘living for today’ way of thinking was one of the most prevalent ways of thinking in this research. Inherent to this way of thinking was a focus on the current, placing thinking about the future in the background. For those who displayed this mentality, the focus on the current often became an imbalanced focus, where the future became disengaged from current actions to the extent of a complete disregard for the future.

Figure 13. Imbalanced Focus on Current



For these people, there were a number of dimensions (which were characteristic focus points (what they perceived the ‘current’ to be) and avoidance points (what they perceived the ‘future’ to be), some examples in the table below:

| | Examples | |
|-----------------------|---|---|
| | ‘Current’ Focus Point | ‘Future’ Avoidance Point |
| Short-term time-frame | Literally meaning ‘right now’ (in the next couple of seconds, minutes or hours, as opposed to year) | The next day, next week, next pay or even ‘one day’ |
| Life-stage | ‘My 20’s’ | ‘My 30’s’ |
| Location | Overseas | Australia |
| Income | ‘Don’t earn enough now’ | ‘When I earn more’ |

*‘I understood everything I just didn’t do it... I thought I’ll have plenty of time in my 30s, 40s and 50s to save. You only live once, I’ve had a strict upbringing, I want to play, I want no limits, I want no control.’
Young Single Female.*

The outcome of all of these dimension-related focus and avoidance points was impulsive spending, with a complete lack of consideration of the impact of their current spending on their future financial state. The postponement of thinking about the future had the characteristic result of:

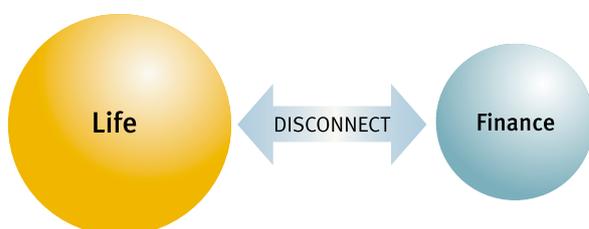
- Short-term time frame dimension: Having little or no money with which to live off towards the end of their pay period;
- Life-stage dimension: Having to ‘face up to’ a large debt and the consequences of their actions in their 30’s (for those who displayed this way of thinking in their 20’s);
- Location dimension: Having to ‘face up to’ a large debt when they returned home to Australia;
- Income dimension: Either carrying a debt for a longer time than they had anticipated, or being ‘forced to face up to it’ via external pressures.

Interestingly, a lot of these people who displayed this way of thinking described themselves as having a ‘rough’ vision or plan for the long-term future. For example, *‘I will buy a house one day’* or *‘I will get it together one day’*. There was a disengagement between the CURRENT and the FUTURE, and a lack of understanding the ‘bigger picture’ of the impact of their current on their future.

Financial Disengagement Way of Thinking

This 'financial disengagement' way of thinking represents a way of thinking that was disinterested and/or apathetic about finances in general, with an apparent disconnect between the individual's life and the role of finances. While similar to the 'living for today' way of thinking in so far as the postponement of thinking about the future, it was distinct in that it represented an over-riding disinterest and/or apathy for finances in particular, both current and future. People who displayed this as a dominant way of thinking typically did not think about, manage or track their expenses, and often displayed personal debt product inertia (that is, 'I'll just stay with this – whatever').

Figure 14. 'Financial Disengagement' Way of Thinking



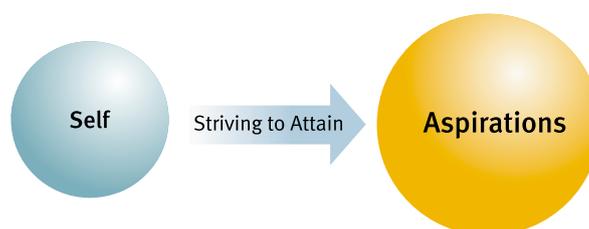
'I was recently widowed and I went abroad for a while. I was in India and I lost track of the – you know, the exchange rate and finances. I was there for six months. I had to travel a bit and I bought nice clothes and that, so I was really overindulging. Then I came back and there was nothing in my account.'
Mature Female.

'In my 20 year marriage I had a partner who was able to - he seemed to know the ins and outs of a duck's bum, so I just let him make decisions about things like that (finances). We worked out each other's strengths and his strengths were in reading and being articulate and he would have the conversations with the finance people.'
Single Mother.

Aspirational Way of Thinking

The 'aspirational' way of thinking is where people had a particular aspiration that strongly influenced their expenditure. The unhealthy spectrum of this way of thinking was where this dominated, to an extent that it translated into over-spending and/or over-commitment. Common colloquialisms that people used to describe this way of thinking included 'keeping up with the Joneses' and 'champagne taste on a beer budget'.

Figure 15. Aspirational Way of Thinking Process



There were different types of aspirations that people in this research appeared to be striving for:

- Social group aspiration;

'I think just running with people that were a different crowd, like society-wise they were – they had more money, it wasn't an object and I thought that I could keep up with them. I mean, not that they were really rich, but they had better jobs and they had a better income and that sort of thing. They had all the cards and I thought, oh, well, I am impressive because I have got two cards.'
Young Single.

- Lifestyle aspiration, often associated with a particular lifestage.

'In hindsight, we live in an area that we cannot afford, and our kids go to schools we cannot afford.'
Dual Parent Family, 8 children.

'It was stupid I know but I thought we were depriving our child if we were not set-up properly' Dual Parent Family.

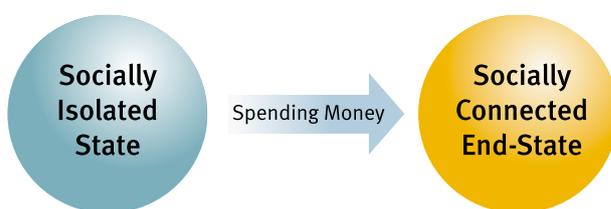
'Back then we just, you know, would buy a new car, build a house, keep up with the Joneses, that sort of thing. But then when you are paying out more than what you earn, just to have that – and not even have it, I don't know, it just scares you. Never again.'
Dual Parent Family.

'Things catapulted after the twins and the cars. Before that day I didn't have credit cards. I guess we had high hopes of a successful future and all those things because there's two of us. I guess it was out of - no, we can do this and have better for our kids and better for us. We didn't make sensible decisions. It's as simple as that. Even with the girls - when they were born, we went out and bought new furniture for them, thinking - the little one now has second-hand furniture.'
Single Mother, 3 Children.

Social Connection Way of Thinking

The 'social connection' way of thinking is where a person sought social connection, but their only perceived means by which to achieve this was through spending money. The unhealthy end of this spectrum is whereby people spent where they could not afford it, with the behavioural outcome of living outside their means. This is distinct from the aspirational way of thinking, as the primary driver is connection with others, as opposed to the aspirational way of thinking the primary driver is approval from others and self.

Figure 16. 'Social Connection' Way of Thinking Process



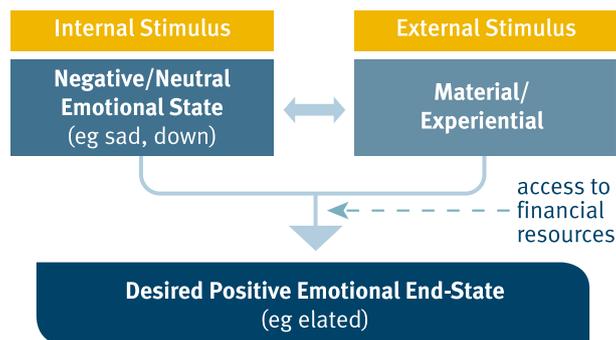
'I find it hard to live within the pension and have a life... I can't really afford to do these things but I just get so lonely and depressed at home. Sometimes I'll just go to the casino to get the free coffee, just to get out of the house... Other times I'll just put it on the credit card.'
Mature Female Pensioner.

'In the past, I was single and young and wanted... everyone was doing everything, so basically I had a lot of friends... I was not a follower, but if someone said let's go to dinner I said yes I'll go... so spend money.'
Young Single.

Emotional Enhancement Way of Thinking

The 'emotional enhancement' way of thinking is where people sought a transition from a negative or neutral emotional state to a more positive emotional state. For example, *'I feel down and want to make myself feel better'*. Where this became an unhealthy financial way of thinking was where people sought this transition via spending outside their means. This is distinct from the living for today way of thinking in that the dominant force was removal of a negative or neutral emotional state. Often the negative emotional state was transient, and if resolved through purchasing something, this tended to occur in a relatively short time period. Thus, this was characteristically 'impulsive' behaviour and guilt was often associated with the aftermath of this experience. This appears to be a widely recognised and accepted phenomenon amongst people, who articulate their behaviour utilising such colloquialisms as *'retail therapy'* or *'emotional spending'*.

Figure 17. 'Emotional Enhancement' Way of Thinking Process



'I wasn't feeling good about myself, so I'd spend the money and it would give me a lift for a while.'
Mature Female.

'It makes you feel better, because if you are depressed, anxious for things, it makes you feel better. After you have spent it, then you hit yourself over the head with guilt, but it makes you feel better at the time.'
Single Mother, 5 Children.

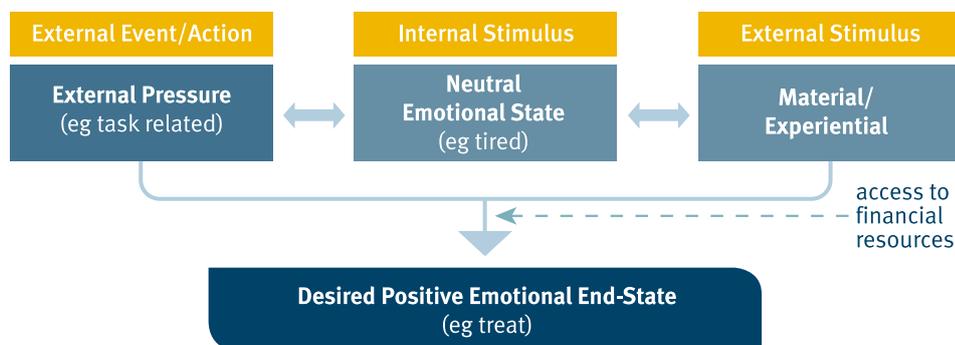
'Relationships rock easily. You better do some nice things. It's rocky, so we both start doing nice stuff like buying diamonds and enjoying - waste money. If it gets rocky, best do some splurging. Short lived pleasure. Splurging on each other.'
Dual Parent Family.

Indulgence Way of Thinking

The indulgence way of thinking is where people sought to reward or indulge themselves after experiencing an external pressure, usually task related. For example, after having finished a work task or a period of being 'good' with finances, they tended to want to 'treat' themselves. Where this way of thinking became unhealthy in the context of their financial situation, was where their expenditure exceeded their financial means.

It was distinct from the emotional enhancement way of thinking in that the stimulus was an external pressure or achievement as opposed to a transient mood. In addition, the end state was a sense of having 'deserved' it as opposed to relief from a negative emotion.

Figure 18. 'Indulgence' Way of Thinking Process



3.2 Unhealthy Credit Facility Ways of Thinking

While there were unhealthy ways of thinking linked into 'purchasing' or 'expenditure', there were also distinctly different unhealthy ways of thinking that were linked into financial transactions, in particular credit card transactions.

'The credit card becomes a way of thought.'
Dual Parent Family.

The four unhealthy credit facility ways of thinking identified were:

- Ownership of credit way of thinking;
- Disengagement of responsibility way of thinking;
- Credit as a supplement income way of thinking;
- Intended-actual dissonance way of thinking.

These ways of thinking often operated in tandem with unhealthy expenditure ways of thinking. However, they highlight important differences in thought, that contributed to the negative financial outcome of over-spending or over-commitment. The first three ways of thinking were most prevalent in this research sample.

Ownership of Credit Way of Thinking

This way of thinking demonstrated a lack of differentiation between what people perceived as their money, and what they perceived as debt to a lender. A characteristic phrase in the research was *'I thought the credit card was my money'*.

'I used to look at what was left on the credit card as accessible cash, but it wasn't.'
Single Mother, 3 Children.

'You get a false idea of your financial situation... Because you are feeling like it's your money and in actuality you are using it before you actually pay it.'
Single Mother, 5 Children.

'I mean I have been in debt quite a lot and I am trying to work my way out at the moment. Back then I mean I think it was something, I don't know what was going on in my head, but basically I thought it's a credit card it's \$3,000 of my money I can use... It didn't click for some reason, call me stupid but it didn't click.'
Young Single Male.

'Even though it's a credit card you probably see it as your money, even though it's not. You just put \$500 on the credit card. You use it. Whereas if you didn't have that \$500 yourself, you wouldn't be able to use it.'
Young Couple.

Often people stated when they initially applied for a credit card they were very cautious or had 'good intentions' to begin with:

'I thought I'm not a person who gets sucked into the credit card debt cycle (when first applying for card)'
Young Single Female.

'Because we were good at paying personal loans, we didn't think there would be an issue with credit cards... but you can constantly re-access them.'
Dual Parent Family.

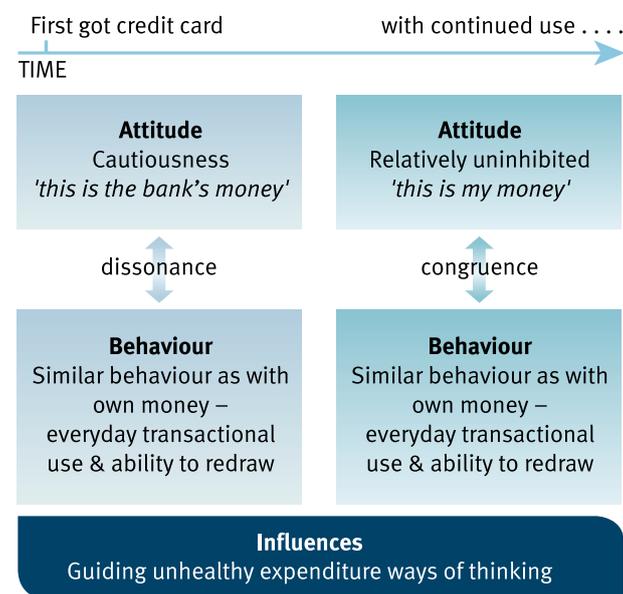
'I paid for the airfares and had some spending money, but then I ended up financing both credit cards. That wasn't my initial thought, I thought I'll get these credit cards just in case something happens or just in case I might need them and I ended up just living up on them and buying up and getting cash advances.'
Young Single Female.

'Well, I've got two. If I added them together it would be about \$15,000. A couple of years ago I got the second one. I had the idea that I'd run the family and house things off one and luxuries or holidays off the other. I was just using it for everything.'
Single Mother.

'We said we'd just use it for emergencies, but it doesn't work... there's too many things that we classed as emergencies.'
Dual Parent Family, 1 Child.

However, the influence of time, an apparent incongruent behaviour, combined with the influence of guiding unhealthy ways of thinking, seemed to gradually shift this initial cautiousness to a belief that 'it's my money' (cognitive dissonance). Essentially where there was incongruity between what people believed (attitudes) and what they actually did (behaviour), this typically caused a state of conflict or dissonance. There is a natural inclination for a person to want to resolve this conflict, either through changing their attitude or changing their behaviour. For people in financial difficulty who had credit cards, some people were prone to change their attitude in line with their behaviour, and thus the resultant belief over time that 'it is my money'.

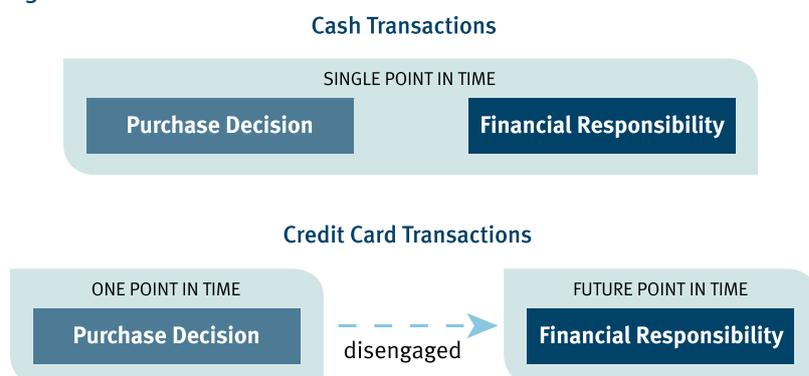
Figure 19. The Role of Cognitive Dissonance



Disengagement of Responsibility Way of Thinking

This way of thinking is best illustrated by comparing cash transactions to credit card transactions. With cash transactions, the purchase decision and financial responsibility occurred simultaneously at a single point in time. This tended to lead to a more highly involved purchase decision. In contrast, with credit cards the purchase decision occurs at one point in time, and at a future point in time financial responsibility or payment occurs. There was a clear perceptual disengagement amongst many people in financial difficulty between the current purchase decision using credit cards and the future financial responsibility of their purchase, see figure below. People frequently cited postponing thinking about the future financial responsibility, particularly influenced by the living for today way of thinking and financial disengagement way of thinking. Thus, compared with cash transactions, credit card purchases were less involved purchase decisions.

Figure 20. Cash versus Credit Card Transactions



'I just didn't really think about it when I spent on credit cards.'

Young Single Female.

Credit as Supplement Income Way of Thinking

A number of people perceived their credit facility as supplement income, with extremes of this way of thinking present. For some, it was seen as a financial buffer while for others it was seen as an additional source of income.

The majority of people who owned credit cards in this research considered the credit card a financial buffer, which was *'there for emergencies'* or *'unexpected expenses'*. For these people, the traditional role of savings as a buffer was replaced by the credit card as a buffer.

'I wasn't too bad with it, you know, and then I'd get something extra - unforeseen. You know, taking the dog to the vet, which is costly. Then I'd have to use it because I didn't have the money.'

Mature Single Female on Pension.

A small part of the sample actually used the credit card as another stream of ongoing income, and in some instances people were living off the credit card.

'My sisters and brothers have all got credit cards and some of them are living day-to-day on credit cards and I said, 'I don't want to go back into that again'.

Single Mother, 3 Children.

There were a variety of reasons for this:

- For some, it was to increase their income. Low income earners in particular used the credit card in this way, but those on a higher income used it to support their 'lifestyle';

'If something came up that I wasn't expecting, then I would have to use the credit card. I think at the moment I've only got about \$40 in my savings account. That's it. I get paid next Wednesday.'

Mature Single Female Pensioner.

'It was tight. I always tried to work out a budget though but it didn't allow for any breathing. It didn't cater for – that you might like a coffee sometimes. That's where credit cards started to come into play – because you had no money.'

Single Mother on a Pension.

'Why did you decide to get a credit card in the first place? So we could spend more money I suppose... basically what I earn is much less than what we need to live on.'

55+ year old Couple, Empty Nesters (Recently a one income family as husband could not work due to illness).

- For others, it was to replace loss of income;

'I was living on it (the credit card) until it got to a point where I couldn't do that anymore because it had maxed out. I knew it was happening. I just didn't know where to go or what else to do about it. I just hoped something would magically turn up. Obviously it didn't. All this was for about a year. Then I moved, I lost the house, I couldn't pay anything. I was making the mortgage repayments on the credit card, but then I couldn't do that anymore... I tried selling the house, but I couldn't sell it in the timeframe they wanted, so I handed it back to the bank.'

Single Mother, 2 Children (Lost her Job).

'The more the business felt it (loss of income), the credit cards just kept going up and up. You know, before you know it there's \$20,000 sitting on your credit card.'

Dual Parent Family, 3 Children (Small Business Owners affected by the drought- Rural location).

People who had this way of thinking tended to have a love-hate relationship with credit cards. On the one hand, they felt they would not have been able to ‘survive’ without the credit card. On the other hand, their current situation of financial difficulty had caused them much grief (see Impact of Financial Difficulty section).

‘We would have went without the electricity if we couldn’t put it on the card and then pay it back later.’

Dual Parent Family.

‘I would never give them up because they are my lifeline.’
Single Mother.

Intended-Actual Dissonance Way of Thinking

Some people in financial difficulty began their credit card journey with a self-belief that they were ‘good or okay with managing money’. This self-belief led to a lack of monitoring their everyday micro purchases on the credit card. The outcome of this was ‘credit card creep’, whereby the credit card balance kept on increasing without the person paying attention to monitoring expenses. People with two cardholders to a card were particularly susceptible to this. When the person realised the state of their credit card balance, many experienced a sense of bewilderment – ‘how did I let this happen?’

‘At first it was a lower amount and then when you get the credit, you don’t realise you’re using it that much. I check the statement, but last time I paid that 500 off I thought, wow that’s hardly paid off anything. I thought, I don’t know how I’m ever going to get straight, when I saw the large amount on the bill.’

Mature Single Female on Pension.

This dissonance between intentions and actual behaviour was also evident on a smaller time scale. For some people, they would have ‘good intentions’ at the beginning of the pay period and pay an amount onto the credit card. However, they would actually end up spending over and above the amount they had put onto the credit card to begin with; thus gradually increasing their overall debt on the credit card.

3.3 Unhealthy Financial Ways of Thinking – Key Influences and Moderators

There were a range of influences on unhealthy ways of thinking, which can be categorised into two groups. Firstly, those that largely predisposed a person to have this way of thinking. Secondly, those that typically accelerated the dominance of this way of thinking.

Predisposing and accelerating influences observed across the different unhealthy financial ways of thinking including individual, family, relationship, social, market and circumstantial variables. An overview of these specific influences is outlined below, and discussed in further detail as it applies to each way of thinking in Appendix B.

| | Predisposing Influences | Accelerating Influences |
|----------------|--|--|
| Individual | <ul style="list-style-type: none"> • Generational • Lifestage • Values • Financial self-identity • Lack of learning by experience • Lack of financial literacy • Income (low-mid-high) • Personality • Location (metro vs. rural/ regional) | <ul style="list-style-type: none"> • Income – pay increase/ fluctuating income • Perceived repayment ability • Perceptions of Financial Institutions • Access to financial buffers • Low income |
| Family | <ul style="list-style-type: none"> • Childhood learnings • Family-of-origin • Parental relationship dynamics | |
| Relationship | <ul style="list-style-type: none"> • Lack of existing social networks • Relationship break-up | <ul style="list-style-type: none"> • Influence of a friend/ partner • Couple decision-making |
| Social | <ul style="list-style-type: none"> • Overlap with mental health • Overlap with social issues | <ul style="list-style-type: none"> • Social reference group |
| Market | | <ul style="list-style-type: none"> • Lender initiated credit card offers & increases • Product marketing |
| Circumstantial | <ul style="list-style-type: none"> • Unexpected illness/ death of family member/friend | |

In addition, it is acknowledged that broader factors such as advertising, social expectations, availability of credit, and product design played a role, although this was more implicit than explicit in people's narratives.

A number of moderating factors were observed that impacted upon the extent to which unhealthy financial ways of thinking translated to the experience of financial difficulty.

These included:

- The experience of an *'early realisation moment'*, which refers to the realisation of the negative impact of their ways of thinking on their financial situation;
- The extent of *'lifestyle adaptation'* in making a change in their over-spending and/or over-commitment;
- Past learning by experience, where realisation moments were converted into learnings and resultant behavioural change;
- Access to financial support from family or friends;
- Extent of unhealthy financial ways of thinking;
- Extent of external pressure to change, for example from parents, partners, friends or even financial institutions;
- Ability to service debts, with people on a low income being more exposed to becoming in breach of their financial commitments;
- Access to financial buffers, which was typically access to assets to sell and sometimes access to savings;
- Access to financial advice from a financial counsellor.

Appendix B provides a more detailed explanation of moderators of unhealthy financial ways of thinking.

3.4 Dormant Healthy Ways of Thinking

The majority of the people who had guiding unhealthy ways of thinking were aware of *'things they should have done'* that would have prevented their situation. However, they did not act in accordance with these healthy ways of thinking – it was dormant to them.

The healthy ways of thinking that they tended to cite as *'aware of and should have done but didn't'* typically included basic awareness of core financial concepts:

- Budgeting;
- Shopping around;
- Doing more research before taking on personal debt products, including searching around for better interest rates;
- Not paying the minimum off the credit card every month;
- Savings.

Some of the key barriers that people displayed in acting on these healthy ways of thinking:

- Competing with unhealthy ways of thinking;

'People know now the interest rate is too high, but they take the card because they want the new garage or whatever. You want something and it's offered to you. It doesn't matter what anyone tells you. You just do it. You take it.'

Single Mother, 2 Children.

- Lack of understanding by experience of healthy ways of thinking;

'I think the knowledge is there, but people don't use it - it's not going to happen to me. They want these things, but they don't think about the consequences. Unless it's happened to you and you've been in the situation before, it wouldn't matter what knowledge you got, you would still take that credit card.'

Single Mother, 2 Children.

- Lack of modern relevance of the terms *'budget'* and *'savings'* in particular, which appear to be loaded words carrying a lot of negative associations. An influence on this for some was the rejection of the social identity of being a *'financially minded'* person (discussed in Appendix B);

'They're (parents) from the 'iron will' budget eras (as opposed to now, which was said in a negative light).'

Young Couple.

'Never kept a budget - probably should have but don't like the whole regimentation of the thing'

Single Mother, 1 Child.

- Over-confidence – *'I'll be fine'*;

'It's not that it wasn't drummed into my head... I was just ignorant and pig-headed that I thought, you know, I know what I am doing, I am nearly 18.'

Young Single Female.

- Lack of having a goal;

'You can have all the knowledge in the world, but I never had any goals or wanted to do anything about it. Now my motivation comes from surviving, working towards something... it's a feeling of security, achievement if I have money saved in the bank.'

Single Mother, 3 Children.

- Helplessness - *'what's the point?'*;

'Why didn't it sink in before? I didn't care because I felt that I was always supposed to be poor. I felt that this was my life. This was how it was going to be.'

Single Mother, 2 Children.

- Lack of sense of urgency;

'I always thought I'll do it later but I never get around to it.'

Young Single.

- Belief that one's fate is out of their hands (external locus of control).

'And this may sound funny but I was convinced and still am that I was going to meet someone that was going to get me out of financial debt. I know that sounds shallow, but I just assumed I'd meet someone and we'd get married and he'd sort me out, he'd be fairly wealthy and off I'd go in my la la land... and here I am still single... Bit of a fairytale I guess.'
Young Single Female.

'The only thing we could do was pray.'
Dual Parent Family, 3 Children.

It can be seen from these barriers that while people were aware of some healthy ways of thinking, they did not understand the benefits or importance of it to their personal situation. Overall, the outcome of these dormant unhealthy ways of thinking was a lack of motivation to be guided by healthier ways of thinking.

3.5 Lack of Financially Healthy Ways of Thinking

While there was an awareness of basic healthy ways of thinking for many people, it was evident that there was also an absence of other financially healthy ways of thinking. The evidence of this is the absence of *'filters'* or *'alarm bells'* in people's decision-making at the time of spending or taking on debt. Whilst this research did not focus on healthy ways of thinking per se, just that there was an apparent absence, there were some clear instances that were incongruent with ways of thinking that were advantageous for an individual's financial situation. For example, an overall lack of caution in applying for loans, and lack of precautionary planning.

(Context for quote: Approached at train station by lender to sign up for a credit card) 'I thought... credit card, cool... there was absolutely nothing that struck me except for the fact that I was wondering if the guy was going to take my details and rack a debt on me, is this guy legit, that was the only thing that made me think...I didn't have the same concerns as I have today.'
Young Single Male.

This section considers the second broad factor that contributed to financial difficulty – circumstances outside of an individual's control that acted to either decrease income or increase expenditure. Whilst these circumstances could conceivably be either actual or perceived to be out of control, there was no attempt made to delineate between actual or perceived, rather just to report the finding. A range of specific circumstances that were prevalent within this factor were considered along with some of the moderating variables that affected how these events were translated into experience of financial difficulty.

4.1 Specific Circumstances

Circumstances that Decreased Income

There were a number of specific circumstances that impacted on an individual's financial situation in a negative way, in particular a decrease in their income.

Divorce/ Break-Up

Divorce or relationship break-ups was the most prevalent circumstance that significantly negatively impacted on an individual's financial situation. Where there were children involved in the break-up this tended to have an even more detrimental impact on their financial situation. In many cases, financial responsibility was shifted from the male to the female. Females also typically had custody of the children. This experience usually coincided with a decrease in income.

'I think it's just my husband leaving us and me being on my own and left to do it all. I think I'm quite capable of doing it all, but I don't think I'm capable of earning the income that he earns, to keep us in the lifestyle.'

Single Mother, 4 Children.

'We don't have a great deal of money, you know, but of course with the divorce and then having all these children to raise, it was like oh. It was hard, more so than I had really anticipated and I guess that's why I got behind with the car and, as I said, because of Chrissy, the credit card.'

Single Mother, 4 Children.

Job Loss

Job loss, either through retrenchment or dismissal, clearly had a negative outcome on an individual's financial situation. Where it was expected, this had less of an impact.

Health Issues

Health issues caused through illness or an accident also had a significant negative impact on an individual's financial situation. For some people, even with precautionary measures, this did not offset the impact of income loss on their situation.

'We had no income. We had a trauma insurance policy, but that's still going through now.'

Dual Parent Family, (9 months later – Husband had an accident and could not work)

'I put off signing forms with an insurance agency because I was very busy with the farm when I moved up here...

He was fixing up all the forms for me to come into the office and I put him off for a week. In a week I did not see that I would be up on a tree and falling out and being in hospital for nearly 11 months. Something happens that you're not planning''.

55+ year old Female.

Issues within Relationship

For some people, their partner's behaviour negatively impacted on their financial situation. This was often linked with social and mental health issues, most notably in this sample: gambling; alcohol and drug abuse; and bipolar.

'The casinos opened up and I think a lot of people were victim to that. He was just going and gambling everything. I was working for (company) and I worked until I was eight months pregnant. He was just gambling it all. I had no money for the new baby. It was just a continuous challenge.'

Single Mother.

'I earnt two wages, he drank two wages.'

Single Mother, 4 Children.

However, for others, it was financial deceit within the relationship that impacted negatively on their financial situation.

'She left me with 16 grand worth of debt that I didn't know about and 160,000 dollars that no-one could find.'

Single Father, 10 children.

Death of Income Earner

Death of a household income earner, particularly main income earner, clearly had a detrimental impact on a financial situation, especially where there was no insurance in place.

Small Business Struggle/ Failure

Small business struggles or failure were often seen as outside of their control, particularly those operating in a volatile or competitive business environment. Examples of a volatile environment include the impact of drought, and floods.

'Like we have gone through five odd years of continuous drought here and because of what we sell (motorbikes), people are directly affected by the graziers and the graziers are in drought, so therefore it affects us.'
Dual Parent Family.

Competitive environment examples include competing against larger players.

'Dan Murphy's opened up next door which basically wiped us out... we couldn't compete with their prices.'
Previous Pub Owner.

Pregnancy

Pregnancy, more pertinently when the female took leave from the workforce and lost her income, was a time that people commonly stated they struggled to adapt financially. This was particularly the case where the pregnancy was unexpected, and if the female decided to take on full-time home duties, rather than returning to the workforce. In this sample, people on lower household incomes, single mothers, those who were already experiencing financial pressure prior to becoming pregnant, and couples that had over-committed were more likely to feel the financial burden of this life event.

Circumstances that Increased Expenses

There were a number of specific circumstances that negatively impacted on an individual's financial situation, in particular unexpected increases in their expenses.

Divorce / Relationship Break-Up

While divorce or a relationship break-up often coincided with a loss of income, there were also increased expenses for the short-term for many and long-term for some. Some increased expenses in the short-term included moving out of home expenses, and expenses associated with setting up a new home. Often there was not much lead time between deciding to break-up, or finding out about the break-up, and actually leaving, and as such, many people were found these expenses difficult to manage.

'I only decided I'd leave 2 weeks before I did.'
Single Mother, 3 Children

There were long-term expenses associated with divorce or relationship break-up also, mainly where there were children involved. This included child-care expenses for working females and maintenance expenses for (typically) males.

'Because he had to pay maintenance - it was better for me to earn more money than it was for him, otherwise we ended up paying it in maintenance anyway.'
Dual Parent Family (New Wife of Husband Paying Maintenance).

Health Issues

Ongoing medical expenses caused a significant financial drain on people.

'I have to fork out \$30,000 a year to keep myself alive - it's not covered by the PBS.'
Mature Female.

For people in rural locations, there were additional travel expenses associated with medical expenses, as they typically had to travel to see specialists.

'When I go to Armadale to see my specialist, it's another \$150 that I just don't have - I just don't go sometimes.'
Mature Female Pensioner.

Small Business Expenses

Micro business owners in this research tended to use personal debt products to support their business. Slightly larger business owners tended to have separate business products. Thus, for micro business owners, a lot of business expenses would be put onto personal debt products, especially when these expenses were unexpected.

'We had to put things on the credit card to keep the business running - for repairs and upkeep of the mowers.'
Mature Couple (Home Maintenance Small Business).

Pregnancy

All parents cited increased expenses before (*'getting ready'*) and after pregnancy, and then clearly ongoing expenses for child-rearing. The first child appeared to be the key financial burden, as people were *'starting from scratch'*. Expenses were clearly an even greater struggle when the pregnancy was unexpected.

'I spent around \$10,000 for my first child.'
Single Mother, 2 Children.

For some people, this was combined with the aspirational unhealthy way of thinking or emotional enhancement way of thinking, where people in hindsight stated they over-spent on what they needed either to create a family home environment through acquiring material possessions or over-compensating for lack of confidence.

Relationship Debt

Some people had the experience of inheriting a debt with a new relationship. Often the new partner would help out the partner bringing debt into the relationship in order to have a 'clean slate' or 'start a new life together'. Females in this sample seemed to be particularly susceptible to this.

'When I met him he had \$20,000 worth of credit card debt... When I fell pregnant, I helped pay off his debts with my savings because I wanted to have a fresh start before the baby came.'

Dual Parent Family, 1 Child.

Unforeseen Miscellaneous Expenses

Frequently occurring expenses that were perceived as unexpected included:

- Car expenses;

'I had a car accident and have to pay back \$6,500 to pay repairs to other car.'

Young Single Male.

'Unforeseen circumstances put me back in debt. Naturally, if you've got a car and you've gone away to visit someone and the motor blows up in your car, you've got to get it fixed.'

Single Mother.

- Vet expenses;
- House repair expenses.

Child-Rearing Costs

Another set of expenses that was perceived as outside of an individual's control was the increasing costs of raising children, particularly as they reached teenage years. In addition, low income families commonly cited feeling the burden of frequent school expenses, such as school excursions, even where this was at a public school.

'Times have changed – it's more expensive to raise children now.' *Dual Parent Family.*

4.2 Circumstances Outside of Individual's Control - Key Influences

The influences detailed below indicate that certain variables predisposed people more than others to be susceptible to this factor.

Generation/ Lifestage

Typically, unexpected circumstances outside the individual's control impacted more heavily on those that were more highly geared with personal debt products, other than just credit cards. For example, those people with a mortgage and/or personal loan. In addition, it appeared to more heavily impact on families, as lifestyle could not be as easily adapted to be in line with an income loss as those without children. Thus,

the generation and/or lifestage of families and 55+ year olds tended to be more heavily impacted than young singles/ couples by these circumstances. However, this was a factor that was still evident in young singles/ couples but to a lesser extent.

Income

People whose income to expenditure ratio left them with little left-over finances were more likely to be impacted by unexpected circumstances than those who had more disposable income. This was more likely to be people on a low income. Another income variable was the income risk associated with different types of industries. For example, farmers were more vulnerable to income loss, due to uncontrollable factors such as droughts, flooding, than those in a white collar profession.

'Infallibility' Way of Thinking

Some people displayed a strong belief that 'nothing would ever happen to them'. They were people who had limited precautionary planning in place.

'You always think it's not going to happen to you.'

Single Mother.

Not surprisingly, people with an apparent external locus of control tended to code more situations as 'out of their hands' (situation influenced by external factors) than those with an internal locus of control ('I control my own destiny').

Another interesting link with the infallibility way of thinking was a belief in a strong work ethic as the key to financial security.

'We thought we'd always be alright... as long as you worked reasonably hard at what you're doing.'

Mature Couple (Husband is seriously ill and cannot work).

4.2.1 Circumstances Outside of Individual's Control – Moderating Variables

There were a number of moderating variables that tended to determine the severity of the individual's experience of financial difficulty, outlined below.

Extent of Financial Recalculation

Financial recalculation refers to recalculation of expenditure relative to income. Often a factor in determining the severity of an individual's financial difficulty is whether they recalculated their finances based on changes in income or expenditure – either in the form of a written budget or actual mental 'balance sheet'. The lack of doing this simple act often was a frequent contributing factor to a more severe situation. Factors contributing to not recalculating finances were:

- People not being aware of the extent of change in their often 'mental balance sheet' or the impact of not doing this; and/or
- Financial apathy or avoidance, with the person's attention and focus caught up in a life crisis.

Extent of Lifestyle Adaptation

Once an individual realised their expenses had increased or income decreased, and they had recalculated their finances, lifestyle adaptation refers to the extent to which people could actually adapt their lifestyle. Again, this often determined the severity of their situation.

A factor that often prohibited lifestyle adaptation was typically families who had experienced divorce. The mother (who typically had custody of the children) wanted to maintain the same standard of living to avoid further emotional disruption to their lives.

'It's very hard to say no to your children when they're offered opportunities in life and you aren't in the position to give it to them. You feel like you have to give it to them because they're your children and it's not their fault that they have to miss out. Saying we can't afford something or, "No, you can't have that trip to France because I'm a single mum on a low income." I'm trying to keep them happy and unmoved by the current situation. I've tried to make the last seven or eight years since Tom's gone as little disruption for them as possible. In hindsight, it has left me carrying the burden.'
Single Mother, 4 Children.

Outcome of Divorce/ Relationship Settlement

There was a lot of variation in the outcome of a divorce or relationship settlement for people in this sample that had the ability to significantly impact on their experience of financial difficulty. Some variables that contributed to this included:

- Outcome of settlement. Some individuals came out of the settlement with an asset such as a house, whereas other individuals came out of the settlement with a debt.

'I walked out with about \$32,000 in debt (after divorce).'
Single Mother.

- Ability to receive maintenance. There were two issues here – the amount of maintenance that people received, and whether people experienced difficulty in getting the maintenance from their ex-partners.

'You're talking about maintenance – I reckon that's a bloody laugh. It's a joke. I get \$10 a fortnight.'
Single Parent Family.

Degree of Personal Debt Prior to Circumstance

Some people were 'heavily geared' with personal debt prior to an unexpected circumstance that was out of their control, and as such this tended to have a more detrimental impact on their debt levels than those who were less 'highly geared'.

'My husband was made redundant so when he lost his job, he was paid out a sum. Centrelink wouldn't help or anything though because they classed that as a wage. It went for three months. The amount of money he got - they said, "Okay, that's his wage. You've got to live on it for three months." We had two cars we were in the process of buying. We just bought a house and everything sort of fell in a big heap. We desperately needed money at that time because once we paid off one of the cars we didn't have much left... You don't expect that to happen. He was assured that his job was safe... I wouldn't change anything to cover that because we didn't know it was going to happen.'
Dual Parent Family.

This is in line with UK research. The Consumer Credit White Paper identified that households most at risk of over-indebtedness were those having four or more credit commitments (Tackling Over-Indebtedness, Action Plan 2004).

Ability to Access Income Support

For some individuals facing a loss of income, they were able to access government support. For example, pension benefits or drought relief. This offset spiralling into further debt.

Ability to Earn Income

For individuals who had the ability to earn an income – either at the point in time of financial crisis or in the future, this clearly had a significant moderating effect on the severity of their financial difficulty.

For people who had experienced health issues, many lost the ability to earn an income. This clearly had a significant short-term and long-term impact on their financial situation.

For people who had not worked in a long time, often they found it difficult to re-enter the workforce. They experienced either a lack of, or loss of, employment skills and acumen.

'I'm looking for work... but I haven't worked in 16 years.'
Single Mother, 3 Children.

Access to Financial Support from Family/Friends

Some people had access to financial support from family or friends. Often where a financial event was perceived as outside of an individual's control (and perceived as such by the giver(s)), people were more willing to accept financial support from family or friends. Likewise, givers were more likely to offer. There appeared to be less guilt associated with this scenario of financial support, compared with as an outcome of unhealthy financial ways of thinking, assumedly as it was not perceived as *'their fault'*. For a minority, this even became a community event.

'We had really good help from friends and family. They did charity nights and things and raised a lot of money for him because he was off work at that time. That was around Christmas time. We got Christmas for the kids from charity, basically, but from friends. You know, the sporting groups and things donated money during that time.'

Dual Parent Family (Husband had accident at work).

When receiving financial support from family/ friends for circumstances perceived as outside of a person's control, the following scenarios were evident:

- People transferred their personal debt from a financial institution to their family or friend(s); or
- Family/friends helped to pay their personal debts; or
- Family/friends helped to pay their living expenses or offer other non-financial support such as cooking meals, giving them gifts, etc.; or
- Family/ friends eliminated the individual's personal debt altogether in the form of a gift.

Access to Financial Buffer / Safety Net

A small portion of the sample had access to financial buffers to offset their debt and therefore severity of their situation. For this factor, it was either through insurance, accessing savings or selling assets.

Access to Financial Advice

For those people who accessed financial advice in the form of a financial counsellor, they were typically already in financial hardship. However, in seeing the financial counsellor, this offset spiralling into further financial difficulty. Section 11.3 provides a detailed discussion of the role of financial counsellors in overcoming financial difficulty.

This section explores the third broad factor that contributed to the experience of financial difficulty – a lack of skills and knowledge. The key skill and knowledge categories are considered as are some of the influences on them and the moderating variables that affect how the lack of these skills and knowledge is translated to the experience of financial difficulty.

5.1 Lack of Consumer Skills

Consumer skills refers to the skills that people have in ensuring a positive financial outcome for themselves when purchasing goods and/or personal debt products. This is distinct from knowledge as it tended to be representative of intangible process skills rather than content specific knowledge. The following were typical scenarios in the research that displayed a lack of consumer skills which had a negative impact on their financial situation.

Susceptible to Persuasion

This is where the person was susceptible to ‘getting sucked into’ sales peoples agenda.

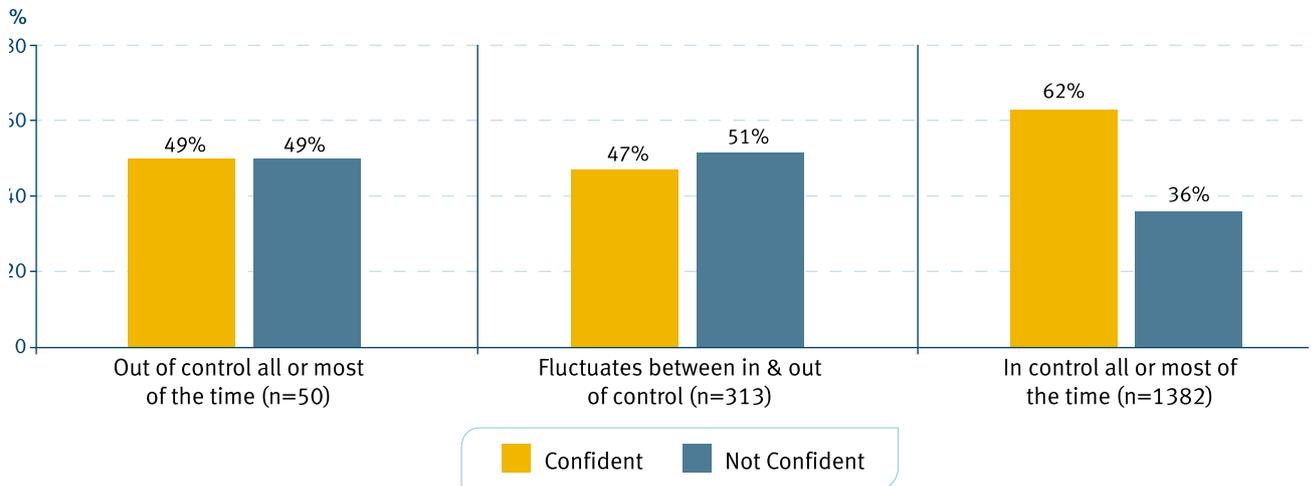
‘I got the car loan. I knew what I wanted to borrow (\$10,000), but I got talked into a lot more (\$18,000)... I was just stupid.’
Young Single Female.

This appeared to be more the case in the following scenarios:

- The person had a lack of experience in purchasing in a category;
- Was uncertain in what they wanted;
- Displayed a lack of assertiveness and confidence overall;
- Lack of financial self-identity or financial disengagement way of thinking (‘whatever, I don’t care, I’ll just have this’).

The quantitative research further highlighted a lack of confidence for those in financial difficulty in making an ‘effective complaint against a bank or financial institution’. Of the 3% who stated they felt out of control, 49% did not feel able to make an effective complaint against a bank or financial institution. This is compared to only 36% of those who stated they felt in control of their finances did not feel confident. This is a significant difference at the 90% confidence level.

Level of Confidence in Making an Effective Complaint Against a Bank or Financial Institution



Dismissive of 'Financial Jargon'

This was where the person minimised the relevance of 'financial jargon' and therefore did not engage in financial documents containing 'financial jargon'. The cues for 'financial jargon' were complexity of language and long, detailed 'fine print'. The most notable behaviour in this research was people not reading the terms and conditions during the application process. Following on from this, once a person had a product they tended not to take note of any ongoing communications that had 'financial jargon'. There were a number of reasons underpinning this dismissiveness of 'financial jargon':

- Influenced by a general disengagement with finances overall;
- Influenced by a focus on the outcome, not the financial means. For example, focus on buying a house or car, rather than getting a mortgage or personal loan;

'I think too, when you're younger like that you go into it very naive. You look back yourself and you don't think to ask all these questions. You just know you want that house, it's this much money. You want to know if they'll give you the money. They'll say you can have it for so much a week. You think, that's good. That's all you want to know because you're young and single and trying to get started. You don't want to know all the other 75 pages you have to sign.'

Dual Parent Family.

- It was found 'too hard and took too long to read', producing an alienation from 'financial jargon'.

'You sign so many pages in this document that you couldn't possibly ever read and understand them all. 'Oh, no this is fine. You have just got to be long-term in the market and you will make money', sort of stuff. And it didn't work out that way.' Mature Pensioner.

Consumer Perceived Onus of Responsibility

This was where the person 'trusted' lenders or retail stores to 'do the right thing'. Underpinning this was a perception that communications and offers must be 'credible' as they were from large organisations that had been around for a long time – 'if they're offering this to me, then it must be okay'. This perception coincided with a behaviour of not reading the terms, conditions and parameters of the product offer or limit increase. In essence, some consumers did not check the affordability of the offer for them personally, they trusted that the lender's offer was appropriate for their financial situation.

This appeared to play a role in particular with:

- Credit limit increases, with the perception that 'it must be okay' because the lender had sent it out. Underpinning this was an assumption that the lender had a full understanding of their current financial situation, and coincided with the behaviour of not checking the terms and conditions of the offer.

'If the bank thinks I should have a \$5,000 limit then I should be able to afford it.'

Single Female.

'When they offer it you think, I must be doing something right, it should be alright.'

Single Mother.

A very small number of people (two in this research sample) actually disregarded their responsibility. That is, they stated they were aware of the conditions of the offer, but purposefully did not disclose full information in order to secure the offer. This appeared to be driven by a rationalisation that they were 'outsmarting the system' and a perception that 'nothing bad would ever happen to them' ('infallibility' way of thinking);

'I suppose I was a credit card junkie. I would go to the different banks and get credit cards because I didn't have a full-time job so I couldn't borrow the money. It was a business venture – you had to have money to make money. I'd buy stock on them and sell them at the markets but it didn't go very well. At one stage I had \$50,000 in debt on 10 credit cards.'

Single Mother, 1 Child.

- Information sharing, where some people in this study tended to take a more passive role in acquiring information. In particular, some had the expectation that all necessary information would be actively 'told' to them by the lender, with the emphasis on face-to-face discussion as the active communication medium. Thus, frequently 'financial jargon' such as terms and conditions was not read by people;

'I assumed that I knew what I had to do as nobody told me anything else.'

Single Mother.

5.2 Interpersonal Issues

Whilst many people got into financial trouble as a result of relationships, some people appeared particularly vulnerable to this. In the context of financial decision-making, interpersonal issues refers to the lack of astuteness in relations with other people in achieving a positive financial outcome for their personal situation. This appeared to be representative of a mix of knowledge and skills with dealing with other people. The following were typical scenarios in the research that illustrated interpersonal issues amongst a small number of people, which had a negative impact on their financial situation.

Placement of Trust

This was essentially where people put their trust in ‘people who let them down’, particularly evident in terms of house flatmate relationships and personal relationships.

‘What she was doing was every time I had to ask her for the rent and everything she would abuse me and say, “Oh, well I will get you the money, I will get the money, I just haven’t got it now.” I said, “Well, everything is in my name. I’m the one that’s being phoned every week and being abused because I am paying my share”... That’s when it really started to go downhill.’

Single Mother, 1 Child.

‘Well, when I was 17 I found the perfect boyfriend. He was great. So we decided to move out of home and I got a flat and because I was a few months older than him, I was 18 by them, I said I will put it in my name. We will be all right. We will be here forever. Anyways, a few months down the track his friend gets out of gaol, starts messing up, back to his old habits again and doesn’t want to put his forms in, so I am now paying for the both of us, rent, phone bill, had to fork out the bond money, everything like that. We broke up, I thought I need a break. Everything is paid up, I will go home for a couple of weeks because I was pretty heavily pregnant then. Come back and the place is trashed. Because I was so young, so stupid, it was all in my name... they (real estate agent) sent me a bill and they say these are the damages, you have to pay them.’

Single Mother.

[Scenario in order to understand quote: Joint mortgage with a friend, who walked out and left her with debt.] ‘I didn’t think she would because we were good friends... stronger people come into your life and they sort of take you over, makes a terrible mistake.’

Mature Female Pensioner.

Not Looking Out for Own Financial Self-Interests

A number of people disregarded their own financial self-interests over others. In terms of this having a negative outcome on their financial situation, this was most evident in divorce settlements.

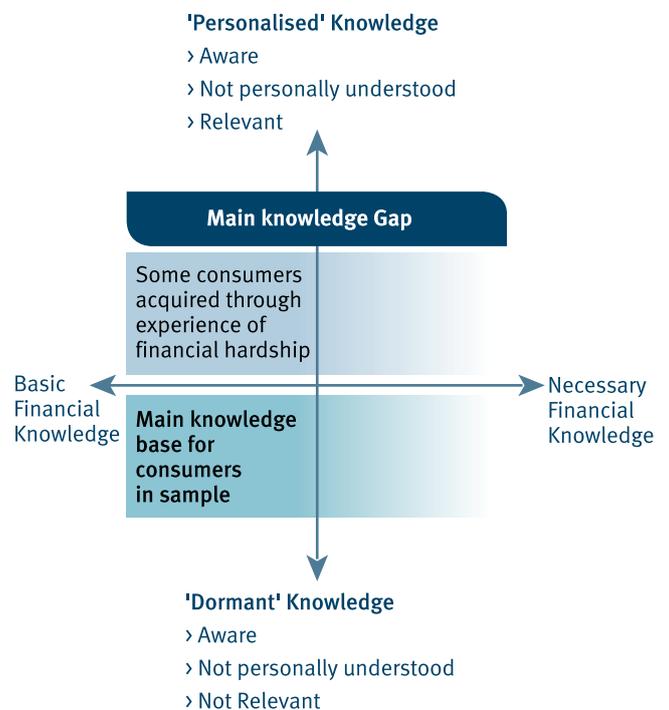
‘I was being nice and said he could have the house.’

Single Mother, 3 Children

5.3 Lack of Financial Knowledge

The following diagram conceptualises the key knowledge base and knowledge gaps of people in financial difficulty evident in this research. As can be seen, it appears the main knowledge base was ‘dormant basic’ financial knowledge. The key knowledge gap was a lack of ‘necessary’ financial knowledge (that they needed to know about products that they had in particular) and lack of ‘personalised’ knowledge in general. It is important to note here that some people acquired more personalised basic financial knowledge, and for some necessary knowledge, through the experience of financial difficulty, that is, ‘learning by experience’.

Figure 21. Financial Knowledge – Main Knowledge Base & Gap



Dormant ‘Basic’ Financial Knowledge

Most people in financial difficulty appeared to have basic financial knowledge. By ‘basic’ financial knowledge, this is used to refer to knowledge of things such as budgeting, saving, shopping around, and reading the terms and conditions.

However, for a lot of people, this knowledge was ‘dormant’, which essentially meant they were aware of the information but did not necessarily *understand* its implications for them personally, and therefore it had a lack of relevance to them.

There were some individuals whose basic financial knowledge was ‘dormant’ due to lack of use, and as such, faced a struggle when having to use this knowledge again. Females whose ex-partner had managed the finances were particularly susceptible to inactive use of financial knowledge.

'Basically I was just suddenly divorced. I had no idea it was coming. I had three young children, eight months, two years and five years. I was depressed. I was confused. Financially I was a mess because I didn't know how to manage things because he'd always done it. I mean, I knew how to pay bills, but I didn't know how to budget to pay all those things. That's what he did. I had no skills. I mean, I used to when I was 19, before I had kids. Maybe I went dead in the head... He brought in the wage. He paid for the bills. He had the savings account. He had everything in his name, except for the house of course because we had to share that debt. When he left I had no financial support from him. I wasn't able to work because of the kid's ages and I ended up going bankrupt. That felt like I'd really failed.'

Single Mother, 3 Children.

Lack of 'Necessary' Financial Knowledge

The most evident gaps in financial knowledge amongst people in financial difficulty, that negatively impacted their situation, were gaps in knowledge that they needed to know about products that they owned in particular, but also financial matters in general. This clearly varied depending on the individual's specific circumstances. However, typically, 'necessary' financial knowledge that people did not have when they needed it pertained to:

- Lack of knowledge about more complex and less well-known products that they owned, including superannuation, investment, line of credit, even hire purchase. This included necessary knowledge that they needed in choosing these products and owning the product;

'One of the questions we missed was what happened if we fell on bad times and we had paid them four payments ahead – we found out later it doesn't work like that. You still have to pay on that particular day. I wish we had known that.'

Single Mother, 3 Children (hire purchase product).

'I went to --- and the lady in charge of that bank, she was really, really nice and she said, 'That's good news. I can make you so much a month', and all this sort of stuff. She said, 'The bad news is you will pay an up-front amount of dollars'. I thought, whoa, it sounds like too much money. In hindsight that would have been the best way to go because these other guys took money at the end and you couldn't take it out without paying 4 per cent interest on what you took out.'

Mature Pensioner.

- Lack of detailed knowledge about personal debt products when they needed. This was evidenced in this research by not knowing about particular fees and charges, and consequences of default;

'Once I missed the minimum amount. I didn't fully realise that they charge you about \$35 if that happens. I'm very careful now. I didn't have the knowledge then. I didn't realise there would be a charge if you just happened to go over a couple of days. I didn't realise that. I learnt about the cash advances through my daughter.'

Mature Female Pensioner.

- For small business owners, lack of small business financial management knowledge. This had a significant impact on personal debt levels, particularly micro business owners who would use personal debt products, in particular credit cards, for business expenses;

'All my money on my credit card has just gone into the shop in moments of panic.'

Mature, Small Business Owner

(Store not doing very good business).

- For a very small number in the sample, lack of knowledge about how to differentiate between valid business ventures and those that were 'scams'.

'I was no match for their skill... you couldn't get a better targeted market than a woman who's on her own, desperately wanting to make her own business work... They're saying you can do this part-time. Heaps of people do it. They make, you know, fortunes and, you know, you can – and I'm thinking I don't want a fortune, I just want an income, you know, just a basic sort of income that would get me off the dole... At the first workshop, they said it was around about \$2,500.'

Mature Female.

Many people indicated a general alienation and disengagement from 'financial jargon' – most frequently citing terms and conditions as representative of this, which contributed to not knowing 'necessary' financial knowledge.

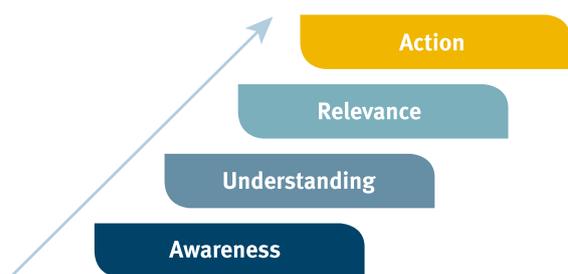
'I just went with my gut feeling on what I felt I needed to do. I can't read financial literature. It's a bit boring. I don't really understand it.'

Young Single Female.

Lack of Personalised Financial Knowledge

While some people were aware of some financial knowledge, and for some they may further understand it, it still was not seen as relevant to people – it was ‘dormant’. Making the knowledge relevant to people appears to be a critical step forward in moving towards utilising or acting on knowledge.

Figure 22. Dimensions of Personalised Knowledge (Adaptation of AIDA Model)



It appears a key barrier to understanding the knowledge as personal was a disengagement of current actions on future consequences. More pertinently, not understanding the ‘bigger picture’ of their financial lives. A common statement for those formerly in financial difficulty, and some people who were currently in financial difficulty was ‘*if I had only known what I know now*’.

‘I suppose credit cards are something that everybody needs. But when you look at the bigger picture, in the long-run, you get into debt. But I suppose you don’t look at it when you have that convenience at your fingertips.’
Dual Parent Family.

5.4 Lack of Legal Knowledge

For some people, a lack of legal knowledge in the context of their financial situation had a negative impact on a person’s financial situation. The following scenarios were present in the research sample:

- Small business finance arrangements – lack of understanding of the risks associated with running a small business and the risks associated with various means of financial funding, in particular mixing personal and business finances. There were a number of people whose borrowings for their small business were secured against their house. It appears the reason for this is either that they did not realise the risks associated with this until it was too late and they had to surrender their house when the business failed, or they felt they had no other options to finance their business;
- Debt collection agencies - perceiving a lack of consequences if personal debt product fees are not paid;
- Bad credit rating – not understanding that this limits your ability to access further personal debt products in the future.

A lack of understanding of the following knowledge did not negatively impact on an individual’s financial situation, but did have a negative impact on their experience of financial hardship:

- Not understanding the full implications of declaring bankruptcy;

‘That was for three years (bankruptcy) and then I was told after two years once you are out of bankruptcy, it takes another two years to establish your credit rating and so forth, which I thought was right. And then I find out that, you know, they - they never take any of this off you, your credit record. When you go and apply for something - I couldn’t even get a credit card.’

Mature Couple

- Not understanding the process and role of liquidators after declaring bankruptcy.

5.5 Lack of Skills and Knowledge - Key Influences

Generation/ Lifestage – Lack of Learning by Experience

Learning of knowledge and skills was frequently acquired through trial and error. For 18-22 year olds and young singles/ couples, they tended to not have as much experience as other lifestages. In addition, couple relationships where one person played a more passive role in financial decision-making tended to have less knowledge.

Financial Disengagement Way of Thinking

People who displayed the financial disengagement way of thinking tended not to acquire knowledge and skills, as often they were simply not interested.

Lack of Financial Self-Identity

Lack of financial self-identity was another core factor in not acquiring knowledge and skills. This is where they did not see themselves as a ‘financially minded’ person and as such were not alert to developing this skill or knowledge base. For some, they felt alienated from financial matters.

Education

People who were more highly educated (tertiary education in particular) appeared to have a higher level of sophisticated financial acumen. However, for many in this research, both ‘basic’ and ‘necessary’ knowledge were dormant. It was not seen as relevant to them personally or was competing with other values or ways of thinking.

Family-of-Origin

Some people recalled coming from a family that did not discuss financial matters – this appeared to play a role in their lack of knowledge and skills.

'I had no idea (when I got divorced). My family never talked about anything like that and my husband did it all for me. I was happy with that at the time but now it's a different story.'

Single Mother, 3 Children.

5.6 Lack of Skills and Knowledge - Moderating Variables

Access to Sound Advice

Solicitors were the main form of advice sought by people. There was little awareness of the services of financial counsellors (see section 11.3 for further information).

Where solicitors were utilised by people, this was typically for divorce settlements, property negotiations and small business issues. Solicitors appeared to give financial as well as legal advice to people, particularly frequently cited was advice on bankruptcy. For the majority of people, accessing the services of a solicitor had a positive outcome for their financial situation. However, for a small number of people, poor advice from solicitors was a contributing factor for some in a negative financial outcome.

Couple Decision-Making

For most couples, each partner tended to have different levels of knowledge and skills within the relationship. Depending on the level of power each partner had in decision-making, this had different financial outcomes for their relationship.

'He used to do all the finances, but when he got sick I took over. I make sure everything's paid on time but that's about all I do.'

Mature Couple.

Access to Financial Support/ Financial Buffer

Some people had access to financial support from family or friends or financial buffers (such as selling assets/ accessing savings) that offset the severity of their financial difficulty.

This section considers the way that the three broad factors contributed to the experience of financial difficulty. The people spoken to experiencing financial difficulty were grouped into four segments based on the way in which the broad factors played a role in their financially difficult circumstances. These segments are termed multi-faceted, self-initiated, circumstantial and vulnerable.

6.1 Segment 1: 'Multi-Faceted'

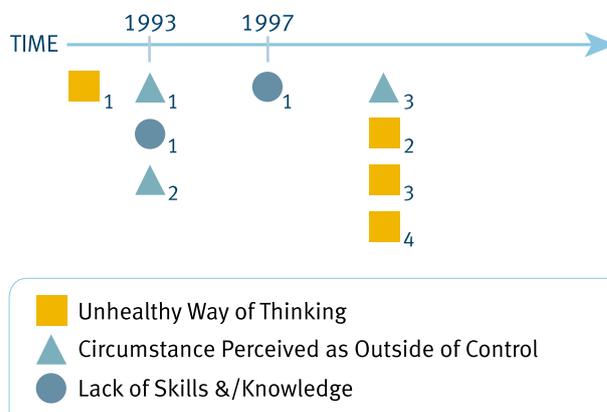
The predominant segment in the sample was where there were a number of different broad factors *over time* that led to financial difficulty, typically encompassing all three broad factors, but most often unhealthy ways of thinking and circumstances outside of the individual's control. There was also an interaction effect evident amongst the multiple factors at play, where one factor *contributed* to another factor. For example, a circumstance outside their control combined with lack of skills and knowledge could lead to an unhealthy financial way of thinking.

This segment encompassed a mix of different lifestages and locations, but particularly families (single-parent and dual-parent) and 55+ year olds. It was least likely to be representative of 18-22 year olds and young singles/couples. The following case study brings to life the interplay of these factors in leading up to the experience of financial difficulty.

CASE STUDY: Multi-Faceted Experience – Dual Parent Family

Currently in Financial Difficulty, Metropolitan Location

The following timeline gives an overview of the sequence of factors that precipitated Judy's current experience of financial hardship, discussed in more detail below.



Judy describes her childhood as very fortunate and sheltered. She said she came from an affluent family, went to a private school, and later university to become an architect. After she graduated, she married her boyfriend of a number of years, and they started a family. Judy took on full-time home duties while her husband worked in a good job, and over time their family grew to 6 children. Judy describes this time in her life as being a 'financial breeze'. Her husband *'paid all the bills'* and managed all the other financial matters, and he gave Judy a budget to manage household expenses. Financially, Judy displayed the financial disengagement way of thinking – she took no ownership for the finances, it was left up to her husband (■₁).

In 1993, Judy and her husband separated (▲₁). She describes this time in relation to her finances as a *'shock to have to deal with everything on my own'*. Her financial disengagement way of thinking appeared to stay with her, while marginally improving through trial and error. She did not feel she had the skills or knowledge to manage the financial situation of her family (●₁). At one point, she says she was so desperate for money that she sold her ex-husband's stereo and engagement ring at the pawnbrokers. When he left, Judy says she had to *'lower myself'* to go on the pension, as she had young children at home, and her husband was not giving her any financial support. As part of the divorce settlement, her husband was told to pay maintenance, which he began to pay but then stopped and has paid intermittently up until now. She says at one point *'he was \$30,000 in arrears on maintenance'* (▲₂). However, she thought that before it got to that point that *'it would all come good'* and that the *'child support agency will get him to pay'*. This has not happened yet.

Judy remarried in 1997. Judy and her new husband had decided to keep their finances separate as he did not bring children to the marriage. However, they did decide to buy a house together. Judy had some savings from the divorce settlement which served as the deposit. In terms of the application process, initially Judy was encouraged by her husband to see a broker who *'could help her out'* with it, she said *'I didn't know anything about this type of thing'*. The broker charged her \$800 and after speaking with her husband found out her current bank would offer her a mortgage that was *'3% cheaper'* in initial application fees. She said she still had to pay the broker which she was upset about and she did not know she had to. Judy went to her bank and she said *'it was so easy as it got approved on the spot'*. This was a relief to Judy. When asking her what she looked at when deciding on the mortgage, she said she

looked at the monthly repayments and it was less than rent so she thought this was good. She also said the interest rate *'seemed fine'* – it was lower than the rates with the broker. Judy displayed a lack of knowledge and skills in applying for the mortgage. Her knowledge was acquired through personal recent reference points (e.g. cheaper than current rent, interest rate less than brokers) (●₂). Judy was approved for a \$105,000 mortgage for a \$130,000 house, her main source of income was the pension. She had had 2 more children at that point with her current husband, with a total of 7 children living at home.

After Judy was approved for the mortgage, she got sent a letter in the mail saying she was pre-approved for a \$10,000 credit card. Judy thought *'you beauty'* – at the time, however, she thought she won't use it, as she was still trying to pay off \$2,000 on her other credit card. Eventually, however, Judy said the credit card just built up (■₂). She said a lot of unforeseen expenses occurred (▲₂), and the credit card was used to pay for it (■₃). She displayed two unhealthy credit card ways of thinking – intended-actual credit dissonance and credit as supplement income way of thinking. The unforeseen expenses included: car registration, husband had major health issues and medical expenses associated with that, some utility bills, daughter had orthodontist operation. Some of the other expenses that Judy put onto the credit card was a yearly camping holiday that due to other expenses *'popping up'*, Judy said the family would not have been able to go on, *'she couldn't do to the kids'*.

The following is an overview of Judy's current financial situation:

- Arrears on personal loan (\$2,000 – 1 payment behind) – she had taken this out to pay off her first credit card but was finding it difficult to meet repayments. She said she felt annoyed with the bank as she was only going to be a couple of days late, but they were very inflexible;

- Previously in arrears on credit card, but now paying minimum monthly amount (\$10,000). She said to begin with she wasn't worried but then she got charged a \$35 late payment fee on top of that. She said *'she felt sick'* with the calls she would get from the bank *'chasing her to pay'*. She said *'the girl from the credit office was very nice but if it got too far behind legal proceedings would be put into place'*;
- Arrears in private school fees (\$25,000 – not currently making payments) – *'I don't want my children to come back to me and say I didn't do the right thing by them... they're pretty good they said to just pay it when I can'*;
- Arrears in charge card at school uniform shop (not currently making payments);
- Arrears/ payment plan for gas;
- Debt owed to Family Tax Office (\$16,000) – *'They said they'd overpaid me – they take it out of my pension every fortnight'*;
- Judy always pays her mortgage – she said *'it just comes straight out'* and this would be the last thing that she would not pay – *'we've got to have a roof over our heads'*.

It is evident from some of these debts that Judy also displayed an aspirational way of thinking that had negative consequences for her financial situation (■₄).

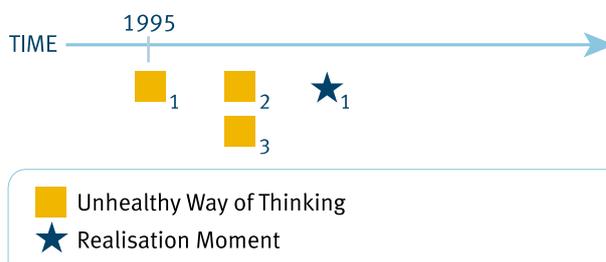
6.2 Segment 2: 'Self-Initiated'

This segment represents people whose main reason for financial difficulty was through unhealthy ways of thinking. This segment was particularly representative of 18-22 year olds and young singles/ couples.

CASE STUDY: Paying for the 'Sins' of Youthfulness

Formerly in Financial Difficulty, Metropolitan Location

The following diagram illustrates the unhealthy ways of thinking that impacted on Jenny's financial situation, and her realisation moment.



Jenny, 21 years old, was working full-time in Australia but was restless and was *'not ready to commit'* to full-time work. She decided she wanted to travel, have fun and explore the world while she was still young, so she quit her job, bought her airfare with some money she had saved up and went overseas (W1). She had a *'living for today'* way of thinking, which later impacted on her financial situation. She had a little bit of spending money prepared, and applied for two credit cards *'just in case something happened'*.

When she got over there she found it a lot more expensive to live than she had anticipated. She ended up putting all her living expenses on her credit card, and using them for cash

advances and *'not really worrying about it'*. (W2, W3). This is representative of two ways of unhealthy financial ways of thinking – disengagement of credit responsibility and credit as supplement income.

'I thought this is a once in a lifetime opportunity, travelling through Europe and England, I may as well just do it and not really thinking of what the consequences of those actions were going to be, I thought I'd get back and have another job really quickly and pay them off and they won't be a problem.'

When she returned from overseas, she *'realised'* she had a credit card debt of around \$10,000, and struggled to meet the repayments. Eventually, she moved house and she had thought the credit controllers had lost touch with her. Then one day they turned up at work and this for her was the *'realisation moment'* of her financially difficult situation.

'So, I moved house, got a job, things started to improve and nothing really happened and I thought oh well they've just forgotten about it, whatever... and then debt collectors turned up at work in my office and it was the most embarrassing thing that had ever happened to me and I thought oh my God and I realised what I'd done.'

6.3 Segment 3: 'Circumstantial'

This segment represents those people whose main factor for financial difficulty was circumstances outside of their control. This included a mix of lifestages and locations, but was least representative of 18-22 year olds and young singles/ couples.

CASE STUDY: 'The Unthinkable Happened'

Dual Parent Family, Formerly in Financial Difficulty, Metropolitan Location

Mary and Mark were both working, had two children in private schools, and a mortgage. They had thought everything was fine. Then an unexpected event occurred – Mark lost his job and they struggled to meet repayments.

'My husband lost his job. We didn't have his money for six weeks. We had all the bills. We let the home loan fall behind. We're always one month behind in payment anyway. We could never catch up. That went on for about six to eight months.... I was getting paid. You'd live off that and then you couldn't pay the bills. We were just falling behind. We got behind in the bills, the home loan.'

Mary said that they had income protection insurance *'but that didn't kick in for 4 months'*. She also said in hindsight they did not adapt their lifestyle in accordance with this event.

'We still seem to do everything - on the weekends we all still did sport and went out and bought drinks and things, as you do. We were trying to live on a two income budget with one income. It made it hard. I think you're so used to living the lifestyle you're at, it's hard to stop doing what you're doing. You keep living the same lifestyle on borrowed time. You borrow money to get through this week and then you have nothing to carry on.'

Mary and Mark almost lost their house, but were 'lucky enough' that Mary's mother was able to help out.

'I rang them (bank). They didn't really care. They couldn't give us a repayment break. They say to pay as much as you can. They tell you to sell the house, basically. That's what they said. We were only probably two months behind. We didn't have credit cards or anything. It was just general bills... They sent us a letter saying if we don't pay within a certain time, they would start foreclosing. I sort of didn't let anybody know about all this. Not even my husband. I do the finances. He didn't really know what was going on. He knew things were tight, but he couldn't be bothered with it... I used to wake up in the middle of the night in cold sweats, thinking of all the bills that had to be paid. When the default came through, I sort of ended up going to my parents. I told my parents. I just wanted my mum. I borrowed from my parents. I felt shame.'

6.4 Segment 4: ‘Vulnerable’

This segment was people who got into financial difficulty mainly through lack of skills and knowledge. This was the smallest segment in the research, and was most representative of younger and mature people. Typical scenarios for younger people included being ‘talked into’ goods or loans that they did not want. Typical scenarios for mature people were:

- Not understanding investment options for superannuation and having products that do not suit their needs;

‘What I really needed from the investment (in hindsight) was an income stream rather than a capital growth and he put me in capital growth and it didn’t capital grow, it shrunk.’ Mature Female Pensioner.
- ‘Falling’ for business scams;
- Being ‘talked into’ goods or loans that they did not want.

CASE STUDY: ‘Why Would Anybody Do This to Me?’

Mature Female, Currently in Financial Difficulty, Regional Location

Sandy’s children had left home and she now lived by herself. She was studying graphic design at university while working part-time and receiving a part-pension. Her health had not been too good so she was looking for a small business idea that she could do from home. A friend of hers was aware of this, and asked her to come along to an event in the city that was talking about a new business venture – an American company selling websites.

‘I thought I’m in a position where I need to explore everything. So I went along. Made a bit of a razzmatazz or whatever down at the Sheraton and fancy everything and whatever and just did a real spiel on, you know, be courageous and take risks and do this sort of stuff and change your life... and you believe it. At the time, you had to do it on the day, we couldn’t take it away.’

Sandy thought the idea sounded good and she liked the fact that she could work from home. The company said they could give her a personal loan for 18% for the initial outlay of \$1,000, and then Sandy would have to finance the loan with a credit card as it had to be direct debited. Sandy signed up for the venture that day, and she didn’t have a credit card so she went to her bank and applied for one and they set up direct debit for her. After Sandy joined, an American coach rang her from the company to offer her business coaching, at

a fee of \$6,000 and \$10,000 to pay for promotions. He said that if you didn’t have the promotions in particular, than ‘you couldn’t get the stuff happening’.

‘The more you touched them, the more they just drain you, you know, and that’s why I’ve frightened to even talk to them. It’s like if you want to buy a business, you want to know the whole story, you know. If you’d known that in the first place, you’d say no.’

At this stage, Sandy thought she was ‘getting in a bit too deep’, and it wasn’t until she saw a Current Affairs program on them that she realised they were ‘shonky’.

‘Next thing it’s on Current Affairs and they were checking it out and oh, my God. I’ve done a doozey. It was so hard to get info on.’

After this, she contacted legal aid, which eventually led to the ACCC, who are working on a case to sue them for unconscionable conduct.

‘It turned out that the website people were a bit shonky and whatever and the ACCC is probably going to sue them.’

However, her current situation is that she has to continue to keep paying them on the credit card, as otherwise she will be in breach of contract. Under this contract, she is seen as a business under International law.

‘They’ve outwitted me every step... they’re far more cunning than I am.’

7.0 Sources of Borrowing

This section considers the sources of borrowing that people in financial difficulty used. In particular, it focuses on the reasons people borrow from family or friends, pawnbrokers and pay day lenders.

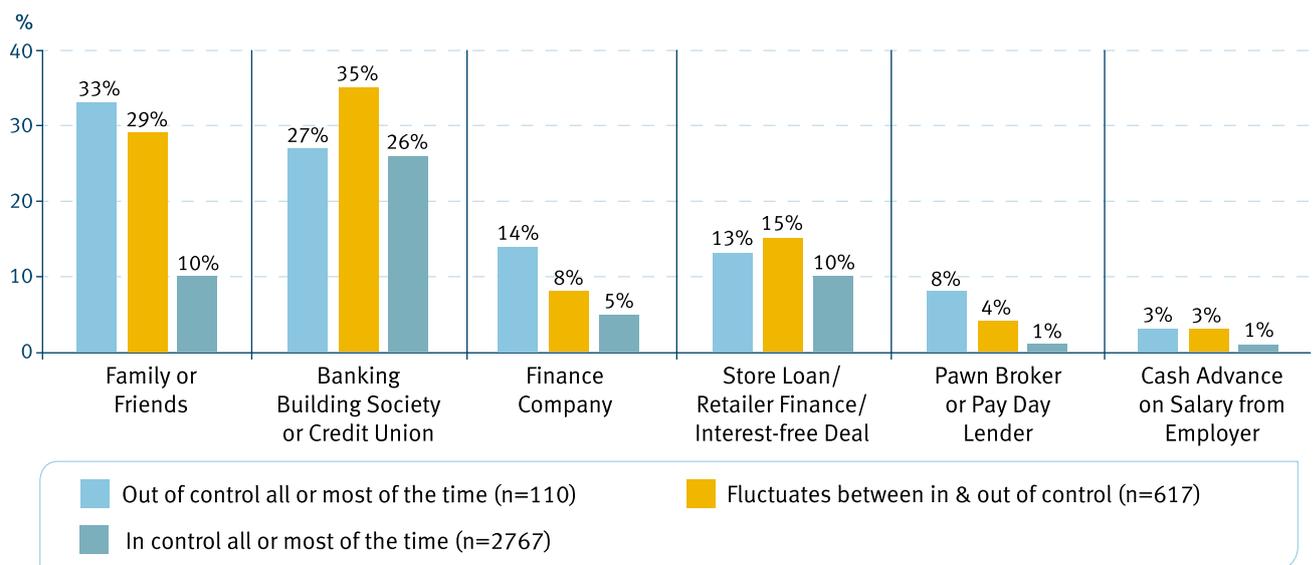
7.1 Sources of Borrowing

The quantitative research highlighted the sources of financial borrowings in the past 12 months (conducted in 2005) by perceived financial control:

- Of those who stated they were out of control, borrowing from friends and family was the most frequently mentioned source of borrowing (33%);
- Conversely, only 10% of those who stated they were in control of their finances borrowed from friends or family in the past 12 months. This was a significant difference (95% confidence level);

- Fourteen per cent of people who stated they were out of control with their finances used a finance company in the past 12 months, compared with only 5% of those who stated they were in control with their finances (significant difference – 95% confidence level);
- Eight per cent of people who stated they were out of control with their finances used a pawnbroker or pay day lender in the past 12 months, compared with only 1% of those who stated they were in control of their finances (significant difference – 95% confidence level).

Sources of Borrowing in Past 12 Months



There was a similar representation of different sources of borrowing in the qualitative research as highlighted in the quantitative research. In particular:

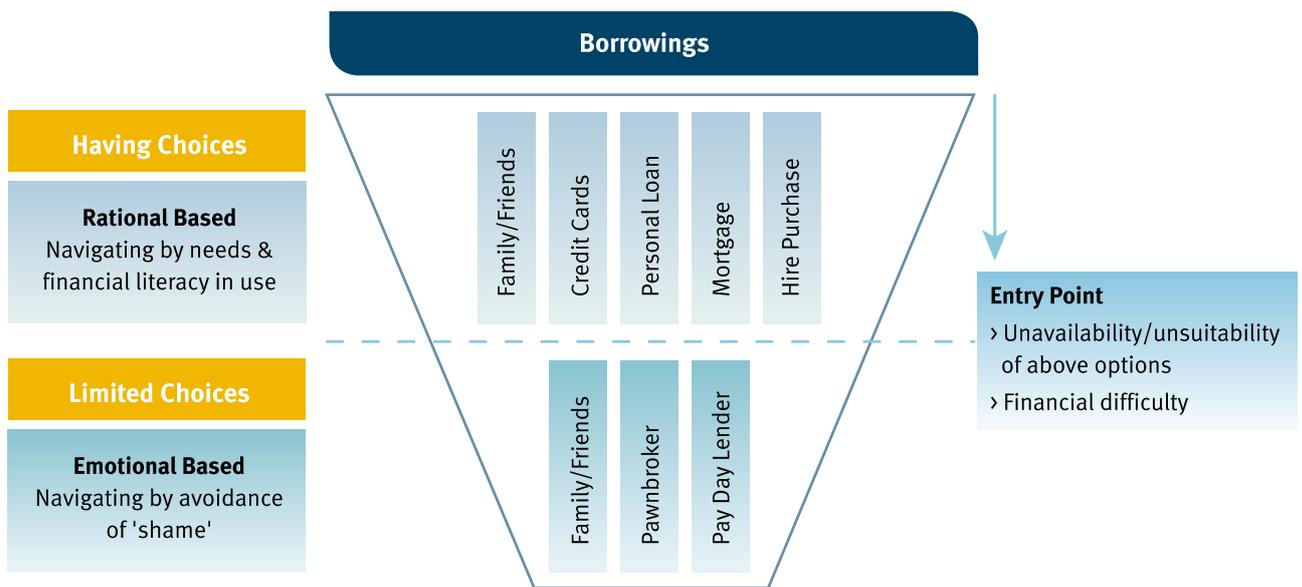
- The majority of people had personal debt products from mainstream lenders (issues associated with lenders in general are further explored in the next section);
- Around half of people borrowed from family or friends;
- A minority utilised pawnbrokers or pay day lenders.

7.0 Sources of Borrowing

7.2 Decision-Making Process – Sources of Borrowings

Broadly, there were two key decision-making scenarios evident in this research when people were determining their choice of borrowing(s) – one where people felt they had choices, which was often rationally based, and one where people felt they had no choices, which tended to be more emotionally based decision-making.

Figure 21. Different Decision-Making Modes for Sources of Borrowings



‘Having Choices’ Decision-Making Scenario

This scenario was characterised by:

- People felt they had a choice and were free to use whatever lender they chose to;
- The decision-making scenario was more rational in nature in that people navigated through the various choices based on product needs and their financial literacy (that was in use);
- Tended to be more mainstream lenders;
- A minority borrowed from family or friends as a viable alternative to a bank (for example, borrowing from family to buy a car);
- In this mode, the majority stated they bought their products, rather than were sold them;
- Also in this mode, for around one third of the sample, reason for choosing a product was based on product marketing messages such as ‘interest free period’, ‘honeymoon rates’, ‘loyalty programs’.

‘Limited Choices’ Decision-Making Scenario

This scenario was characterised by:

- People felt they had less or no choice and were limited by where they could borrow. Indeed, the entry point was financial difficulty and lack of choices of ‘mainstream’ personal debt products;
- ‘I’ve been with --- since I was that big and I asked them for a \$500 loan to put towards my son’s funeral. “No, sorry, can’t help you.” So I went to one of those loan shark mobs and they lent me the \$500. I went for \$750 in the end. They went to get their money one day out of my account, it was a day late so they hit me with a \$50 charge, then a bank charge on top of that of course. I went down and abused them. I thought, I’ll draw the money out before you get your money. That \$750 ended up costing me \$1170 through one of those loan shark companies. The way those loan sharks treat you is terrible.’
Single Father.*
- Tended to be more non-mainstream lenders, such as friends/ family, pawnbrokers or pay day lenders;

- Of those who used pawnbrokers and pay day lenders in particular, many people tended to want to ‘use up’ their mainstream products, before ‘resorting’ to these borrowing methods – thus another entry point for this decision-making mode was a ‘maxed out’ credit card for many.

‘Credit cards are less embarrassing than a pawnbroker – at least this way I get myself into debt and no one knows about it.’

Mature Female Pensioner.

- Decision-making appeared to exist within a more emotive environment in that it typically coincided with financial pressure or hardship, coupled with a sense of shame about their situation. This shame appeared to exist even if the situation was not of the individual’s own doing – it was the state of ‘having no money’ that created shame, and this shame was intensified where it was felt to be ‘their fault’;

‘I felt really bad about it (going to pawnbroker) – it was like admitting that I’d mismanaged my money. But it was necessary sometimes so you just had to go and do it, and get past the embarrassment.’

Mature Female Pensioner.

- Choice between the options of family/ friends, pawnbrokers, pay day lenders or other alternatives appeared to be navigated by avoidance of shame. That is, people would choose the option that created less shame for them – which appeared largely embedded in people’s relationship with their family, how they anticipated their family would react, and their family’s current financial situation.

People who borrowed from Family/Friends in the Limited Decision-Making Scenario:

For people who borrowed from family or friends in this scenario of less choices, typically the following characteristics were present:

- Typically felt it was their only choice given their scenario;

‘They know we’re in a tight spot. My mother is able to help us out. If we need something extra we can go to her – we don’t like to... bite your tongue and do it.’

Mature Couple.

- Borrowing money for large amounts and/or where the consequences were imminently serious (for example, having to pay back a loan immediately, supporting mortgage repayments after a loss of income);

‘I’m not talking little amounts, I am talking big amounts. I am talking thousands and thousands. That’s the one that causes more grief.’

Dual Parent Family.

- Borrowing money for smaller amounts was also present (such as where people needed money until next pay day or to fix their car). This was typically where a pay day lender or pawnbroker was not in their choice set, either because they were not aware of it and/or their relationship with their family made it less shameful to borrow from their family than from pawnbrokers or pay day lenders;

- Repaying back borrowings from family/ friends appeared polarised:

– Either people had a sense of urgency and stress that this borrowing had to be given priority above all others in paying back; or

– People did not have a sense of time or priority placed on the borrowing;

– This appeared largely determined by the individual’s relationship with their family, the reason for borrowing and associated sense of shame, and their perception of their family’s current financial situation.

- There was a spectrum of different perceptions and experiences of this form of borrowing, best understood in light of the three causes of financial difficulty:

– Unhealthy ways of thinking (self-initiated and multi-faceted segments). For these people, ‘guilt’ and ‘shame’ was often intensified as they felt like it was ‘their fault’. This often had considerable stress on the individual’s family also – depending on the extent of the debt.

‘The thought of legal action scared me so I rang the parents and admitted everything... I had spoken to them about holidaying and that I overspent generally, but I didn’t go into the full depth of the situation and it caused them incredible stress. My father got incredibly ill from it. They took on ownership for it.’

Young Single Female.

– Circumstances outside of their control (circumstantial and multi-faceted segments). Often where a financial event was perceived as outside of an individual’s control (and perceived as such by the giver(s)), people were more willing to accept financial support from family or friends. Likewise, givers were more likely to offer. There appeared to be less guilt associated with this scenario of financial support, compared with as an outcome of unhealthy financial ways of thinking, assumedly as it was not perceived by themselves or others as ‘their fault’.

– Lack of skills and knowledge. This was a similar experience to unhealthy ways of thinking where people stated they felt ‘shame’.

7.0 Sources of Borrowing

- Overall, this form of borrowing did typically put strain on an individual's relationship with their family, with 'guilt' often stated as the experience of the individual.

'The whole 'don't borrow from family' sort of thing is true. That's a big issue for me. I still owe my mum a lot of money and I've got siblings that are either jealous or just disgusted.'

Young Couple.

People who borrowed from Pay Day Lenders/ Pawnbrokers in the Limited Decision-Making Scenario:

For the minority of people who borrowed from pay day lenders or pawnbrokers in this state of less choices, the following were key perceptions and drivers:

- Typically for short-term, smaller sums of money;

'I do get cash advances from Cash Converters – sometimes we have trouble affording food even, and things like that. That's when it really starts to hit home.'

Young Single Couple.

- Major benefit stated was that you could maintain your anonymity and avoid telling your family;

'When I got into strife I went to those places – the pawn shops. It was a way to get money. It was better than asking friends or family because they didn't know about it and it was easily obtainable.'

Young Single Female.

- People were typically aware initially or learnt by experience the high interest rates – but simply had no choice.

'Once you go a couple of times, it starts running thin. You realise you're getting ripped off, or you lose some of it. It's 40 per cent or something.'

Young Single Female.

8.0 Role of Lenders

This section highlights a number of different areas where lenders played a role in people's path to financial difficulty as evidenced by consumers' narratives. For a small minority of people, lenders were seen to have played a direct role in their path to financial difficulty, which was coupled with low levels of financial literacy on behalf of the consumer. For the majority however, lenders were seen as playing an indirect role.

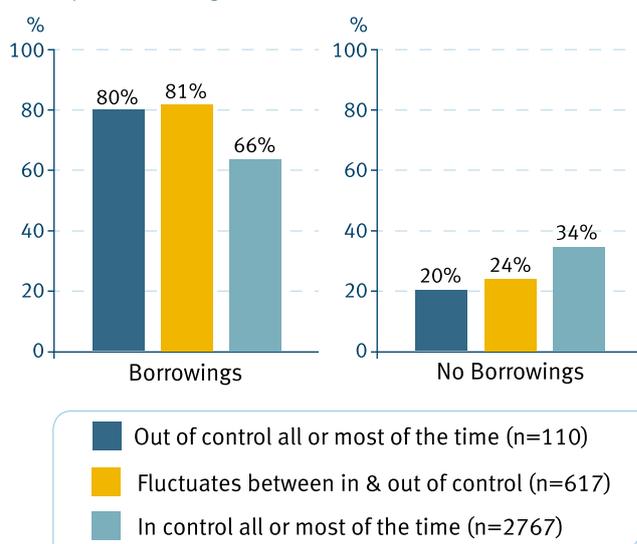
8.1 Access to Personal Debt

A core part of the equation of financial difficulty for many people in this study was access to personal debt (noting that this study was focusing on people who had personal debt products from a lender). This was a means for financial difficulty. For instance, a means for unhealthy ways of thinking to be actioned, or a means by which people became exposed when an unexpected circumstance occurred.

The quantitative research further sheds light on the role of borrowings from lenders in perceived financial control. It shows that borrowings in and of itself is not indicative of financial difficulty. People who felt out of control in relation to their finances were significantly less likely to have borrowings (66%) when compared with those who felt financially in control (80%). This was significant at the 95% confidence level.

Ownership of Borrowings from Lenders

Can include any of the following: credit cards, mortgages, home equity loan, reverse mortgage, personal loan, loan by line of credit & margin loan



8.2 Lenders Role in the 'Vulnerable' Segment

For a small minority, poor advice from lenders or persuasion from a salesperson associated with a lender was perceived to have played a role in leading to financially difficult circumstances. This was typically more fringe lenders than mainstream lenders. These people were in the 'vulnerable' segment of the qualitative segmentation, with these instances being coupled with a lack of skills and knowledge on behalf of the consumer.

'I got the car loan. I knew what I wanted to borrow (\$10,000), but I got talked into a lot more (\$18,000)... I was just stupid.'

Young Single Female.

'I really needed from the investment was an income stream rather than a capital growth and he put me in capital growth and it didn't capital grow, it shrunk.'
Mature Female Pensioner.

'They gave me another type of credit card for the line of credit... I didn't realise that was coming out of my line of credit. I thought it was like another credit card, so I had my mortgage, I had a credit card for \$5,000 and then they offered me this other credit card thing for \$3,000, but that had to be paid and I didn't realise that at the time - a debit card, yeah. That went on for probably two years. I had this great line of credit - like, \$20,000 - which I just kept eating into. I guess I realised that, but I didn't face up to it until I had to... As I said, money wasn't a problem. It wasn't important to me. I just thought, if I can have (indistinct) that's all I wanted, yeah. I only had a mortgage of \$65,000 then. Now, at 64, I've got one for \$109,000. That's from them renegotiating the loan, giving me more money, even though they knew I had a problem. It's the mortgage broker and it goes through the bank, but you had to apply to the mortgage broker... He was going to monitor me because he knew my situation and he said, "I'll be looking at this and I'll be saying you went to the ATM six times and that was like \$6,000 and you won't be able to put it over me." I thought, great. He'll be monitoring me. He disappeared. He fell off the face of the earth. They found him. He went to Queensland. He didn't take any of my money, but he did take some other client's money.'

Mature Female.

8.3 Role of Unsolicited Offers

Unsolicited Credit Limit Increases

The majority of people in this study with credit cards had received unsolicited credit limit increases, with around half of these offers being accepted. The acceptance of these offers appeared dependent on a number of variables:

- People with a predisposition to unhealthy ways of thinking, with the credit card limit increase appearing to play the role of accelerating the dominance of this way of thinking by providing them with the opportunity for readily available access to credit.

(On credit card increases)

'C: It's like a kid in a candy store, you give him enough lollies, eventually he'll eat them all. Some people are able to manage them, and we're not. R: Do you think that in hindsight if you had of known more...? C: We probably wouldn't have listened.'

Mature Couple.

- A perception by many people that 'it must be okay' because the lender had sent it out. Underpinning this was an assumption that the lender had a full understanding of their current financial situation.

'If the bank thinks I should have a \$5,000 limit then I should be able to afford it.'

Single Female.

This was also evident by consumer's surprise when offered credit limit increases when their circumstances had changed.

'They must have still been going by the records that they held when I was still down there (working), that would be the only reason they would be sending me a letter saying, "Would you like \$30,000?" They could not be that stupid. It would have to be that. They didn't check and see if I'm working, you know. I'm a pensioner. They would know I couldn't afford it if they did - in that respect, they don't keep their records up-to-date.'

Single Mother, 2 Children.

- The timing of the offer on an individual's path to financial difficulty. For example, for people demonstrating an unhealthy way of thinking, if respondent's realised the consequences ('realisation moment') of their unhealthy ways of thinking they were less likely to accept them, whereas if they had not had a 'realisation moment' then they were more likely to accept them. In addition, for people who experienced a sudden loss of income or increase in expenses, this was a time when people were more likely to accept them.

'They always seem to know when you need that little bit extra because they always send out a thing, 'do you want to up your limit?'

Single Mother, 2 Children.

In evaluating and/or taking up the offer, the majority of people stated they did not read the terms of the offer, akin with a general dismissiveness and disengagement with 'financial jargon'.

Unsolicited Credit Card Offers

For a small number of people in this sample, they were offered 'pre-approved' credit cards when taking up other financial products, in particular mortgages and/or approached by lenders with credit card offers. The case studies below indicate that offers were accepted with little consideration of their own financial situation.

From case study in section 6.1... After Judy was approved for the mortgage, she got sent a letter in the mail saying she was pre-approved for a \$10,000 credit card. Judy thought 'you beauty' – at the time, however, she thought she won't use it, as she was still trying to pay off \$2,000 on her other credit card.

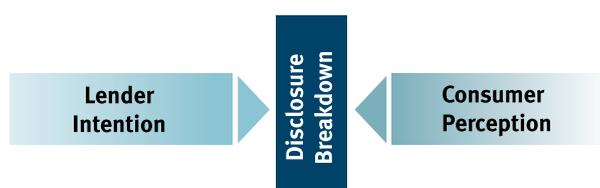
(Context for quote: Approached at train station by lender to sign up for a credit card) 'I thought... credit card, cool... there was absolutely nothing that struck me except for the fact that I was wondering if the guy was going to take my details and rack a debt on me, is this guy legit, that was the only thing that made me think...I didn't have the same concerns as I have today.'

Young Single Male.

8.4 Disclosure Breakdown

There were some clear perceptual discrepancies in information between consumers and lenders evident in this research, contributing to 'disclosure breakdown'.

Figure 24. Disclosure Breakdown



The most notable examples included:

- Consumers trusted that it 'must be okay' and assumed the lender had evaluated their ability to repay;
- Consumers not knowing the information they needed to know in order to evaluate whether a product suited their needs. This was more typically the case with more complex and less well-known products;

'One of the questions we missed was what happened if we fell on bad times and we had paid them four payments ahead – we found out later it doesn't work like that. You still have to pay on that particular day. I wish we had known that.'

Single Mother, 3 Children(hire purchase product).

8.0 Role of Lenders

- Consumers not aware of more detailed knowledge about products, for example \$35 late fees on most credit cards; *‘Once I missed the minimum amount, I didn’t fully realise that they charge you about \$35 if that happens.’* Mature Female.
- General disengagement with financial jargon, most notably terms and conditions.

These are all challenges for effective disclosure.

8.5 Product Design Factors

There were some product design elements that could be viewed as linking into unhealthy ways of thinking for people with a predisposition to these. In particular:

- Credit cards were unique in that the actual product could potentially be intertwined with unhealthy ways of thought for some people in this sample. For instance, credit as supplement income, disengagement of responsibility and ownership of credit ways of thinking. In particular, cognitive dissonance appeared to play a role in the belief over time that credit is *‘my money’* (as discussed in section 3.2).
- Product marketing. Some people recalled marketing messages, both specific to the financial industry and messages from other industries, that they stated had played a role in their *‘living for today’* way of thinking and resulting behaviour. In particular, *‘buy now, pay later’* or *‘12 months interest free’* were particular messages recalled by people that appeared to link into this way of thinking.
- Insurance products with delays in claims, which appears either due to product design or problems in the claim process.

‘We had no income. We had a trauma insurance policy, but that’s still going through now.’
Dual Parent Family, (9 months later – Husband had an accident and could not work).

8.6 Perceived Lender Unresponsiveness to Financial Difficulty Cues

There were a small number of cases of people who perceived that they *‘hit a brick wall’* with lenders once in financial difficulty. In particular, this is where an individual felt they did not receive advice or choices when they were in financial difficulty, had limited power to negotiate with lenders, and received little understanding and flexibility from lenders overall. Some notable examples are given below:

- The case of pensioners. Pensioners often felt they had few options once in financial difficulty and wanting to consolidate their credit card debt. They stated they were unable to access debt consolidation products such as a personal loan due to their low income, and as such felt *‘stripped’* of choices when they wanted to pay off their credit card debt.

‘I’ve tried to do things like a consolidation loan and things like that. They wouldn’t allow me to, but they’ll up my credit card limit. After they declined it (the personal loan application) a week later the same bank sent me out a thing that said ‘Congratulations. We’ve doubled your credit card’.

Single Mother on a Pension, 3 Children.

- Perceived lack of listening and negotiating power when compared with a financial counsellor;

‘Usually its ‘no, no, no’. Then all of a sudden they get on the phone and the first answer is ‘we can accept that now’. They’ve got a lot of power.’

Single Mother.

‘The people who talk to you are more respectful to you because you know that you’ve got the financial counsellor to back you up and they’re more respectful to you. If you just ring them yourself, they don’t care.’

Mature Female.

- Perceived lack of understanding and flexibility by lenders of the context of an individual’s financial difficulty;

‘I called from the hospital because they were demanding the money and I said, “I can’t pay you. This is an accident.” They look at it totally different when you’re in an accident. “What do you own?” He was more worried because he thought I couldn’t pay him back now. They were talking about chopping my arm off in 12 months time. This is why he was giving me hassles, talking about chopping my arm off and this guy’s talking about repossessing my car because I can’t make payments because I’m in hospital and I’ve made payments all my life before. They gave me no assistance.’

Single Father, 3 Children.

‘Did you ever miss a payment? Yes, I did. I lost my traineeship. I rang them and told them. They didn’t do anything. You still had to make that payment or there was more interest added to it on a daily basis if you didn’t pay it that day. You more or less had to pay double for next time.’

Single Mother, 2 Children.

‘Very pushy and he did leave me shit scared pretty much I guess it was his job. He said is there any way you can come up with this money can you borrow from your family or friends something like that, quote, unquote, so he said come up with the money or we’ll default on you. So I’m thinking he said come up with the money or we’ll default on you.’

Young Single Male.

This perceived lack of understanding and flexibility was not always the case for people. Roughly one third of missing payment experiences were a positive experience for people in the circumstances.

'As long as you talk to them and explain it, they're fine. Nobody has ever been rude or anything. They've been really good.'

Dual Parent Family.

For those who experienced bankruptcy and where this was externally enforced, perceived negative treatment by the lender compounded this negative experience for them.

'Just the way it all happened was so cold and clinical and just heart wrenching, really.'

Mature Couple.

This section considers the modes of behaviour people displayed in reacting to different degrees of financial difficulty. The response to and impact of financial pressure, financial hardship and bankruptcy are each considered.

9.1 The Response to and Impact of Financial Pressure

People reacted to the experience of financial difficulty in a range of ways, linked into the reason for financial difficulty. An individual's reaction to the experience of financial difficulty was termed a 'reaction mode'.

Avoidance Mode

This reaction mode was indicative of many people who displayed unhealthy financial ways of thinking, such as the 'self-initiated' and 'multi-faceted' segments. In terms of lifestage representation, it was most representative of 18-22 year olds and younger singles/ couples modes of reacting to financial pressure, in this qualitative sample. However, it was also present in some people in other lifestages.

This reaction mode was where people avoided thinking about their financial pressures. There tended to be different reasons for avoidance. For some, typically the younger generation, it was postponement and disengagement from financial responsibility. For other people experiencing financial pressure, it was not knowing how to cope with the situation or not understanding the personal consequences to them of not addressing their financial difficulties.

Some people experiencing financial pressure were more conscious and deliberate in their avoidance of responsibility than others, as evident by the following avoidance behaviours:

- Deliberately not opening up bills;
'The bills would come every month. I thought if I don't look at them, they don't count.'
Dual Parent Family.
- Deliberately not doing a budget to avoid confronting their financial pressures;
'I don't have a budget – it gets too scary as outgoings are more than the incomings.'
Dual Parent Family.
- Deliberately avoiding thinking about their financial situation;
'It was either that (face up to it) or I'd go out and drink or try and forget about that stuff (debt). Eventually it was a vicious circle - in fact I would get so overwhelmed with it that I'd want to do something to go out and forget about it and the stuff I was doing to forget about it (cost money) eg. \$200, \$300 a night on booze \$20, \$30 for a cab fare home, waking up in a puddle, in the city because I was so smashed.'
Young Single Male.

- Deliberately not answering phone calls from debt collectors;

'I got caller ID so I could see who was calling me so I could decide to answer the phone or not... I'd just turn off the mobile phone when I knew that the debt collectors were manning the phones.'
Young Single Male.

- Moving house and not updating their details so that the debt collectors would lose contact with them.

'Running away from bills, constantly moving.'
Young Single Male.

'I returned (from Europe) and realised I had a massive debt of around \$10,000 (on the credit card), but I had a good time over there and then realised I couldn't meet any of the repayments... ignored the credit card debt, just pushed it aside... Then I moved house, I was flatting, I thought, they won't even know where I'm living.'
Young Single Female.

Those that avoided thinking about their difficult financial situation often found themselves with 'niggling stress' or a 'weight upon their shoulder' which they tended to suppress.

'Stress comes in all different forms, but it's sort of like that constant nagging little part of stress. You just know its there. You always sort of feel it.'
Young Single Female.

'Hands in head – headaches of financial worries.'
18-22 year old Male.

'A lot of stressing out, constant weight on my mind – constantly getting a reminder notice.'
Young Couple.

For some, there was also residual shame that they were trying to suppress also, as it was perceived by the majority of people as a situation that 'they put themselves into'.

'Because I put myself into it, it makes it even worse.'
Single Mother.

Adaptive Mode

This reaction mode was also indicative of many people who displayed unhealthy financial ways of thinking. This was evident in the ‘self-initiated’ and ‘multi-faceted’ segments, in particular 18-22 year olds and young singles/ couples. This was linked into the ‘normalisation’ of debt evident in the younger generation, as discussed in Appendix B. Once they had taken on debt, some of these people learned to ‘live with it’, particularly those with an ability to service their debts (including perceptions of servicing as paying the minimum amount off their credit card(s) each month).

‘I got so used to being behind that that was the norm for me.’

Young Single Male.

‘I’m not really that worried – I know I can pay it off if I need to.’

Young Single Female.

‘I would kind of joke about it that we’re all kind of poor or whatever. We do joke about my credit card and being maxed out. Like, we just kid around about it just because it’s just so ridiculous.’

18-22 year old Female.

There was little negative emotional impact evident in people who displayed this reaction mode, in the short-term. There were a number of cases where people had ‘adapted’ to ‘stable’ credit card balances ranging from \$2,000 to \$20,000 that they had carried for a number of years.

Accommodating Mode

This reaction mode was indicative of many people whose financial difficulties were precipitated by circumstances out of their control. This was particularly those in the ‘circumstantial’ and ‘multi-faceted’ segments, and particularly families and 55+ year olds. This reaction was where people were aware of the negative change in their financial situation, but either felt they could not do anything about it or it was not significant enough to do anything about it, and *accommodated* their finances around it. Often this was evidenced by the following behaviours:

- *‘Juggling bills’*. This was typically prioritised by due date, bill rotation (gas this month, electricity the next) or delaying those bills perceived as having the most flexibility in payment, which tended to be utility bill payments;
- *‘Shrinking’* their lifestyle (often marginally). Typically, cutting down on entertainment or food items.

The emotional impact of this reaction mode on people tended to be cited as *‘anxiety’*, *‘worry’* and *‘pressure’*, linked into an *‘uncertainty’* of their future financial situation.

‘I don’t cope at all very well with it – it puts a lot of pressure on you. I just get up, have a happy face and go through the day. Then do the same the next day. Basically, that’s about it.’

Dual Parent Family.

Unsuspecting

This was not necessarily a reaction mode but more a lack of awareness of the extent of their current situation, evident in the ‘vulnerable’ segment where there was a lack of skills and knowledge. For these people, they were more likely to have a stated financial hardship experience as opposed to financially pressured experience (see next section). As such, when cues for financial difficulties occurred, typically these people were unsuspecting. Some typical scenarios in the research referred to by people included:

- Being *‘talked into’* a personal debt product or purchase that they could not afford, and not realising the negative impact of this until it had a severe financial impact;
- Not realising that a personal debt product (such as retirement investment product or mortgage product) was not suited to their needs until it had a negative outcome on their situation;
- Participating in a business scheme that put pressure on their finances, but not realising that it was a *‘scam’* until it had a severe financial impact.

9.2 The Response to and Impact of Financial Hardship

Key Influences on Response Modes

There were some key influences that appeared to differentiate between those who reacted in a survival mode compared with those who reacted with an attentive mode. These include the following:

Financial Self-Identity: If people perceived themselves as being a *‘financially able’* person, this appeared to make them more self-assured and determined in finding a means to overcome their current experience of financial hardship, as in the ‘attentive mode’.

Financial Literacy & Perceived Options: For both the survival and attentive mode, ‘dormant’ healthy financial ways of thinking such as budgeting, taking care with what you spend, seemed to rise in importance and use in financial hardship. A differentiating factor between the two reaction modes was that people in the attentive mode seemed to have more choices. This was in part due to these people actually having more choices, but also appears to be contributed to a greater ability to better find and navigate through their choices and available options.

Access to Options: People in the ‘attentive mode’ appeared more likely to have greater access to options than some of the ‘trapped’ scenarios akin to the ‘survival mode’. This included access to financial support from friends and family as well as access to financial products. In comparison, people in the ‘survival’ mode in some cases actually did have less options, such as inability to get a personal loan to pay off a credit card debt or inability to access financial support from friends or family.

Learning by Experience: People who had *'been through it before'* often brought learnings with them that facilitated a more 'proactive' reaction. That is, they had already acquired some skills about how to overcome financial adversity from their past experience.

'We knew what to do to get out of debt, we've both done that before. 99% of it is down to budgeting.'

Mature Couple.

Degree of Perceived Consequences: For people who had a greater amount to lose, such as a house or small business in perceived risk, this appeared to motivate them into a greater search of options ('attentive mode'), such as contacting financial institutions, approaching financial advisers to discuss options, researching options on the internet. In contrast, people with a perception that there was less to lose and perceived little to gain, appeared to have a level of relative inertia in searching for options (for example, *'I'm on the pension and I will always be on the pension'*). Where there were children, the emotional pressure seemed to be greater, but did not always necessarily translate into more proactive behaviours, such as searching around for options and so forth.

Survival Mode

This reaction mode was where the individual had a *'tunnel vision'* focus on the current financial situation due to perceived sheer survival, and all their energy went into focusing on the day-to-day or week-by-week reality of *'getting by'*. There was little thought given to the future financial situation, either because there was a sense of hopelessness about the future, or because the current overpowered any thought of the future.

The experience of being in this survival mode was described by people in a number of ways, including:

- Being in a *'black hole'*;
- Feeling *'swallowed up'*;
- Feeling *'trapped'*;
- *'Drowning'*;
- *'Suffocating'*;
- *'Caught up'*.

'I mean I mightn't necessarily be a very smart person, but you can see what's happening but you get caught up in this swirl thing and you can't see that there's a way out of it because everything is too hard.'

Dual Parent Family, 3 Children.

(putting living expenses on credit card) 'I can just see it mounting up. I just think I'm getting myself into more of a hole. Its, can I get out of this situation? I can't see a way out.'

Mature Female Pensioner.

'I'm so busy just living day by day, trying to make ends meet at the moment.'

Single Mother, 4 Children.

'Mine's pretty straightforward. We had a problem with drugs, marriage separation, the whole bit. No money. We were living week to week in expenses.'

Single Mother.

A number of attitudes and behaviours were symptomatic of this survival mode, with some people displaying all of them and other people just displaying a few:

- **'Lack of Direction & Choice'**. Not knowing how to get out of their financial situation or manage it while in financial hardship.

'When you actually lose that main wage, and everything's taken out from under you like that, you don't have time for preparation. It's very hard to think about which direction is the best one to take.'

Dual Parent Family.

This was often facilitated by a perception that there was a lack of choices for them. For many pensioners, even though they were aware of debt consolidation loans, they were unable to access them due to their low income, and as such felt *'stripped'* of choices in paying off their credit card debt.

'I've tried to do things like a consolidation loan and things like that. They wouldn't allow me to, but they'll up my credit card limit. After they declined it (the personal loan application) a week later the same bank sent me out a thing that said 'Congratulations. We've doubled your credit card'.'

Single Mother, 3 Children.

- **'Sense of Hopelessness'**. This is where the person had a perception that they will always be in debt, no matter what action they took, and therefore there was *'no point'*.

'When you have low self-esteem in so many areas you don't care about your money, I'll never be rich anyway, I'm always going to struggle so why try? What's the point of saving \$10 a week.'

Single Mother.

- **'Bill Prioritising'**. This was prioritising bills not by due date anymore, but by perceived flexibility in payment, and the perceived consequences of not paying the bill. Mortgages were often the payment that was always the first payment priority due to the perceived consequences of having your house repossessed – characteristic statement of *'you've got to have a roof over your head'*. Utility bills were often perceived as having the most flexibility, which extended to waiting until the final notice for payment.

'My bills are always paid before it's disconnected. You know, you get an overdue notice, and that's when I pay it.'

Single Father, 10 Children.

In an extreme example, payment was prioritised by immediacy of jail sentence.

'Apparently companies can't take you to jail, they can hound you, they can hassle you, they can take you to Court for it and the Court can take all your possessions and send you to jail, but that's probably ...in the future, whereas if you have a fine and you don't pay it, they send the Sheriff around the Sheriff will find you, handcuff you and take you straight to Court or straight to jail?.'
Young Single Male.

- **'Tightening of the Belt'**. This was where people felt forced by their situation to cut back on living expenses, in particular entertainment and any other discretionary expenditure, and then often food or other items as necessary. This was particularly evident amongst pensioners:

'I wouldn't know what a leg of lamb tastes like'
Mature Female Pensioner.

An area that was typically not cut back on was expenses associated with children – as they did not want them to 'suffer'.

- **'Budgeting'**. Interestingly, budgeting and prioritising were used by many people who displayed this survival mode, as a result of falling into debt rather than a matter of course. They characteristically stated they *'had to do this to get through'*. This would often be writing down the bills that had to be paid and when, and determining whether there was enough money to pay them. Some people were better at this than others, with some stating they tried to do this but were too *'disorganised'* or *'it didn't work'* as there were too many unexpected expenses.

'I've actually sat down and written it out, but I don't stick to it. It's really hard when your kids come home from school and need this in this week.'
Single Mother, 3 Children.

Importantly, what can be seen from this behaviour, is that for many financial difficulties this was a time where 'dormant' financial healthy ways of thinking rose in relevance and use.

- **'Robbing Peter to Pay Paul'**. There were some people who used one debt to pay off the other debt. The credit card was particularly susceptible to being used to pay off other debts in this reaction mode. In some scenarios, people were using one credit card to pay off another credit card.

As highlighted, the emotional impact of this reaction mode on people was a sense of helplessness and overall disempowerment.

Attentive Mode

The attentive mode was where people in financial hardship would focus most of their energy on managing the debt and how to resolve their situation. A minority of people in this sample displayed this reaction mode. This was distinct from the survival mode in the emphasis of their outlook. On the one hand, the survival mode tended to have a *'tunnel vision'* focus on everyday survival, and an overall more inwards perspective. On the other hand, people displaying the attentive mode tended to have their *'eyes more wide open'* to their options and the bigger picture of their financial lives, and an overall more macro outwards perspective. As a result, people in the attentive mode tended to have a relatively lesser sense of hopelessness, and a relatively greater sense of direction and perceived choices than people in the survival mode.

They did however share some of the attitudes and behaviours with those people operating in a survival mode, such as:

- Prioritising bills;
- Tightening of the belt; and
- Budgeting.

In addition to this, in line with a more macro outward perspective, some characteristic attitudes and behaviour of those displaying the attentive reaction mode included:

- Contacting the financial institution or other organisations that they had debt to discuss options;
- Accessing advice – either through a solicitor, or financial adviser;
- Re-evaluating ways of thinking and accompanying spending behaviour, as opposed to just a focus on what needs to be paid;

'We've got to decide what's important to us... we're currently struggling with whether or not we need to send them to a private school – is it really worth it?'
Dual Parent Family.

- Utilising balance transfer products or personal loans to reduce the amount of interest they are paying on credit cards;
- Using external means to try to control their expenditure:
 - Switching from a mobile plan to a pre-paid mobile plan;
 - Removal of temptation stimulus - the individual removing the credit card from their wallet to avoid temptation, or ringing up the financial institution to close their credit card account (often not an available option);

'I grabbed my visa debit card, I didn't want to spend the money...so I grabbed it, filled a cup with water and put the card in there and froze it. It was the only thing that stopped me from using it.'
Young Single Male.

⁷ Please note. This perception is factually incorrect as it is generally not possible to be sent to jail for not paying debts in Australia.

- Changing to a fortnightly payment plan for utility bills (to make it easier to manage);
- Planning ahead for holidays and Christmas expenditure – either through a savings account, products that enable planning ahead (eg. such as Christmas hampers), or purchasing Christmas items at sale periods;
- Utilising direct debit as an expenditure control strategy.

The emotional impact of the financial hardship situation was still devastating for most people showing this attentive mode (as outlined below in shared commonalities of experience). However, in comparison to those operating in the survival mode, the emotional impact appeared to be relatively less, with a greater sense of empowerment and hope within their disempowering situation.

Commonalities in Experience

Isolation

The majority of people who experienced financial hardship stated they felt isolated by this experience from their social networks and broader society, and for some, their personal relationships, due to the stress of the experience.

For many, the experience of financial hardship was not something that was discussed publicly or even amongst family or friends. There was a sense of social shame, embarrassment and even failure for some.

'It's not something that you do want to talk about, you know. It is embarrassing. It is. It shouldn't be, but it is.'
Single Mother, 4 Children.

'You feel as though you're another part of society.'
Single Father, 1 Child.

'I haven't actually told my family. I don't feel – I feel too embarrassed to tell them. My debts are too big.'
Mature Female Pensioner.

'I was in a place surrounded by people, but I was still so alone and like drowning in my own debt.'
Dual Parent Family.

The main relationships that people felt they had the opportunity to share this experience with was partners (depending on stress levels within the relationship), family (depending on sense of shame and/or guilt associated with experience) or close friends. For people without these relationships, they experienced the most isolation, particularly evident amongst single mothers and 55+ year olds with limited family or social networks.

'Very much alone, it never goes away, I never get ahead, I feel like I'm out there alone against the elements.'
Single Mother, 4 Children.

Interestingly, compounding the lack of opportunity to discuss this experience with other people, there also seemed to be a lack of language to articulate this experience. The commonality of *'I'm broke'* did not enable differentiation between the common expression and *'actually or really broke'*.

'Everyone says the same like 'I can't afford it' but when you really can't afford it and you're doing that sort of thing it's humiliating and you feel like I'm doing this because I actually can't afford it, I'm actually down to my last \$20. And your sitting there thinking 'I can't afford it' and all your friends are sitting there going they can't afford it but your buying a new car or on an overseas holiday or you're doing this or that, you know they are two different things.'
Young Single Female.

The one scenario where there appeared more opportunity to disclose with others the experience of financial hardship was where the reason for financial hardship was 'public' (socially visible) and perceived as outside the person's control, such as an accident, illness or death of a main income earner.

'We had really good help from friends and family. They did charity nights and things and raised a lot of money for him because he was off work at that time.'
Dual Parent Family (Husband had accident).

A core part of the experience of isolation was a sense of being alone in having this experience - that no-one else had experienced this before.

'You feel like you're the only one that's going through it. There's something wrong because you're the only one that it's happened to.'
Dual Parent Family.

'You feel as if you're the only one on earth that's been hit in the face with a handful of mud.'
Mature Couple.

The financial impact of financial hardship also appeared to contribute to the issue of isolation, as many people stated that 'social life' or 'entertainment' was an area that they simply could not afford once in this situation.

Despair

For many people, financial hardship was an overwhelming experience of feeling out of control. This was particularly the case for those displaying the survival mode, but also an experience shared to a lesser degree by those displaying the proactive mode. This despair appears to have a number of dimensions, with people exhibiting some or all of them:

- A despair due to lack of perceived options and a sense of being ‘trapped’ for some – ‘*there’s nothing I can do*’;

*‘Snowed in with debt.’
18-22 year old Female.*

*‘Whichever way you turn you’re chasing your tail and not getting anywhere... it’s very stressful’
Single Mother, 4 Children.*

*‘Like you are in a strangle hold – every way you turn there is no way out – trying to make ends meet.’
Single Mother.*

- A despair due to an uncertainty and apparent hopelessness of the future – ‘*what’s going to happen to me or us?*’;

*‘At the moment, there’s just no light at the end of the tunnel... it’s getting into something and not knowing how to get out of it.’
Single Mother, 2 Children.*

*‘In the future, I don’t know what the outcome will be. That’s a very sickly, feeling worried.’
Mature Female.*

- A despair of not understanding why this has happened to them – ‘*what have I done to deserve this?*’ – particularly for the ‘circumstantial’ and ‘vulnerable’ segments;
- A despair at being in the situation itself of having debt and the negative effects this has had on many people’s relationships – ‘*I hate this*’;

*‘Stressed, having no money, sick feeling, when bills come in the mail, I know it will be arguments.’
Dual Parent Family.*

- A despair due to perceived loss of opportunity – particularly amongst the 55+ year olds, and least amongst the younger generation;

*‘Well, it’s devastating, really. You think you get to your retirement, you should be able to be reasonably comfortable, not in luxury - although that would be nice, but you think you should be comfortable and comfortable and careful, I think, in retirement and that’s where we should have been, but we are not.’
Mature Couple.*

People described the emotional sensation of despair as severe anxiety and worry, often with physical symptoms such as a ‘sick feeling’ or ‘cold sweats’.

*‘I feel sick every single day worrying about debt, I wake up with a pit in my stomach...It’s taken a lot of out of my enjoyment in life – I’m always stressed.’
Dual Parent Family, 8 Children.*

*‘I used to wake up in the middle of the night in cold sweats, thinking of all the bills that had to be paid.’
Dual Parent Family, 3 Children.*

Depression

Another common theme in the experience of financial hardship was a sense of loss and anguish at their situation, contributing to an overall sense of depression. For some, this was compounded by a sense of self-blame.

*‘I am supposed to be the bloke who looks after my wife and I just feel as if I let her and everybody down because I didn’t – I didn’t do something that I should have done, I’m not sure what I did, but that’s the way I feel.’
Mature Couple (Male), (Small Business Failure – Bankrupt).*

*‘I’ve just been beating myself up and then trying to deal with the next thing.’
Mature Female.*

For a minority of people, this extended into issues such as physical ailments, clinical depression, and even attempted suicide.

*‘Literally ulcers. Embarrassment, and depression.’
Young Single Female.*

*‘These things (debts) have caused me so much stress and I don’t really know how to handle it, you know. If I had the money I wouldn’t be as stressed out because from about 1980 I have had antidepressant and that. It (debts) started around 1980.’
Mature Female Pensioner.*

*‘Before, I was thinking about suicide. In fact, I tried, but my brother saved me.’
Single Mother, 1 Child.*

9.3 The Response to and Impact of Bankruptcy

A small number of people in this research had experienced bankruptcy (11 people in total, across both depth interviews and focus groups). Stated financial hardship in all cases was a precipitating experience prior to declaring bankruptcy, with many experiencing a sense of desperation in their situation.

There appeared to be two main circumstances for declaring bankruptcy – one where the person perceived this to be their ‘only’ option and the other where people perceived it to be their ‘best’ option.

For people in financial hardship who perceived bankruptcy as their ‘only’ option, this tended to be due to the perceived desperateness of their situation or because they were forced to by a lender. Where people were forced to, there was often a lot of blame and bitterness towards the institution for being so inflexible.

'The bank weren't interested in any proposals whatsoever. They just said 14 days. So we had to basically go bankrupt. We tried everything and the bank wasn't interested in any negotiations whatsoever. So, basically, we had to shut up shop, walk away, lost our home, lost everything.'

Mature Couple (Bankrupt – Small Business Struggle; Repossession of house and cars).

In other cases, people in financial hardship considered declaring bankruptcy their 'best' option given their circumstances. The important point here is that they were not forced to by external events or perceived pressures. It tended to be a more pragmatic decision.

'I declared bankruptcy to get rid of the tax... There was no money spare - (partner) got into gambling again and I just – it was just altogether too much, really. I declared bankrupt and just thought, get them off my back.'
Single Mother.

Where people perceived bankruptcy as their 'only' option, this often had a more negative emotional impact than for those who saw it as their 'best' option. There was a sense of shame and failure, and for those who were perceived to be forced into bankruptcy, a sense of devastation.

'It's very humiliating... you are failing, just dreadful. I still feel guilty, it's the shame of it, that I failed to manage my life better.'

*Mature Female Pensioner,
(Bankrupt \$13,000 Credit Card Debt).*

'I just wanted to go and hide. I can't believe this has happened. Just the way it all happened was so cold and clinical and just heart wrenching, really.'

Mature Couple (Bankrupt – Small Business Struggle; Repossession of house and cars).

For people who saw bankruptcy as their 'best' option, there was a sense of relief, as well as residual shame and failure.

'Going bankrupt for a mere \$6,000 that's what hurts... I feel as if the load has been taken off my shoulders - when I finally made the decision to do it (declare bankruptcy)... I am a lot happier, got that bank off my back.'

Mature Female Pensioner.

In all cases, the option of bankruptcy was recommended to them by an external party, typically solicitor, for some a financial counsellor, and even doctor for one person.

'When I went for the divorce my solicitor said, "Go bankrupt now otherwise it's going to hang over your head for the rest of your life. Go bankrupt now." It was \$26,000 (house mortgage). It was never going to be gone. My solicitor said, "Do it now." I was scared because I thought, that's admitting defeat. That was the only debt I had.'

Single Mother, 3 Children.

'I met someone and fell pregnant with my son. Then I couldn't afford my \$430 a month payments (for a new car) and I went bankrupt... I thought, they're going to come and take everything. The solicitor said, "Once you go bankrupt, you won't see them again." It was as easy as signing on the dotted line. The loan was just for the car, but I had assumed once you go bankrupt they'd come and take your lounge and whatever. They don't do that. To get rid of that debt and be free, I had to sign on the dotted line or have that debt hanging over me and be paying it off... He did inform me that if I had a credit card, fill it up and then go bankrupt.'

Single Mother, 2 Children, (Bankrupt - \$10,000 car loan).

'The doctor suggested it to me first because I was just getting so unwell over the worry of the whole thing, of everything.'

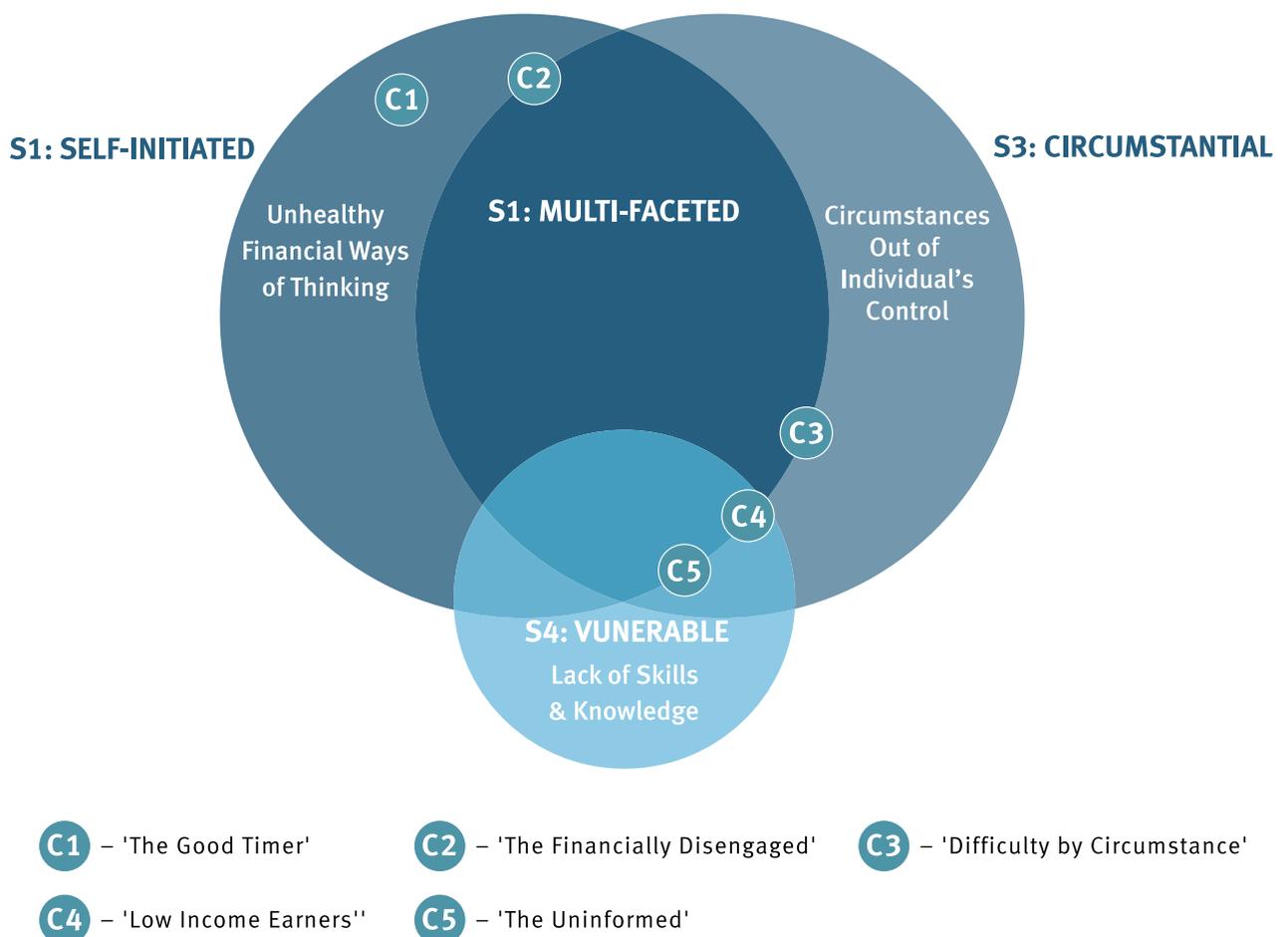
*Mature Female Pensioner
(Bankrupt \$13,000 Credit Card Debt).*

This section provides five 'stories' that provide an amalgamation of the most frequently occurring experiences of financial difficulty that were encountered during this study. This is not a segmentation of the sample, rather its purpose is to provide an indicative understanding of some typical stories of financial difficulty found in this research.

10.1 Overview of Characteristic 'Stories'

There were a number of frequently occurring 'stories' in this research that represented different groups of people. These different groups tended to include a range of factors in particular: demographic variables; factors precipitating financial difficulty; and similar 'stories' of the impact of financial difficulty. These five stories are outlined below, with each being an amalgamation of different individuals within the group to enable a 'characteristic story' to emerge. It is important to note that while there are important differences between these 'stories' they are not mutually exclusive.

Figure 25. Characteristic 'Stories' of Financial Difficulty



10.2 ‘The Good Timers’

A common group evident in this research was ‘The Good Timers’, who displayed a number of characteristic unhealthy financial ways of thinking. They were distinct from the other groups in that their key focus was on having a ‘good time’ regardless of finances. These tended to have different manifestations across various lifestages and/or circumstances, including amongst young people, dual parent families and ‘life crisis’ spenders.

Young People

Characteristically, young people (18-22 year olds, and some younger singles/ couples) tended to display the following key unhealthy financial ways of thinking:

- Living for Today – ‘live for today, not the future’
- Social Connection – ‘I want to be with my friends, no matter what it costs’
- Disengagement of Credit Responsibility – ‘I’ll think about that later’
- Ownership of Credit – ‘It’s my money’

These unhealthy financial ways of thinking were typically shared and reinforced by the broader social group to which they belonged. That is, they were discussed and encouraged with characteristic phrases such as: ‘worry about it later’, ‘whack it on the credit card’. Youth social group activities were reflective of these ways of thinking, in particular the culture of ‘partying and drinking’ across all locations (metro, regional, rural). In addition, for those in their later twenties, the culture of ‘dining out and/or shopping’, which tended to be a culture specific to metropolitan locations. Further, these attitudes were evident in their social group’s financial behaviours, where it was common for many to engage in over-spending and have a credit card debt.

An apparent collective outcome of these ways of thinking and the negative financial outcome of over-spending was the ‘normalisation’ of debt amongst youth social groups in this research. That is, it was not seen as a ‘big deal’ to have a sizeable credit card debt. It was seen as relatively normal and the young people in this research often discussed and even laughed about it with their friends. This tended to be reinforced by a social rejection of the identity of a ‘financially minded’ person, as evidenced by negative associations such as ‘tight’, ‘boring’, ‘regimented’. These associations were strikingly incongruent with the values of ‘spontaneity’ and ‘carefree’ that they nurtured within their social groups, as elements of the living for today way of thinking.

Even once experiencing financial pressure in servicing their debts or lifestyle, young people typically reacted akin with the adaptive mode (*‘this is normal’*). Another characteristic reaction to financial pressure was the avoidance mode or *‘I just won’t think about it’*. Each of these reaction modes contributed to a characteristic behaviour of paying off the minimum amount each month on their credit card(s), and living with a stable credit card debt.

Dual Parent Families

There was a group of dual parent families in this research who had over-committed. The key factor that appeared to drive this negative financial outcome was the aspirational unhealthy way of thinking or *‘keeping up with the Joneses’*, but also to a lesser degree elements of the following unhealthy financial ways of thinking:

- Indulgence – *‘We deserve this (even though it is outside of our means)’*
- Social Connection – *‘I want myself and my children to be part of this social group (that is financially outside their means to sustain)’*
- Emotional Enhancement – *‘I feel better when...’*

A key influence guiding expenditure was the person’s social or lifestyle reference group. In addition, this appeared to be entrenched in paternal instincts for many, where they wanted to give their children (and family) *‘the best’*. The more inaccessible their social or lifestyle aspirations were relative to their household income, the more this group used debt to supplement their income and reach these aspirations. Interestingly, their aspirations were typically seen as the benchmark for *‘normal’* life, and therefore debt was considered a *‘necessity’*. A characteristic phrase was: *‘it’s just so expensive to live these days’*. The apparent *‘normality’* of their aspirations did not appear challenged at all until they had experienced financial difficulty for some. It appears this generation, and a certain group in particular within this, has seen an expansion of its minimum lifestyle expectations, as compared to the previous generation of parents.

Similar to ‘the good timers’ who were young people, this group tended to adapt to their financial difficulties and treat it as *‘normal’* in order to fulfill their social or lifestyle aspirations. In addition, the avoidance mode was also evident as a means of coping with financial difficulties – *‘I just won’t think about it’*.

Life Crisis Spenders

There were some people who reacted to severe life events with a dominant ‘live for today’ way of thinking, which had negative financial outcomes for some people in this research. The catalyst for many was facing a serious illness or death of a family member/ friend, which spurred this way of thinking in the following light: *‘life is short, enjoy it while you can.’* Another life event that appeared to act as a catalyst for the dominance of this way of thinking amongst some was a relationship breakdown: *‘I’ve had it tough, so I deserve to have a good time’* (often coinciding with the social connection and indulgence way of thinking). For this ‘good timer’ group, these ways of thought appeared to be less entrenched and were more of a ‘transient good timer’ group than the other two lifestage entrenched groups. This transient state often operated in tandem with the financial disengagement way of thinking and/or disengagement of credit responsibility way of thinking.

10.3 ‘The Financially Disengaged’

There was a group of people evident in this research who were disengaged from their finances. There was a disconnect between their lives and the role of finances, and they were typically apathetic and/or disinterested in finances. Characteristically, they did not identify themselves as a *‘financially minded’* person. For some, this further coincided with a rejection of the social identity of a *‘financially minded’* person, due to negative associations such as *‘tight’*, *‘boring’*, *‘regimented’*.

This manifested itself across a range of lifestages and/or circumstances including:

- **Young people (18-22 year olds, young singles/couples).** Similar to the ‘good timers’, they tended to share a collective financial disengagement, which contributed to the *‘normalisation’* of debt evident in this generation. Also, particularly for the 18-22 year olds, a perception that they were *‘not quite adults’* with *‘adult responsibilities’* also contributed to financial disengagement.
- **Partner Role within Couple Relationship.** Financial disengagement also tended to occur within the couple relationship environment also, where one person took a more passive and apathetic role in relation to finances, often not acquiring new knowledge and/or losing their financial skill set. This became unhealthy for the financially disengaged individual if they were put in a circumstance where they had to be more responsible for finances (such as a relationship break-up or death of partner), or the partner who was responsible for finances *‘wracked up debt’*.
- **Life Crisis Disengagement.** For some people who experienced a life crisis such as unexpected illness or death of family or friend(s), this was a time of transient *‘financial disengagement’*. That is, the life crisis was all-consuming such that finances *‘was the last thing on their mind’*.

Typically, the reaction mode that this group of people exhibited once experiencing financial pressure was akin to the ‘good timers’ reaction modes – that of avoidance mode (*‘I just won’t think about it’*) and adaptive mode (*‘this is normal’*).

10.4 ‘Difficulty by Circumstance’

There was a group of people evident in this research whose path to financial difficulty was circumstances that were out of their control having a detrimental impact. While there was a vast array of specific circumstances that impacted on people in this research (as outlined in the previous section), the most frequently occurring circumstances included:

- **Job loss.** This clearly had the impact of decreasing an individual’s income – for some, going from a dual-income to one-income family, and for others one-income to no-income circumstance.
- **Health issues.** This also clearly had the impact of decreasing income, but also for some increased expenses due to their medical condition.
- **Divorce.** This increased expenses, in terms of short-term set-up costs and long-term child care or maintenance costs. It also decreased income, as typically financial responsibility was shifted from the male to the female.
- **Small business struggle or failure.** This was particularly those operating in a volatile and/or competitive environment.

Other less frequently occurring circumstances included: death of a main income earner; pregnancy (unexpected pregnancy and unexpected expenses); issues within the relationship (for example, partner who gambles); and unexpected child rearing costs, such as injuries, school camps, and so forth.

The impact of these circumstances was often compounded by a perception that *‘nothing would ever happen to them’* (an infallibility way of thinking), with the outcome of a lack of precautionary planning.

Once experiencing financial pressure, the accommodating reaction mode was typical of people, where they attempted to accommodate their finances around the situation, as they felt helpless to do anything else. This was characterised by behaviours such as juggling bills or ‘shrinking’ their lifestyle. However, for some, they displayed the avoidance mode – not addressing their problems until they were forced to by the severity of their financial situation. These people were particularly susceptible to the credit as supplement income way of thinking which compounded their financial situation, because their mind was clearly consumed by other thoughts.

10.5 ‘Low Income Earners’

There was a distinct group of people in the research who had similar financially difficult circumstances brought on by low income. These were typically people on a government benefit, including single mothers, mature aged pensioners and those on a disability pension. However, it also included some single-income families (see the case study in section 6.1 of a single parent family on an income of \$35,000p.a. with 8 children).

For this group of people, living on the government benefit alone was a constant state of financial pressure. In one person’s words:

*‘We live below the poverty line’
(Single Mother, 3 Children).*

Adding personal debt to this equation usually pushed them even further into a state of financial pressure and/or hardship.

People on a low income in this research were typically prone to credit card debt, often as this was the most accessible form of personal debt (many could not access personal loans or mortgages as their incomes were too low). This debt was typically linked into the credit as supplement income way of thinking. For many, this was because the credit card was seen as their ‘*emergency buffer*’, and ‘*emergencies*’ in the form of unexpected expenses occurred quite frequently. For example, unexpected child, car or medical expenses or even an unexpected higher than usual utility bill were often simply not affordable on the pension. For others, in particular those who were new to living on a pension or had an attitudinal predisposition to these ways of thinking, it was used to boost their income. This is where they tended to display unhealthy expenditure ways of thinking such as living for today, emotional enhancement, social connection or indulgence ways of thinking.

People’s reaction to financial pressure was a mixture of responses, including most typically the accommodating mode (*‘I’ll just do what I can’*) and the adaptive mode (*‘this is normal, this state of stress is my life’*). It appears the longer someone had been on the pension the least likely they were to display the avoidance mode (*‘I just won’t worry about it’*).

Once in financial hardship, typically people on a pension, in particular those who had been on the pension for a while, were attitudinally quite proactive, but circumstances forced them into a survival mode. It appears attitudinally they had learnt to be reasonably resourceful from living on the pension and looked for alternatives. However, often there literally was no viable alternative for their situation, forcing them into a state of just trying to ‘*survive*’. A common example was that they could not gain access to a personal loan to consolidate their credit card debt as their income was too low. Or they literally had to pay medical, car or other expenses that

occurred unexpectedly regardless of their capacity to do this. Some people on a pension in this research with a stable credit card debt chose to declare bankruptcy, as it was seemingly impossible to pay off their credit card on the pension. The lowest threshold for declaring bankruptcy in this research was a Mature Female Pensioner with a \$6,000 credit card debt.

10.6 ‘The Uninformed’

This group was distinct in the research as the main reason for their financial difficulty was they had a lack of knowledge and/or skills. This was typically retirees or pensioners and small business owners.

The key knowledge gap for retirees or pensioners was a lack of ‘*necessary*’ financial knowledge, typically for choosing and owning more complex products that were relevant to their financial situation. Most typically this was knowledge related to superannuation and associated investment options, but also related to mortgage products and business schemes. This knowledge gap was compounded amongst a small group of retirees and/or pensioners evident in this research who had been financially disengaged for a large portion of their lives but through circumstance were forced into a situation where they had to take on more financial responsibility. This was typically where financial responsibility had been shifted from a male partner to the female, for various reasons (relationship break-up, death of partner, illness of partner). There was also a skill gap for this group of females in particular, both lack of consumer skills and social naivety (discussed in more detail in section 5).

For small business owners, there was a lack of ‘*basic*’ and ‘*necessary*’ financial knowledge in relation to running a small business – both in terms of financial and legal knowledge. Many characteristically articulated: *‘I’m not an expert in how to do this, I’m sure I could be doing this better’*. An example of poor business management in this research through lack of knowledge was using equity in a house to fund their small business and/or mixing business and personal expenses and not understanding the consequences of default. A few small business owners in this research were bewildered and devastated that they had to declare bankruptcy and *‘lose everything’* when their small business struggled to survive. Another example of poor financial management where lack of knowledge contributed was where small business owners used credit cards to fund their business expenses, and then struggled to pay back the credit card.

The outcome of being uninformed for this group was a state of vulnerability, and many were unsuspecting of cues or ‘*alarm bells*’ for financial difficulty. For those that experienced a state of financial hardship, a mix of the survival and proactive mode was evident, but with some having to declare bankruptcy.

This section explores some of the ways that people experiencing financial difficulty have been able to overcome that difficulty. It then considers the impact that the experience of overcoming financial difficulties has on future financial behaviour. Finally, it discusses the important role that free community-based financial counsellors can play in assisting people to overcome their financial difficulties.

11.1 Ways of Overcoming Financial Difficulty

Realisation Moments

For those formerly in financial difficulty, the following realisation moments were catalysts for overcoming their debt:

- Self-realisation of behaviour. This is where the person recognised themselves the behaviours that were detrimental to their financial situation;
'My friend told me about this family that went through all the money on the pokies. They lost the house - this elderly couple. When they came to be buried my friend said there was no money to bury them with. They'd gone through the lot. I thought, God. I'm heading up there. The bells went ding-a-ling and I thought, I don't want to be like that. I came home and rang the number in the phone book (gamblers helpline).'
Mature Female.
- Negative impact on family/ friend(s)/ children;
'You don't want to let them down again – it really affected them.'
Young Female (Parents paid her debts).
'I think the fact that the little ones were crying made me think again. I had a 3-year-old crying for his mum and that and I just dug in and said, no this ain't going to be this - I become a rock for the kids. Like, I was an emotional wreck. I used to cry every night when the kids went to sleep. You know what I mean? You basically didn't let anybody know about being in debt.'
Single Mother.
- Pressure from family/friends to change their behaviour;
- Developing goals for the future - for young people this often coincided with a serious relationship;
'Then I met my partner. We basically sat down and said 'this is how we want to do it. We'll build a house here.'
We planned steps for the future. That was the first time I'd planned for long-term. You're probably more willing when you've got a goal – you'll sacrifice things along the way.'
Young Male.
- Unfortunately for some, an externally forced scenario of defaulting/ bankruptcy was their realisation moment.

Individual Initiative

For those formerly in financial difficulty, a large number of them overcame their debts through slowly paying them off. This was either through self-initiated controlled expenditure and budgeting and/or through increasing their income. The experience of this was often ongoing stress.

- Controlled Expenditure & Budgeting. This budgeting was self-taught for those who did not see a financial counsellor;
'It took two years to pay off that debt. It was like the biggest waste of time because I didn't have nothing to show for the money. For the first six years of my life, from 17 to 25 - I was in debt and it took another five years to get out of debt from basically trying to get on my feet to start out my life. I had to move back in with my parents.'
Young Single Male.
'I had to learn to budget very harshly and commit myself to budgeting. That's how I eventually got out of it.'
Single Mother.
- Earning additional income. This was typically through taking on extra work, changing jobs or getting a second job. For a minority, this additional income was through the cash economy ("cash-in-hand" work);
'And then I went out and I scrubbed houses until I paid off that debt.'
Retired Mature Female.
'I heard people down at the pub saying they couldn't get rid of the kangaroos they'd been shooting and that. I bought them off them at \$2 each. I boned them out - the poor little buggers. We used to skin them and we'd make money. All that money never got cleared, of course, but it got us out of debt. Cash flow - we needed it.'
Single Father, 10 Children.
'Then the marriage went downhill. Eventually we divorced. That was the factor (debts), apart from his women and his wanting to go out and everything else. I had all his debts after we separated. I worked my butt off to get out of that. You try working three or four jobs at a time. I took every bit of work I could.'
Mature Female.

11.0 Overcoming Financial Difficulty

For those who were currently in financial difficulty, the majority of people perceived the main way of overcoming their debt in the future was through increasing their income. For those experiencing financial pressure, it appears earning more appeared preferable to changing their lifestyle. For those in financial hardship, often at this point they felt they were doing all they could to ‘control their expenditure’.

‘But I think the only thing that would have helped was if I had been out earning an income, getting my 20 or however many thousands dollars a year, then the situation wouldn’t have been what it is now.’

Single Mother.

‘It’s just more income. Keep your fingers crossed and work at more income. Hopefully he’ll land a job, but at the moment he’s got nothing.’

Dual Parent Family.

For both those currently and formerly in financial difficulty, voluntarily selling an asset such as their house was perceived as a last resort strategy. As discussed previously, missing a payment on a mortgage was also a last resort. Having your own home appeared an almost ‘sacred’ part of people’s lives, and all possible measures were taken to avoid being ‘torn’ from it.

‘Your home is your castle and no-one can evict you from it.’

Mature Female Pensioner.

Externally Enforced

For those formerly in financial difficulty, a number of them overcame their debts through external enforcement of payment, and either surrendered or were ‘forced’ to sell their assets. This experience typically carried a lot of shame, and was disempowering overall. For some people who declared bankruptcy, this ‘enforced’ element also existed (see previous section).

‘My friend left me with \$18,000 left on the mortgage. She wasn’t going to pay her share any more and the bank said, “Well, either you pay it or we sell your unit.” That was my option. So I sold it.’

Retired Mature Female.

‘I had to surrender my car and I would have married the car I loved it that much, so it was a huge thing to drive it to the auction place and leave it there. Like absolutely massive, but I think it was the biggest step forward. I had no choice. At the time I told people I sold my car, but now all my friends know the truth.’

Young Single Female.

External Support

For some people who were formerly in financial difficulty, a number of them were given financial support from friends and/or family to overcome their debts. This was particularly the case with younger people, and sometimes also coincided with them ‘moving back home with their parents’. This often resulted in a feeling of guilt and shame, due to the perceived stress on parents.

‘The said legal action will take place if I don’t do anything about this, so the thought of legal action and turning up in Court scared me senseless, so I rang my parents and admitted everything... It caused them incredible stress. My father got incredibly ill from it. They took on sort of ownership of the problem... their child.’

Young Single Female, (Parents paid off debts).

For other people, external support was sought through a financial counsellor. This is discussed in the next section.

11.2 Impact of Overcoming Financial Difficulty

For the majority of people who had formerly been in financial difficulty, they stated the experience of financial hardship had changed their ways of thinking and financial behaviour. Importantly, it was not the means of overcoming financial hardship that changed their perspective, but the experience of financial hardship that was a catalyst for long-term change. That is, they had learnt from their past mistakes.

‘Remember the past, so you don’t do it again.’

Single Mother.

‘I was pre-warned though. People explained it to me. I think I had to hit rock bottom and learn the hard way.’

Single Mother.

‘If you knew then what you know now... you would have done everything a lot differently.’

Single Mother.

‘I don’t want to be back in that position again and I don’t want my children to think that’s their only outcome in life.’

Single Mother.

For those that did not see a financial counsellor, many stated that learning by experience was the only way they would have learnt more healthy financial ways of thinking. The sorts of lessons learnt by experience included:

- Minimising personal debt;

‘There is no way I would get ten credit cards again. I have a loan at the moment, but it’s through my sister. I don’t have a mortgage or anything. I’ve done it on purpose. Well, I would consider a mortgage again, but it would have to be when my kids are gone. I mean, other women seem to be able to do it by themselves, but not me. That’s how I see it, I’m afraid.’

Single Mother.

As soon as they send you the letter out (credit limit increase), I throw it in the bin, don't want to look at it.'
Dual Parent Family.

- Paying with cash for items rather than credit;

'I don't have credit cards to spend money on anymore. Whatever I want, I save for. For instance, I'm going to Europe late next year and the money's sitting there waiting for the trip. I won't be borrowing any money to go.'
Single Mother.

- Controlling spending and budgeting (the majority had a 'loose' budget with some having a written budget);

'I guess you work out your must haves. Prioritise, I suppose.'
Single Father.

- Openness to financial information;

'One thing I heard somewhere – I think it was Paul Clitheroe – put ten per cent of your pay away. It goes straight from the bank to another bank account that I can't touch.'
Single Mother.

- Thinking about the future.

'I think you need to protect your future.'
Dual Parent Family.

In addition, for those who were in a position to save (minority), learning about savings by experience and 'getting ahead' in general was often cited as a motivation for continuing this behaviour.

'You get excited. You are getting ahead. The light at the end of the tunnel is getting a bit closer.'
Dual Parent Family.

11.3 The Role of Financial Counsellors

Recent research by Courchane and Zorn (2005, 'Consumer Literacy and Credit Worthiness', conducted in the United States) showed that credit counselling had a positive impact on personal debt levels and facilitated long-term change.

'Credit counselling improves consumer literacy and has a significant impact, for those with counselling, on credit outcomes, with those having previous counselling more than five years ago likely to do better' (p.2)

To understand the role and benefits of financial counselling in an Australian context relative to those who did not see a financial counsellor, the following two broad groups were included in the research:

1. People who had formerly experienced financial difficulty and saw a financial counsellor (4 mini-focus groups); and
2. People who had formerly experienced financial difficulty but did not see a financial counsellor (4 mini-focus groups).

Please note that this research was not designed to understand the impact over time of seeing a financial counsellor (it was not a longitudinal study). It did however allow examination of the experience and perceived benefits of seeing a free community-based financial counsellor as opposed to not seeing a financial counsellor, as well as a general exploration of perceptions of financial counsellors, discussed in the following sections.

Knowledge of Financial Counsellors

Of those who did not see a financial counsellor, there was typically little understanding of the difference between a financial counsellor, financial adviser and accountant. There was also an association that there would be a fee associated with this service.

Once people were told it was a 'free community-based service and they would talk with you through your financial options', there were mixed reactions:

- Most people experiencing financial pressure felt it would not be personally relevant to them; associating the advice given as basic financial knowledge – which they felt they knew but did not think was personally relevant ('dormant knowledge');
- Most people in financial hardship (as opposed to financial pressure) stated they would consider this option – particularly if their scenario worsened. However, some stated they felt they were doing everything they could.

Embedded in these reactions are a number of attitudinal barriers to seeing a financial counsellor, discussed below.

Perceived Barriers to seeing a Financial Counsellor

There appeared to be a number of attitudinal barriers to seeing a financial counsellor, including:

- Belief in one's ability to manage their problems – *'I can do it myself'*;
- Not perceiving any value in seeing a financial counsellor – *'they won't tell me anything I don't already know'*;
- Rejection of the identity of someone who 'seeks professional advice'. The stimulus to this rejection was the apparent loaded word of 'counsellor'.
'If the name was money friend instead of financial counsellor it mightn't be so bad... there's a real prejudice out there about counselling, people don't know how it works.'
Single Mother.
- Not recognising their financial situation as one that requires assistance, particularly those experiencing financial pressure displaying the avoidance mode, adaptive mode, and those who were unsuspecting.

Reasons for seeing a Financial Counsellor

For those people who saw a financial counsellor, the majority were experiencing extreme financial hardship, and had reached a point at which they felt they had no other options.

Typically, they found out about financial counsellors through the following means:

- Referrals from other welfare agencies, medical or legal institutions;
- Word-of-mouth;
- Newspaper advertisement;
- Pamphlet distribution;
- Advertising in the telephone book.

The Experience & Impact of seeing a Financial Counsellor

For people who saw a financial counsellor, it was unanimously a positive empowering experience for them, albeit it at a negative point in their life. In addition, the majority stated it had changed the way they viewed their finances and changed their financial behaviours.

While for the majority, it was a positive empowering experience there were variations in the strength of this positive experience and its impact on their lives. Some found seeing a financial counsellor a profoundly life-changing experience both financially and emotionally. This appeared to be more the case where the financial counsellor worked in conjunction with a psychologist or counsellor. In addition, the 'life-changing' element appeared to be attributed to both the sound financial advice and emotional support of the financial counsellor, as well as the perceived life-changing event of financial hardship that precipitated their visit to a financial counsellor.

In comparison, for others, the positive experience of financial counselling appeared to be more a functional experience, where sound financial advice was received which had a positive impact on their financial situation.

The perceived benefits of seeing a financial counsellor included:

- Re-evaluation of ways of thinking;

'It empowers your thinking – you go home and reassess your thinking – it's inspirational... You think I'm entitled to have money in the bank and I'm entitled to save for that rainy day and I'm entitled to save for that holiday.'
Single Mother.

'I learnt just to plod and be happy with that... you don't have to attain everything... I am poor – I'm more of a realist.'
Single Mother.

'I think my values have changed. I am a lot happier, a lot more satisfied, to be able to buy what I can afford and not try and live in somebody else's shadow. It doesn't worry me any more what everybody else has got, because I know that I can't have that.'

Dual Parent Family.

- Negotiating power, with the ability to open doors;

'Usually its 'no, no, no'. Then all of a sudden they get on the phone and the first answer is 'we can accept that now'. They've got a lot of power.'

Single Mother.

- Representative power (providing sense of relief for people);

'She comfort me. She deal with the bank. She don't let the bank contact me. I stay out of the hustle. No letters, ring the bell, telephone. You know, they give you a lot of pressure. They ring you, they call you, they write to you. She handle everything. She tell me if someone rang me, tell them to ring me. They have no right because she representing me. Straightaway, that was very big comfort.'
Single Mother.

- The ability to access funds that a person would otherwise not be aware of ('hidden funds');

'They can put more money in your pocket – even help you pay bills.'

Single Mother.

- Support and relief from the pressure and perceived 'stigma' of financial hardship;

'They can free up some of your anxieties and put you more at ease.'

Single Mother.

'They made things seem like I wasn't the only person in the world that was going through it. So I knew that there were other people that this had happened to, so it wasn't just me that had allowed this to happen... I got more perspective and they steered me in the right direction.'
Dual Parent Family.

- Learning how to budget and the benefits of budgeting;

'She worked out a budget and I have stuck by her budget. I put away every fortnight \$163 out of my pension into a bills account.'

Mature Female Pensioner.

- Learning how to control spending – in particular understanding the difference between a need and want;

'She used an example to me – one lady used to spend \$30 on coffee a week just to be with her friends. That's \$60 a fortnight. That's a lot of money when you're on unemployment benefits or a pension. She works out little things like that. 'Don't buy that. You don't need that. Do you really need to have that in your life?' She talked me through all the little purchases you don't need.'

Single Father.

'That needs and wants thing. I mean, like he said, whether you put something in your shopping trolley, you look at it and you think, do I really need that? Then you think, I don't, so you put it back.'

Single Mother.

'Live in my own tax bracket'.

Single Father.

- Learning how to save;

'I've never had savings and when an emergency came up this time round I had savings in the bank.'

Single Mother.

- Learning how to minimise debt;

'Before I felt like it was always going on credit. Whereas I sort of felt like we will pay for this and pay it off, but it was never getting paid off. We would get to the end of the life of the product or whatever and we still hadn't paid it off. So now I save for things and buy them that way. It's not easy, but I just find it better in the long run.'

Single Mother.

- Financial control – taking responsibility for finances.

'I make sure that I know what finances we have. I will never let anybody control my finances again. If I am in debt, I would rather know that I am in debt, then find out one day that, you know, I owe sort of \$750,000 and my husband has been sent off to gaol. You know, I don't want to ever wake up one morning and find myself in that situation again.'

Single Mother.

Comparative Experience of Overcoming Financial Difficulty

For those formerly in financial difficulty, all learnt from their experience of financial hardship. However, this research highlighted that for those who saw a financial counsellor this was a different, more empowering experience and learning base, when compared with those who did not see a financial counsellor.

Unanimously for those who saw a financial counsellor:

- It was a positive empowering experience – even for some;
- Consumers stated it changed their attitudes towards finances in a positive way and thus their resultant behaviour;
- It alleviated some of the negative emotional stress of financial hardship – via having someone supporting them and negotiating on their behalf.

For those who were formerly in difficulty but did not see a financial counsellor, there were a range of ways of overcoming financial difficulty including:

- Individual initiative, where consumers slowly paid off their debts through controlling their expenditure and/or earning additional income;
- External enforcement of payment;
- External support from friends or family.

For these people, the experience of financial hardship resulted in a change of attitudes about their finances – with most being more vigilant after this experience in how they managed their money and the choices they made. However, this experience overall appeared more debilitating with a stronger negative impact when compared with those who had the advice and support of a financial counsellor. In addition, the financial knowledge and skills that they acquired from this experience was mostly self-taught, when compared with those who saw a financial counsellor. This self-taught knowledge appeared to be less top-of-mind and concrete, and more varied depending on the person. In contrast, for those who saw a financial counsellor, the financial knowledge they had learnt appeared to be a stronger base of knowledge which was more consistent across people on core areas such as budgeting, spending money and even values about money.

Overall, it can be seen that the experience of seeing a financial counsellor was positive and empowering in assisting people to overcome their financial difficulty. In addition, seeing a financial counsellor appears to provide a buffer for people from some of the negative emotional impact of financial hardship. Finally, a financial counsellor appears to be a powerful means of increasing financial literacy levels.

APPENDICES

Summary of Demographic Profile

| | 3% OF POPULATION WHO FELT FINANCIALLY OUT OF CONTROL (n=110) |
|-------------------------|--|
| Age | <ul style="list-style-type: none"> – More likely to be 30-44 years (41% compared with 27% of those who felt in control)* – More likely to be under 30 years (25% compared with 19% of those who felt in control) – Financial control increases with age |
| Household Situation | <ul style="list-style-type: none"> – More likely to be couple with children at home (39% compared with 29% of those who felt in control)* – Also likely to be single who lives alone (21%) – Less likely to be couple with no children at home (15% compared with 31% of those who felt in control)* – Less likely to be single parent (6% compared with 13% of those who felt in control)* |
| Employment | <ul style="list-style-type: none"> – More likely to not be in paid employment (44% compared with 36% of those who felt in control) – Sizable proportion likely to be in full-time work (33%) – But less likely to be in full-time work when compared with those who felt in control (33% compared with 41%) |
| Education | <p>Represented by spectrum of different education levels:</p> <ul style="list-style-type: none"> – Degree from University or CAE (21%) – Finished or completing Year 12 (18%) – Finished Year 10 (14%) <p>When compared with those who felt in control of their finances:</p> <ul style="list-style-type: none"> – Less likely to have degree from University or CAE (21% compared with 29%)* |
| Main Occupation | <p>Represented by spectrum of different occupations:</p> <ul style="list-style-type: none"> – Skilled occupation (20%) – Semi-skilled occupation (16%) – Professional occupation (15%) <p>When compared with those who felt in control of their finances:</p> <ul style="list-style-type: none"> – More likely to be in semi-skilled occupation (16% compared with 10%) – Less likely to be in professional occupation (15% compared with 28%)* |
| Annual Personal Income | <p>Represented in low to mid income levels:</p> <ul style="list-style-type: none"> – More likely to earn under \$15,000 (33% compared with 15% of those who felt in control)* – Sizable proportion also likely to earn between \$40,000 to \$59,999 (18%) <p>Financial control increases once earning \$60,000</p> <p>When compared with those who felt in control of their finances:</p> <ul style="list-style-type: none"> – Less likely to earn \$90,000 or more (3% compared with 10%)* – Less likely to earn \$25,000 to \$39,999 (13% compared with 18%) |
| Annual Household Income | <p>Representation of low to high household income levels:</p> <ul style="list-style-type: none"> – More likely to earn under \$15,000 (16% compared with 6% who felt in control)* – 16% also likely to earn over \$90,000 – 14% also likely to earn between \$60,000 to \$89,999 <p>When compared with those who felt in control of their finances:</p> <ul style="list-style-type: none"> – Less likely to earn over \$90,000 (16% cf. 26%)* |

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Appendix A: Demographic Profile of Financial Control

| | 3% OF POPULATION WHO FELT FINANCIALLY OUT OF CONTROL (n=110) |
|----------------|--|
| Home Ownership | Representation of both renting and those with a mortgage: <ul style="list-style-type: none"> – More likely to be renting (35% compared with 20% of those who felt in control) – More likely to be paying off home (36% compared with 31% of those who felt in control) – Less likely to own home outright (27% compared with 47% of those who felt in control)* |

Note. *Statistically significant at the 95% confidence level. Sample of those who felt in financial control, n=2767.

Reading this Table: The bulleted points that are not in brackets refer to those who felt financially out of control. The comparison points in brackets refer to a comparison between those who felt financially out of control and those who felt financially in control. For example:

Bulleted Point: More likely to be 30-44 years (41% compared with 27% of those who felt in control)*

Should be Read: Of those who felt financially out of control, they were more likely to be 30-44 years (41%), when compared with those who felt financially in control (27%). This was a significant difference (as notated by the asterisks).

Tables with Demographic Profile

| AGE | Out of control all or most of the time (n=110) | Fluctuates between in and out of control (n=617) | In control all or most of time (n=2767) |
|-------------|--|--|---|
| 18–19 years | 6% | 6% | 3% |
| 20–24 years | 12% | 13% | 8% |
| 25–29 years | 7% | 11% | 8% |
| 30–34 years | 16% | 11% | 10% |
| 35–39 years | 7% | 12% | 9% |
| 40–44 years | 18% | 12% | 8% |
| 45–49 years | 11% | 12% | 10% |
| 50–54 years | 6% | 8% | 9% |
| 55–59 years | 3% | 6% | 9% |
| 60–64 years | 5% | 3% | 7% |
| 65–69 years | 2% | 2% | 8% |
| 70+ years | 6% | 2% | 12% |

| HOUSEHOLD SITUATION | Out of control all or most of the time (n=110) | Fluctuates between in and out of control (n=617) | In control all or most of time (n=2767) |
|-----------------------------------|--|--|---|
| Couple – No Children At Home | 15% | 15% | 31% |
| Couple – Children At Home | 39% | 36% | 29% |
| Single Parent | 13% | 11% | 6% |
| Single – Live in Shared Household | 11% | 17% | 10% |
| Single – Live Alone | 21% | 18% | 22% |
| Other | 1% | 1% | 1% |
| Refused | 0% | 1% | 1% |

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Appendix A: Demographic Profile of Financial Control

| EMPLOYMENT | Out of control all or most of the time (n=110) | Fluctuates between in and out of control (n=617) | In control all or most of time (n=2767) |
|------------------------|--|--|---|
| Not in paid employment | 44% | 29% | 36% |
| Self employed | 5% | 4% | 6% |
| Freelancer | 0% | 1% | 0% |
| Casual | 6% | 14% | 5% |
| Part time | 12% | 16% | 11% |
| Full time | 33% | 36% | 41% |

| EDUCATION | Out of control all or most of the time (n=110) | Fluctuates between in and out of control (n=617) | In control all or most of time (n=2767) |
|--|--|--|---|
| Degree from University or CAE | 21% | 21% | 29% |
| Some University or CAE | 5% | 7% | 5% |
| Diploma from CAE | 4% | 6% | 4% |
| Finished/Now Studying HSC/VCE/Year 12 | 18% | 19% | 16% |
| Finished Technical School Commercial College or TAFE | 17% | 12% | 11% |
| Passed 5th Form/Year 11/Leaving | 11% | 8% | 8% |
| Passed 4th Form/Year 10 | 14% | 16% | 15% |
| Some Technical or Commercial | 1% | 1% | 1% |
| Some Secondary School | 7% | 8% | 8% |
| Primary School | 2% | 1% | 2% |
| Refused | 0% | 1% | 0% |

| HOME OWNERSHIP | Out of control all or most of the time (n=110) | Fluctuates between in and out of control (n=617) | In control all or most of time (n=2767) |
|----------------|--|--|---|
| Renting | 35% | 39% | 20% |
| Paying Off | 36% | 38% | 31% |
| Own Outright | 27% | 21% | 47% |
| Refused | 2% | 0% | 1% |

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Appendix A: Demographic Profile of Financial Control

| MAIN OCCUPATION | Out of control all or most of the time (n=110) | Fluctuates between in and out of control (n=617) | In control all or most of time (n=2767) |
|----------------------------|--|--|---|
| No occupation | 4% | 2% | 2% |
| Farm owners | 2% | 1% | 3% |
| Farm workers | 0% | 1% | 1% |
| Unskilled | 12% | 13% | 6% |
| Semi-skilled | 16% | 15% | 10% |
| Skilled | 20% | 20% | 20% |
| Other White Collar | 10% | 10% | 11% |
| Semi-Professional | 5% | 9% | 8% |
| Sales | 7% | 8% | 5% |
| Owners of Small Businesses | 5% | 2% | 4% |
| Owners or Executives | 2% | 1% | 1% |
| Professional | 15% | 18% | 28% |

| PERSONAL INCOME | Out of control all or most of the time (n=110) | Fluctuates between in and out of control (n=617) | In control all or most of time (n=2767) |
|-------------------|--|--|---|
| Under \$15,000 | 33% | 22% | 15% |
| \$15,000–\$24,999 | 8% | 14% | 11% |
| \$25,000–\$39,999 | 13% | 19% | 18% |
| \$40,000–\$59,999 | 18% | 17% | 15% |
| \$60,000–\$89,999 | 9% | 8% | 13% |
| \$90,000 or more | 3% | 4% | 10% |
| Can't say | 9% | 9% | 8% |
| Refused | 10% | 7% | 9% |

| HOUSEHOLD INCOME | Out of control all or most of the time (n=110) | Fluctuates between in and out of control (n=617) | In control all or most of time (n=2767) |
|-------------------|--|--|---|
| Under \$15,000 | 16% | 8% | 6% |
| \$15,000–\$24,999 | 8% | 10% | 7% |
| \$25,000–\$39,999 | 11% | 10% | 10% |
| \$40,000–\$59,999 | 8% | 16% | 13% |
| \$60,000–\$89,999 | 14% | 17% | 18% |
| \$90,000 or more | 16% | 16% | 26% |
| Can't say | 17% | 16% | 12% |
| Refused | 8% | 7% | 9% |

B

Appendix B: Influences & Moderators on Unhealthy Financial Ways of Thinking

Influences of Unhealthy Expenditure Ways of Thinking

The influences outlined in this section are drawn directly from people's stories about their journey to financial difficulty over time. Factors such as advertising, social expectations, availability of credit, and product design factors were evident in a more implicit rather than explicit way in people's stories. The discussion below focuses on the more explicit influences in people's stories.

Living for Today Unhealthy Ways of Thinking - Key Influences

The following table presents an overview of some of the key influences specific to this living for today way of thinking that was evident in people's stories about their journey to financial difficulty over time. The influences are in two groups. Firstly, those that largely predisposed a person to have this way of thinking. Secondly, those that typically accelerated the dominance of this way of thinking. As can be seen for this way of thinking, the key predisposing influences

were largely individually related, but also family, social and circumstantial. Accelerating influences were related to the person's perceptions and attitudes towards income, perceived ability to repay, financial institutions, social reference groups, lender initiated offers, and some product marketing. Those influences that are in bold had a particularly strong influence on this way of thinking.

Living for Today Unhealthy Way of Thinking

| | PREDISPOSING INFLUENCES | ACCELERATING INFLUENCES |
|----------------|---|---|
| Individual | <ul style="list-style-type: none"> - Generational - Lifestage - Values - Lack of Learning by Experience - Lack of Financial Literacy (elements of) - Low income - Personality | <ul style="list-style-type: none"> - Income – pay increase/ fluctuating income - Perceived Repayment Ability - Perceptions of Financial Institutions |
| Family | <ul style="list-style-type: none"> - Childhood Learnings | |
| Relationship | | <ul style="list-style-type: none"> - Influence of a Friend/ Partner |
| Social | <ul style="list-style-type: none"> - Overlap with Mental Health - Overlap with Social Issues | <ul style="list-style-type: none"> - Social Reference Group |
| Market | | <ul style="list-style-type: none"> - Lender Initiated Credit Card Offers & Increases - Product Marketing |
| Circumstantial | <ul style="list-style-type: none"> - Unexpected Illness/ Death of Family Member/Friend | |

Predisposing Influences

Generational: For the current generation of youth (current 18-22 year olds, young singles/ couples) the living for today way of thinking was very prevalent, and appears to strongly link in with the culture of 'drinking and partying'.

'Back then I was more living for the moment, instant gratification, I can work my ass off for two months and have nothing to show for it and pay off a debt, or I can go out three weekends out of four get absolutely shit-faced and have an absolutely marvellous time and smoke enough pot and drink enough booze to be able to forget that crap.'

Young Single Male.

'I moved from the country to the city, and the city was so exciting, there were no limits... there was everything out there to experience and everybody seemed to be in party mode, well the people that I was surrounded with were.'

Young Single Female.

'One year with the credit card, I went on four weeks holiday and my plan was to go down to Sydney and get my car done up... but I never ended up getting down there and ended up using the \$3,000 on just holidaying expenses up the coast, down the coast. That was party time.'

Young Single Male.

'There's nothing else to do in this town but drink... we've got 11 pubs.'

Young Single Male.

Living for Today Unhealthy Ways of Thinking - Key Influences *cont*

Lifestage: There was also a strong association of ‘youthfulness’ in general with this way of thinking.

‘It was just teenagehood. I know we’ve grown up emotionally and mentally a lot since then. I think it was a lot of stupid spending. You know, going out and having fun before paying our bills. We sort of have learnt a lot. We were in debt all the bloody time, for the next two years at least.’

Young Couple.

‘Like when you are younger you just really... it’s me, me, it’s all mine and you just don’t give a hoot about the future.’

Dual Parent Family.

While ‘youthfulness’ and the current youth generation were strongly represented in this way of thinking, it was also evident in other lifestages. However, there seemed to be particular circumstances which predisposed or accelerated the dominance of this way of thinking for certain people in other lifestages. In particular:

- Unexpected illness: *‘I almost died, why bother being responsible, enjoy life now’;*

- Helplessness of current financial situation/ low income. *‘I’m never going to earn the money or be rich, so I might as well enjoy myself now’.*

Values: For people who displayed this living for today way of thinking, financial control or security was typically not as important as the emotional fulfilment in the immediate term.

Lack of Learning by Experience: For some people, a lack of direct experience, and lack of personal understanding appeared to contribute to the disengagement of current actions from the future. It is important to note that this includes those people who stated they ‘knew the shoulds’ but disregarded them due to a lack of understanding the impact on their life. For many, direct experience could mean either from their own experience, or observing someone else who has been through the experience.

Lack of Financial Literacy: For some, a lack of knowledge of the consequences of their current actions on the future contributed to the dominant role of the living for today way of thinking in their lives.

CASE STUDY: ‘This Knowledge Might Have Helped Me’

Young Single Male, Formerly in Financial Difficulty, Regional

Ted moved to the city when he was 22 years old to secure full-time work. He started flatting with friends and ‘living the good life’ for a while, often using his credit card to facilitate his lifestyle, and postpone his financial responsibilities. For example, he was often late for minimum credit card payments, and he and his housemates often got extensions for utility bill payments. He displayed a dominant living for today way of thinking.

Over time and a series of ‘realisation moments’, Ted began to steadily pay off his debts. He then met his current girlfriend and they started to develop plans for the future, in particular the dream of building their own home. When they commenced the mortgage sign-up process, Ted found out that he could not in fact get a mortgage due to his bad credit rating from his ‘flatting days’. In hindsight...

‘I didn’t realise that I wouldn’t be able to get a loan for a house – if I had of known that it might have stopped me from living how I lived.’

For others, financial literacy did not appear to play a role in this way of thinking. They appeared to have the knowledge of the ‘shoulds’ but simply had a lack of motivation to exercise this knowledge, discussed later under dormant ways of thinking.

Low Income: For some low income people, they felt a sense of helplessness in that they felt they would always have a low income. They reacted to this by focusing on the current as opposed to their perceived option-less future. Credit cards in particular were a means through which to play out this living for today way of thinking.

‘I thought stuff it, we might as well be happy now.’
Single Mother, 3 Children.

Income – Pay Increase: For some people, particularly younger people where it was a newer experience, pay increases were an incentive to ‘spend up and live now’. It was another justification to ‘live for today’. It gave some people a false sense of confidence in their ability to repay their debt in the distant future, and therefore spend with more confidence in the ‘now’ - *‘I’ve got no worries paying it off with the pay rise now, I can really live it up’.*

Income – Fluctuating Income: For those people who displayed this living for today way of thinking, not having a regular income was an indicator for postponing future responsibility - *‘I’ll pay it back when I get a proper job’.*

Living for Today Unhealthy Ways of Thinking - Key Influences *cont*

Personality: For some people who displayed this way of thinking, they described themselves as an inherently ‘impulsive’ person.

*‘Some people are just more impulsive and rebellious.’
Single Female.*

Childhood Learnings: In revisiting with individuals lessons learnt from childhood, it was clear that some of the people who displayed this living for today way of thinking had been doing this for most of their lives. The lessons of instant gratification were learnt in childhood, as opposed to delayed gratification.

‘I always felt I got what I wanted – I certainly never did without.’

Young Single Female.

Unexpected Illness/ Death of a Family Member: For some people, an unexpected illness (either experienced by them or someone close to them) or death of a family member was a time for a reassessment of their values. The outcome of this reassessment propelled some people to disregard their financial security over other life goals, with the impact of accelerating their debt levels.

CASE STUDY: Living for the Moment in Retirement (Rural)

Roy and his wife had worked hard all their lives, had paid off their house early, had proudly put three children through private schools, and had a good superannuation nest egg. *‘We had never been in debt where we had a problem with paying it off - it was always in line with my salary’.*

Just as Roy approached retirement, his wife suddenly died. Soon after that, Roy had a heart attack. All of a sudden, all his dreams for retirement with his wife had been shattered and he also came face-to-face with his own mortality. His stated reaction at that time was *‘blow it – I’ll see what I can while I can’* and organised his first trip overseas. He also said: *‘I didn’t want to be like my brother who had begrudged himself of life’s pleasures all his life’.*

Roy went overseas that year, which cost him \$10,000. He also went overseas, every year, for the next 10 years. To fund this trip, Roy dipped into his superannuation, until it came to a point where the state of his superannuation made him realise he had to *‘tighten his belt’*, stop his yearly overseas trips, and apply for a part-pension as a result of his overspending. Roy uses his credit card now as an emergency *‘buffer’* (credit as supplement income way of thinking) for unexpected expenses that he cannot afford on his reduced income.

Overlap with Mental Health/ Social Issues: In the research sample, a small minority of people had mental health or other social issues. Present in the research sample were the following scenarios:

- Bipolar predisposed some people to this way of thinking, during the ‘high’ periods of this illness;
- Gambling and the living for today way of thinking also appeared to go hand-in-hand.

Accelerating Influences

Social Reference Group: Some people were involved in a social group that had a collective culture of *‘living for today’*. This was particularly evident amongst the 18-22 year olds and young singles or couples, where it was linked into the *‘drinking and party’* culture, but also the *‘shopping and dining out’* culture. Membership in these social groups assumed money would be spent on these activities.

*‘You didn’t want to get involved in certain things because you didn’t have the money, but when everyone else is doing it, but I’m the only one – I felt a bit isolated, I suppose.’
Young Single Female.*

Lender Initiated Credit Card Offers & Increases: As discussed in section 10, the majority of people in this study with credit cards had received lender initiated credit limit increases. For those who took up these increases, there was little engagement with the actual document, with typically no recollection of credit limit increase terms, conditions or parameters, akin with the disengagement with *‘financial jargon’* discussed earlier. For those with a pre-existing tendency for ‘living for today’, these offers were often readily accepted with little thought for the future. Some people had some cautiousness or *‘good intentions’* when first taking them up, but this typically changed over time in line with this way of thinking (see Unhealthy Credit Card Ways of Thinking section). Thus, the credit card offers and increases appeared to play a role in accelerating the dominance of this way of thinking for those with a predisposition, by providing them with the opportunity for readily available access to credit.

Living for Today Unhealthy Ways of Thinking - Key Influences *cont*

Perceived Repayment Ability: Some people displayed a belief in their ability to repay the loan which gave them justification and confidence for their 'living for today' spending behaviour. However, with hindsight these people were able to articulate that it was a false sense of ability to repay the debt, not anticipating the difficulties they would have in repaying the loan.

'We thought we could pay it off.'

Dual Parent Family.

Perceptions of Financial Institutions: Some people 'trusted' the financial institutions 'assessment' of whether or not they could 'handle' the debt, as discussed in the consumer onus of responsibility section. This trust translated into not reading the terms and conditions and further acceleration of the live for today way of thinking.

Influence of a Friend/ Partner: Some people felt they were heavily influenced by their relationships with other key people in their lives who espoused this living for today way of thinking.

'She (friend) would say 'debt is no big deal', made it seem fanciful, accessible, all those things.'

Single Mother, 1 Child.

Product Marketing: Some people recalled marketing messages, both specific to the financial industry and messages from other industries, that they stated had played a role in their 'living for today' way of thinking and resulting behaviour. In particular, 'buy now, pay later' or '12 months interest free' were particular messages recalled by people that appeared to link into this way of thinking.

Financial Disengagement Unhealthy Ways of Thinking - Key Influences

The following table summarises some of the key influences specific to this 'financial disengagement' way of thinking, delineating between those influences that predisposed a person to this way of thinking, and those that accelerated the dominance of this way of thinking. The variables in bold highlight those influences that had a particularly strong influence on this way of thinking.

Financial Disengagement Unhealthy Way of Thinking

| | PREDISPOSING INFLUENCES | ACCELERATING INFLUENCES |
|----------------|---|---|
| Individual | <ul style="list-style-type: none"> – Generational – Financial Self-Identity – Values – Lifestage – Lack of Learning by Experience – Lack of Financial Literacy – Mid-High income – Personality | <ul style="list-style-type: none"> – Perceived Repayment Ability – Access to Buffers |
| Family | <ul style="list-style-type: none"> – Childhood Learnings | |
| Relationship | | <ul style="list-style-type: none"> – Couple Decision-Making |
| Social | <ul style="list-style-type: none"> – Overlap with Mental Health – Overlap with Social Issues | <ul style="list-style-type: none"> – Social Reference Group |
| Market | | <ul style="list-style-type: none"> – Lender-Initiated Credit Limit Offers & Increases – Product Marketing |
| Circumstantial | <ul style="list-style-type: none"> – Unexpected Illness/Death of Family/Friends | |

Predisposing Influences

Generational: The current young generation (18-22 year olds, some young singles/ couples) in this sample tended to share a collective financial disengagement. That is, some young people shared the values, attitudes and experience of financial apathy and/or disinterest as a group. For these groups, financial disinterest and/or apathy and adverse personal debt were 'normalised'. This had a negative impact on their personal debt situation, particularly as this tended to be coupled with a living for today way of thinking or other unhealthy ways of thinking.

'All my friends have credit card debts too – sometimes we all have no money and that's when we just don't go out for a while.'

Young Single Female.

'I have my two best friends and we always just kind of shout each other every now and again and when I have no petrol, I just call myself a trophy wife. I'm Katelin's trophy wife. She's driving me everywhere, like, and sometimes, okay, when I have money, she's my trophy wife. So we all kid around like that and then I just usually after the week of trophy wife, I just shout her breakfast or something like that... So the three of us all just tend to - if we're having a hard week, just help each other out or, you know, shout each other for the movies if we have no money or if they don't take card, things like that.'

Young Single Female, 18-22 years old.

Financial Disengagement Unhealthy Ways of Thinking - Key Influences *cont*

In addition, 18-22 year olds and even extending up to 25 year olds, had a perception that they were not yet part of the 'adult world'. This led to an assumption that adult responsibilities and consequences do not necessarily apply to them.

'I honestly thought because I was so young I thought, well, I am still young, they are going to have pity on me, and stuff like that, because I have only just started. You know, they don't care. Once you get to that big 18, you are a big person. That was it.'
Young Single Female.

Financial Self-Identity: For those people who displayed a financially disengaged way of thinking, typically they did not see themselves as a person who was 'financially minded'. This contributed to an overall lack of confidence with financial matters. A predisposing characteristic for this was those people who did not identify themselves as being a 'numbers person' or having an adequate mathematical ability.

While some people clearly did not have a strong financial self-identity, other people actually *rejected* the social identity of having a strong financial self-identity. Associations with a 'financially minded' person that were rejected included: 'frugal', 'tight', 'boring', 'accountant' (negative). Underpinning this rejection appeared to be a social approval driver, whereby in their eyes and according to their social reference group, it was 'socially embarrassing' to be linked with these connotations. This was particularly evident amongst the younger generation (18-22 year olds, young singles/ couples).

Values: Similarly to the living for today way of thinking, for those who were financially disengaged they tended to place finances at the bottom of the value priority list in comparison to other values such as social or other emotionally-driven pursuits.

Unexpected Illness or Death of Family/ Friends: For people who experienced significant life events such as these, some people experienced 'financial disengagement' at this time. This appeared to be a combination of re-assessment of their values at the detriment of finances, part of the grief process, and/or an all-consuming focus on the life event at hand.

'We just cruised along, because he was sick and we just thought we'd have to deal with the illness and leave everything else go by the wayside.'
Mature Couple (living off credit card while husband ill and not working).

Lifestage: Akin with the living for today way of thinking, youthfulness tended to be associated with more financial disengagement than other lifestages, linking into the tendency of postponement of thinking about the future. However, this was also particularly evident in couple relationships, where one person did not take ownership of the financial situation, as the other partner managed this. This only had a detrimental for the partner who relinquished ownership of the finances if the relationship broke-up, death of a partner, or one partner contributed to over-spending (such as gambling).

Lack of Learning by Experience: Some people displayed financial disinterest and/or apathy until they had a direct negative experience that made them re-evaluate the role of finances in their lives.

'I was disorganised and bad with money – making myself do it was the issue, lack of discipline – but I had to (because of divorce and children)... I grew up at 36 years.'
Single Mother, 3 Children.

Lack of Financial Literacy: Lack of financial literacy was a contributing factor to financial disengagement for some people, particularly for more complex financial areas which they did not understand, such as investment, superannuation or more complex products overall. In addition, acquiring more knowledge or exercising existing knowledge appeared to be limited for some by a weak financial self-identity. As discussed above, weak financial self-identity appears to be highly correlated with low perceived mathematical ability ('I'm just not a numbers person') and rejection of the social identity of a 'financially minded' person.

Mid-High Income: There appeared to be a relationship between those people who displayed a financial disengagement way of thinking and a mid-high income, or more pertinently the ability to service their debts. These people tended to feel secure in their ability to pay off their debts, with security leading to apathy – 'I'll be fine, I don't need to worry about it'. Even though these people stated they felt out of control most of the time in relation to their financial situation, they had the ability to service their debts which led to a lack of motivation to change the status quo.

Personality: The personality traits people ascribed to themselves linked into this way of thinking included: 'disorganised', 'easy going', 'not cautious', 'not a worrier'. Articulated personality traits appeared to be linked into self-concept, and with that the social rejection for some of the negative associations of a 'financially minded' person.

Financial Disengagement Unhealthy Ways of Thinking - Key Influences *cont*

Childhood Learnings: In retracing their childhood learnings, some people stated they were not brought up to ‘*worry about finances*’, which visibly had an impact on their sense of financial self-identity in adulthood.

‘We got taught nothing to do with everyday life. He (our father) said we were going to get married and we wouldn’t have to deal with it (finances).’
Single Mother, 3 Children.

Overlap with Mental Health: For a minority of people in this sample, mental health influenced the dominance of this way of thinking. In particular, it was evident that for those suffering clinical depression it impacted on all areas of their lives, including a negative impact on their finances.

Overlap with Social Issues: Another influencer that impacted on a minority of people in financial difficulty was recalled experiences of drug and alcohol abuse. For those people, they stated this was a time in their life when they ‘*couldn’t be bothered*’ with their finances.

Accelerating Influences

Social Reference Group: As discussed above under generational influences, there was a collective ‘*financial disengagement*’ and ‘*normalisation*’ of debt evident in some social groups, particularly present in the current young generation.

Couple Relationships: In a large number of couple relationships in this sample, typically one person tended to have a stronger financial self-identity than the other, describing themselves as the ‘*main person who looks after the finances*’. The second person took a more passive and apathetic role in relation to finances, often not acquiring new knowledge and/or losing their financial skill set. This became a problem if the dominance of one partner contributed to over-spending (for example, where the dominant partner over-spent or mismanaged finances), or where the relationship broke-up or death of a partner.

Perceived Repayment Ability/Access to Buffers: This is a similar characteristic of mid-high income earners who displayed this financial disengagement way of thinking. Those people who perceived they could repay their debts easily and/or had access to savings, assets or other financial support to repay their debts tended to feel (falsely) secure, which led to behavioural financial apathy for some.

Lender Initiated Credit Limit Offers & Increases:

For those with a predisposition to this way of thinking, credit cards were a means of postponing responsibility (see Disengagement of Credit Responsibility way of thinking, also strongly linked with this way of thinking). Lender-initiated credit card offers and increases provided them with the opportunity to readily available credit, which for some accelerated this predisposition.

Product Marketing: Product marketing with messages of postponing responsibility, such as ‘*buy now, pay later*’ and ‘*12 months interest free*’, appeared to be highly correlated with this way of thinking.

Aspirational Unhealthy Ways of Thinking - Key Influences

The following table summarises some of the key influences specific to this 'aspirational way' of thinking. The variables in bold highlight those influences that had a particularly strong influence on this way of thinking.

Aspirational Unhealthy Way of Thinking

| | PREDISPOSING INFLUENCES | ACCELERATING INFLUENCES |
|--------------|---|---|
| Individual | <ul style="list-style-type: none"> – Generational/ Lifestage – Location – Values – Lack of Financial Literacy (for some) – Personality | <ul style="list-style-type: none"> – Perceived Repayment Ability – Access to Financial Buffers – Perceptions of Financial Institutions |
| Family | <ul style="list-style-type: none"> – Family-of-Origin – Parental Relationship Dynamics | |
| Relationship | <ul style="list-style-type: none"> – Influence of Friend/ Partner | |
| Social | <ul style="list-style-type: none"> – Social Reference Group | |
| Market | | <ul style="list-style-type: none"> – Lender Initiated Credit Offers & Credit Limit Increases – Product Marketing |

Predisposing Influences

Generational/ Lifestage: Of the different lifestages the 55+ year olds were the group who were least influenced by this way of thinking. This way of thinking was represented within all other life-stages.

Family-of-Origin: Typically, these people inherited aspirations from their family-of-origin, and for some this was a negative influence on their personal debt levels.

'Probably coming from a middle class family, everyone around you seemed to have money. It was an expectation... there was just outside pressures, my own self-esteem, my own wanting to be wealthy.'
Young Single Female.

Parental Relationship Dynamics: Parents often had expectations of what a 'good parent would give their children', and for some this superseded their financial means having a negative impact on personal debt levels for some. In addition, parents often cited feeling 'pressured' by children for various material possessions ('pester power'), which some parents would succumb to.

'It's all well and good – you'll all agree, you know the difference between a want and a need, but you try telling a 10-year old that.'

Dual Parent Family.

'And peer pressure on children is very great. I thought it was bad in my time, but it was nothing like it is these days, especially teenage girls. If you don't try and have the latest of what everyone else has got, they don't want to know you. I mean that. It's a horrible thing.'

Single Parent Family.

Social Reference Group: This was a very strong influencer on this mentality – and was often the key reference point for guiding people's expenditure patterns. This became a problem for people where their social reference group inspired spending that they could not afford.

Aspirational Unhealthy Ways of Thinking - Key Influences *cont*

Location: People who lived in rural locations appeared to be less influenced by this way of thinking. It appears there is less opportunity to spend on *'aspirational items'* (often only one 'strip' of shops in town), particularly for those living on properties outside of town as there is less frequency of visits to town.

CASE STUDY: 'The Influence of Environment'

**Single Mother, 4 Children,
Currently in Financial Difficulty, Rural**

When Sally was 19 years old she moved from the city to a small commune an hour outside of a rural town. She said of this move: *'I didn't want to be plugged into the power system anymore – I didn't want a bar of it'*. In the commune, she said they lived very cheaply with very little material items. She paid \$200 a year for her 'site' on the property, cooked with gas bottles, and bought supplies from town once a week. There was no other opportunity to spend money, other than the 'local pub'. Her source of income was originally the 'dole', and then when she had children she went onto single mother benefits. She says of this time: *'you know, my kids clothes were in cardboard boxes on the floor, and we didn't care – we were happy, we didn't need things'*.

After 16 years of this style of living, her eldest of four children wanted to move into town to be close to his school friends. She decided to move the whole family into town. Sally originally rented, and then encouraged by her sister, she took out a mortgage for a \$50,000 house. With the mortgage, she received a credit card. She said since moving into town, she started wanting and 'needing' more material items, and she had this big empty house that she *'had to fill with things'*. She states she started going to the shops more frequently because they were close by, and find herself *'buying impulsively things that she didn't need'* but had convinced herself that she did – she put this on the credit card.

'It wasn't until I was back in this environment that I wanted to have these things again.'

This case study illustrates the role of environment in the desires or aspirations people have.

Values: Financial values were often superseded by these aspirations.

Lack of Financial Literacy: Akin to other ways of thinking, some people did not personally understand the consequences of their current actions on the future.

Personality: Personality characteristic that people articulated as playing a role in this way of thinking (in hindsight) was *'easily influenced by others'*. In addition, low self-esteem was articulated as a factor in being susceptible to this way of thinking – in hindsight.

Influence of Friend/ Partner: People who displayed this mentality often cited friends or partners participating in this way of thinking with them. For example, with a couple, where they both wanted to live in an area that they couldn't afford.

Accelerating Influences

Perceived Repayment Ability/ Access to Financial Buffers:

Where people perceived they had the capacity to repay their debts, this gave them a (false) sense of security to act in accordance with this way of thinking.

Perceptions of Financial Institutions: Likewise, where people trusted the financial institution's assessment of their ability to *'take on their debt'* (and by implication pay it off), this further gave them a sense of confidence in acting in accordance with this way of thinking.

Lender Initiated Credit Offers & Increases: For those with a predisposition to this way of thinking, the credit card offers and increases appeared to play a role in accelerating the dominance of this way of thinking, by providing them with the opportunity for readily available access to credit.

Product Marketing: Messages such as *'buy now, pay later'* and *'12 months interest free'* tended to accelerate people's perceived accessibility of aspirations, for those with a predisposition to this way of thinking.

Social Connection Unhealthy Ways of Thinking – Key Influences

The following table summarises the key influences relevant to this ‘social connection’ way of thinking.

Social Connection Unhealthy Way of Thinking

| | PREDISPOSING INFLUENCES | ACCELERATING INFLUENCES |
|----------------|--|---|
| Individual | <ul style="list-style-type: none"> – Lifestage/ Generational – Values – Lack of Financial Literacy (for some) – Personality | <ul style="list-style-type: none"> – Low Income – Perceived Repayment Ability – Access to Financial Buffers – Perceptions of Financial Institutions |
| Relationship | <ul style="list-style-type: none"> – Lack of Existing Social Networks – Relationship Break-Up | |
| Social | <ul style="list-style-type: none"> – Overlap with Mental Health | <ul style="list-style-type: none"> – Social Reference Group |
| Market | | <ul style="list-style-type: none"> – Lender Initiated Credit Offers & Credit Limit Increases |
| Circumstantial | <ul style="list-style-type: none"> – Death of Family/Friends | |

Predisposing Influences

Lifestage/ Generational: The lifestages who seemed to be particularly prone to this way of thinking were the 55+ year olds, where some stated they experienced loneliness, and the young, who seemed to live as ‘*herd animals*’ with a fear of social isolation.

Lack of Social Networks: People who had less existing close social networks and displayed more social isolation overall than others were more predisposed to participate in paid social activities. A key indicator of this was not having close family.

Relationship Break-Up: For some people who had experienced a recent relationship break-up, they were predisposed to this way of thinking, trying to build up their social capital.

Values: People with this unhealthy way of thinking placed social connection above financial control or security.

Lack of Financial Literacy: Financial literacy did not appear to play a strong role, other than people not personally understanding the consequences of their current actions on their future financial situation.

Personality: People who were typically perceived themselves as more ‘*affiliative*’ tended to be predisposed to this way of thinking more than others.

Death of Family/ Friends: This was a factor for some in demonstrating this way of thinking, assumedly trying to build up their social capital or as part of the grief process.

Overlap with Mental Health: Loneliness was a key driver in this way of thinking.

Accelerating Influences

Low Income: For people on low income, this significantly restricted their social connection opportunities. 55+ year old people on a pension, particularly those on their own, appeared to be the most restricted by low income for securing social connection, and thus where they did act on this way of thinking it had a more detrimental impact on their financial situation. Unlike other lifestages, their children had left home, and they described themselves as often ‘*having to pay to meet people*’. Thus, it was not a lack of opportunity to be involved in social activities, but a lack of income which was seen as a prerequisite for this.

Social Reference Group: Social groups that people associated with tended to have a minimum financial resources entry point, with some requiring higher levels of social expenditure than others. For people experiencing serious financial difficulties, they often stated social isolation as a key outcome of this experience, as they could no longer afford to ‘*go out*’.

Lender Initiated Credit Offers & Increases: For those with a predisposition to this way of thinking, the credit card offers and increases appeared to play a role in accelerating the dominance of this way of thinking, by providing them with the opportunity for readily available access to credit.

Perceived Repayment Ability/Access to Financial Buffers/ Perceptions of Financial Institutions: As with other ways of thinking, a false sense of confidence in these factors accelerated the dominance of this way of thinking.

Emotional Enhancement Unhealthy Ways of Thinking – Key Influences

The following table summarises some of the key influences specific to this ‘emotional enhancement’ way of thinking. The variables in bold highlight those influences that had a particularly strong influence on this way of thinking.

Emotional Enhancement Unhealthy Way of Thinking

| | PREDISPOSING INFLUENCES | ACCELERATING INFLUENCES |
|------------|--|--|
| Individual | <ul style="list-style-type: none"> – Personality – Generational – Lack of Learning by Experience – Values – Lack of Financial Literacy (elements of) | <ul style="list-style-type: none"> – Perceived Repayment Ability – Perceptions of Financial Institutions |
| Family | <ul style="list-style-type: none"> – Childhood Learnings | |
| Social | <ul style="list-style-type: none"> – Overlap with Mental Health – Overlap with Social Issues | <ul style="list-style-type: none"> – Social Reference Group |
| Market | | <ul style="list-style-type: none"> – Lender Initiated Credit Offers & Credit Limit Increases |

Predisposing Influences

Personality: People who displayed this way of thinking often described themselves as *‘impulsive’*. This way of thinking was also strongly driven by transient mood states.

Childhood Learnings: In looking back at the lessons people had learnt in childhood, there appeared to be a trend of using *‘material goods’* to manage emotions, and more importantly alleviate negative emotions. In the case of finances and spending, it appears the parental practice of using material goods to manage negative emotions in children plays a role in the emotional enhancement way of thinking - *‘here have this, this will make you feel better’*.

Generational: *‘Emotional spending’* appeared to be more common in the current younger and mid-aged generation, as opposed to the 55+ year old generation. Thus, it appears to be a relatively new element to society, facilitated by the availability of credit.

‘In the old days, if you didn’t have the cash, you didn’t buy it – no matter how much you wanted it.’
Mature Female Pensioner.

Values: For people who displayed this as a dominant mentality, they often tended to describe themselves as *‘usually pretty good with finances but I have my moments’*. This is supported behaviourally in that they were more prone to cyclical over-spending rather than consistent over-spending. Thus, there was an incongruity between their espoused financial self-identity and values (*‘usually pretty good with finances’*) and their actual financial behaviour.

Lack of Learning by Experience: For those people who had never struggled with finances before, they tended to be more prone to this way of thinking – simply as they had acquired no or limited *‘filters’* in place to balance this out.

Lack of Financial Literacy: For most people, *‘emotional spending’* was associated with guilt after the fact, with the common articulation of *‘I know I shouldn’t have bought that’*. In this sense, these people could be described as financially literate as they knew what they *‘should’* have done. However, what they clearly did not understand (in hindsight) and does appear to have a link with financial literacy, is the ability to see the *‘bigger picture’*. That is, they did not realise the impact of this behaviour on their debt levels over time for them personally. A common articulation for those who had experienced the consequences of their actions was *‘if I had of known it would end up like this I wouldn’t have done it’*.

Unexpected Illness/Death of Family/Friends: For some people who experienced significant life events such as these, *‘emotional spending’* appeared to be part of the grief process.

Overlap with Mental Health: For a minority of people in this research, clinical depression played a role in *‘emotional spending’*.

‘C: I think a lot of it had to do with depression. I’m being treated for my depression with antidepressants and I feel so much better now. R: Why does being depressed make you spend more? C: It made me feel nice.’
Single Mother, 3 Children.

Emotional Enhancement Unhealthy Ways of Thinking – Key Influences *cont*

Overlap with Social Issues: For a minority of people in this research, drug and alcohol abuse, and gambling, seemed to have a correlation with this way of thinking also.

Accelerating Influences

Social Reference Group: There tended to be a social element to the emotional enhancement way of thinking – particularly amongst the young generation and females in general – captured in the phrase ‘*retail therapy*’, which was sometimes a collective group activity (e.g. day out shopping).

Lender-Initiated Credit Offers & Credit Limit Increases: For those with this way of thinking, they would sometimes accept these offers at times when they were feeling ‘*down*’. Thus, for those with a predisposition to this way of thinking, the credit card offers and increases provided them with the opportunity for readily available access to credit, which appeared to play a role in accelerating the dominance of this way of thinking.

Perceived Repayment Ability/ Access to Financial Buffers: Where people perceived they had the capacity to repay their debts, this gave them a (false) sense of security to act in accordance with this emotional enhancement way of thinking.

Perceptions of Financial Institutions: Likewise, some people gave the onus of responsibility to financial institutions in assessing their ability to ‘*take on their debt*’ (and by implication pay it off), rather than by checking their own financial situation.

Indulgence Unhealthy Ways of Thinking – Key Influences

The following table summarises some of the key influences specific to this ‘indulgence way’ of thinking. The variables in bold highlight those influences that had a particularly strong influence on this way of thinking.

Indulgence Unhealthy Way of Thinking

| | PREDISPOSING INFLUENCES | ACCELERATING INFLUENCES |
|--------------|--|--|
| Individual | <ul style="list-style-type: none"> – Generational – Values – Lack of Financial Literacy (elements of) | <ul style="list-style-type: none"> – Perceived Repayment Ability – Access to Financial Buffers |
| Family | <ul style="list-style-type: none"> – Childhood Learnings | |
| Relationship | | <ul style="list-style-type: none"> – Influence of a Friend/ Partner |
| Social | | <ul style="list-style-type: none"> – Social Reference Group |
| Market | | <ul style="list-style-type: none"> – Lender Initiated Credit Offers & Credit Limit Increases |

Predisposing Influences

Generational: The younger generation and families were more likely to demonstrate this way of thinking, as opposed to the mature aged. This seems to be a newer way of thinking nested in the post-war generations.

Values: The ‘*indulgence*’ mentality appears to be very much grounded in values. For people in financial difficulty, having a value of rewarding oneself meant financial values were placed further down on the priority scale.

Childhood Learnings: The behaviour of rewarding oneself following an achievement appears to be a lesson learnt in childhood and carried into adulthood.

Lack of Financial Literacy (elements of): Akin to other ways of thinking, some people did not personally understand the consequences of their current actions on the future.

Accelerating Influences

Perceived Repayment Ability/Access to Financial Buffers: As with other ways of thinking, some people had confidence in their ability to repay their debts and access financial buffers as required, which accelerated the dominance of this way of thinking in their minds.

Influence of Friends/Family: People who displayed this mentality often cited friends or partners ‘*encouraging them*’ to engage in this behaviour – ‘*you deserve it*’ anecdotes.

Social Reference Group: There was a social element to ‘*rewarding oneself*’ also, and the social reference group further influenced the type of reward purchased.

Lender Initiated Credit Offers & Increases: For those with a predisposition to this way of thinking, the credit card offers and increases appeared to play a role in accelerating the dominance of this way of thinking, by providing them with the opportunity for readily available access to credit.

Unhealthy Ways of Thinking – Moderating Variables

There were a number of moderating variables that tended to determine the severity of the individual's experience of financial difficulty, outlined below.

Early Realisation Moment

The point along the individual's journey at which they realised the effect of their unhealthy ways of thinking determined the severity of their negative financial situation. Some typical cues for realisation moments included:

- As simple as seeing their credit card balance;
- Negative impact on family/ friend;

'The look on my child's face when I couldn't give her money for the school excursion.'
Single Mother, 3 Children.

'I had spoken to them about holidaying and that I overspent generally, I didn't really go into the full depth of the situation and it caused them incredible stress. My father got incredibly ill from it...it made me feel even worse and then I began to reflect on what I'd done and how irresponsible I was.'
Dual Parent Family.

- Pressure from family/friends to change their behaviour;

'My brother helped me to realise it. He said, if I'm not paying him rent then piss off.'
Young Single Male.

- Seeing someone close to them experience financial hardship;

'My father was blacklisted in town (didn't pay rent) and I thought I never want to be like that.'
Young Single Male.

- Developing goals for the future - for young people this often coincided with a serious relationship;

'But now that I've got to plan for the future, I've got to buy a house, have enough to have kids and all that crap, I'm going to need to get rid of these before I can, because apparently once I get rid of those debts it's going to be another 5 years before I clear my credit rating, apparently according to the debt collectors.'
Young Single Male (with new girlfriend), 24 years old.

- Missing payment experience - the 'shock' and 'shame' of being called by a financial institution was enough for some to be a 'wake-up call'.

Reactions to realisation moments were either 'flight', engaging in avoidance behaviour, or 'fight', making an effort to change their behaviour. Often a series of realisation moments occurred before a concerted effort to change occurred.

Extent of Lifestyle Adaptation

The realisation moment on its own did not necessarily result in behavioural change. The extent to which individuals could actually adapt their lifestyle and make a change in their over-spending behaviour also determined the severity of their situation. Often people found this very difficult.

'It's not easy when you worked for years and were paid really good money and then you're on the pension – yeah, they don't go far.'
Single Mother, 2 Children.

Past Learning by Experience

This is where realisation moments were converted into learnings. People would characteristically articulate this as 'I don't want to go back there again'. They seemed to be driven to change their behaviour from a fear of their past behaviour.

Access to Financial Support

Some people had access to financial support from family or friends that either:

- Transferred their personal debt from a financial institution to their family or friend(s); or
- Eliminated their personal debt altogether in the form of a gift.

Often this experience was a strong realisation point in itself, as the individual experienced a lot of guilt for borrowing from family or friends because of what many in hindsight perceived as 'their fault'.

Extent of Unhealthy Financial Ways of Thinking

The extent of unhealthy financial ways of thinking that people displayed seemed to also determine the severity of their situation. That is, the more unhealthy ways of thinking, the greater the severity of their financial situation. In addition, the dominance of the unhealthy ways of thinking in their thought patterns, the greater the severity of the financial situation.

Extent of External Pressure to Change

Often external pressures made the person change their behaviour, perhaps earlier than they would have themselves:

- Pressure from parents, partners, friends;
- Pressure from the financial institutions themselves (rarely).

Unhealthy Ways of Thinking – Moderating Variables *cont*

Ability to Service Debts

Some people had the ability to service their debts on their income, which prevented them from becoming in breach of their commitments. Low income people in particular appeared to be more vulnerable than higher income people to becoming in breach of their financial commitments, either through missing payments, defaulting or going bankrupt.

Access to Financial Buffers

A small portion of the sample had access to financial buffers to offset their debt and therefore severity of their situation. This was typically in the form of *'selling assets'* as opposed to savings. Some examples of assets that people used as financial buffers to offset their debts:

- Jewellery, TVs and other high value items pawned at pawnbrokers;
- Vehicle;
- House (often the last resort).

Access to Financial Advice

For those people who accessed financial advice through a financial counsellor, they were typically already in financial hardship. However, in seeing the financial counsellor, this offset spiralling into further financial difficulty.

Unhealthy Credit Facility Ways of Thinking – Key Influences

The following table summarises the key influences on unhealthy credit facility ways of thinking overall. The variables that are in bold highlight the relatively greater influence on these ways of thinking.

Unhealthy Credit Facility Ways of Thinking

| | PREDISPOSING INFLUENCES | ACCELERATING INFLUENCES |
|----------------|--|--|
| Individual | <ul style="list-style-type: none"> – Generational/ Lifestage – Values – Lack of Learning by Experience – Lack of Financial Literacy (for some) – Income | <ul style="list-style-type: none"> – Access to Credit Card Debt – Perceived Repayment Ability – Access to Financial Buffers – Perceptions of Financial Institutions |
| Social | <ul style="list-style-type: none"> – Overlap with Mental Health – Overlap with Social Issues | <ul style="list-style-type: none"> – Social Reference Group |
| Market | | <ul style="list-style-type: none"> – Lender Initiated Credit Limit Increases |
| Circumstantial | <ul style="list-style-type: none"> – Loss of Job/ Unexpected illness | |

Predisposing Influences

Generational/Lifestage: The current younger generation have grown up with credit cards, and as discussed earlier, ‘normalise’ this form of debt to a large extent. They appear to be more predisposed than other generations to be more comfortable with taking on credit card debt, however clearly this impacts across all lifestages. Interestingly, for some of the younger generation, there appears to be status in owning a credit card.

‘I remember waving it around and saying ‘cool I’ve got my credit card’. It was a show off thing.’
Young Single Female.

Values: For people who displayed these ways of thinking, traditional financial values seemed to be superseded by ‘new credit values’, which are represented in the these unhealthy ways of thinking.

Loss of Job/Unexpected Illness: Both of these events had the same consequence of restricting income. This was a precursor for some in displaying the credit as supplement income way of thinking.

Lack of Financial Literacy: The majority of people had a basic predisposition or knowledge about credit cards as something to use responsibly. This was evident in their initial cautiousness when first receiving the credit card. However, this knowledge appeared more an awareness rather than a real understanding of ‘why’ they need to be used responsibly, and its personal relevance to their situation. Once taking on the credit card, many people displayed a lack of knowledge about the intricacies of the product, and acquired this through experience.

Most notably, they had a lack of knowledge about the fees & charges associated with missed payments, combined with a lack of understanding of the personal impact of paying the minimum amount off every month only.

‘Once I missed the minimum amount, I didn’t fully realise that they charge you about \$35 if that happens.’
Mature Female.

‘I reckon you would die and still owe money on your credit cards if you just paid the minimum.’
Single Mother, 2 Children.

Lack of Learning by Experience: For those people who had never struggled with finances before, they tended to be more prone to this way of thinking – simply as they had no or limited ‘filters’ in place to balance this out.

Income: People on a low income, or who felt restricted in lifestyle by their current income, appeared to be more prone to these ways of thinking about credit facilities.

Overlap with Mental Health/Social Issues: Where this impacted on income levels, such as alcohol/drug abuse and gambling, unhealthy credit card ways of thinking appeared more likely. Further, mental health illnesses predisposed some people to these unhealthy ways of thinking.

Unhealthy Credit Facility Ways of Thinking – Key Influences *cont*

Accelerating Influences

Access to Credit Card Debt: Almost unanimously people in this group stated the accessibility and ease with which you could get a credit card. Access to credit or borrowings was a core part of the equation in over-spending or over-commitment.

'Its easy money... you can get it without a problem.'
Single Mother.

Social Reference Group: There appeared to be a collective element to these unhealthy credit card ways of thinking amongst the young in particular. A characteristic recalled phrase – *'put it on the card'* with an air of nonchalance.

'I remember my sister and I going out one night and she was just as broke as I was and she went, don't worry Visa will pay. We wanted lobster and we went for lobster and visa paid, I'll never forget it, it was the most ridiculous thing we did. And we giggled about it, visa will pay, deal with Mr Visa later, scoff, scoff...'
Young Single Female.

Lender Initiated Credit Limit Increases: For those with a predisposition to unhealthy credit card ways of thinking, this provided them with the opportunity of readily available access to credit, which tended to accelerate the dominance of these ways of thinking.

Perceived Payment Ability/Access to Financial Buffers/ Perceptions of Financial Institutions: As with other ways of thinking, a false sense of confidence in these factors accelerated the dominance of this way of thinking. Specific to credit cards, was an enhanced sense of confidence in repayment ability as opposed to other personal debt products (such as personal loans and mortgages) as the minimum amount per month was significantly lower, and more manageable.

Research Objectives

Overall Objective:

For those people in financial difficulty, ascertain the main reasons they perceive as leading to these circumstances, and factors that could have prevented this.

The specific objectives are summarised below:

- The key factors, attitudes and behaviours that led people to have financial difficulty; including:
 - The underlying factors that led people to have financial difficulty;
 - In taking on personal debt, the decision-making people went through;
- Once people have acquired personal debt and are in stated financial difficulty, understand their approach to managing their debt;
- Factors that have, or could have, prevented people from being in financial difficulty;
- An understanding of how people relate to their future financial situation;
- Understand the role of financial literacy in the decision-making leading to financial difficulty.

Research Context

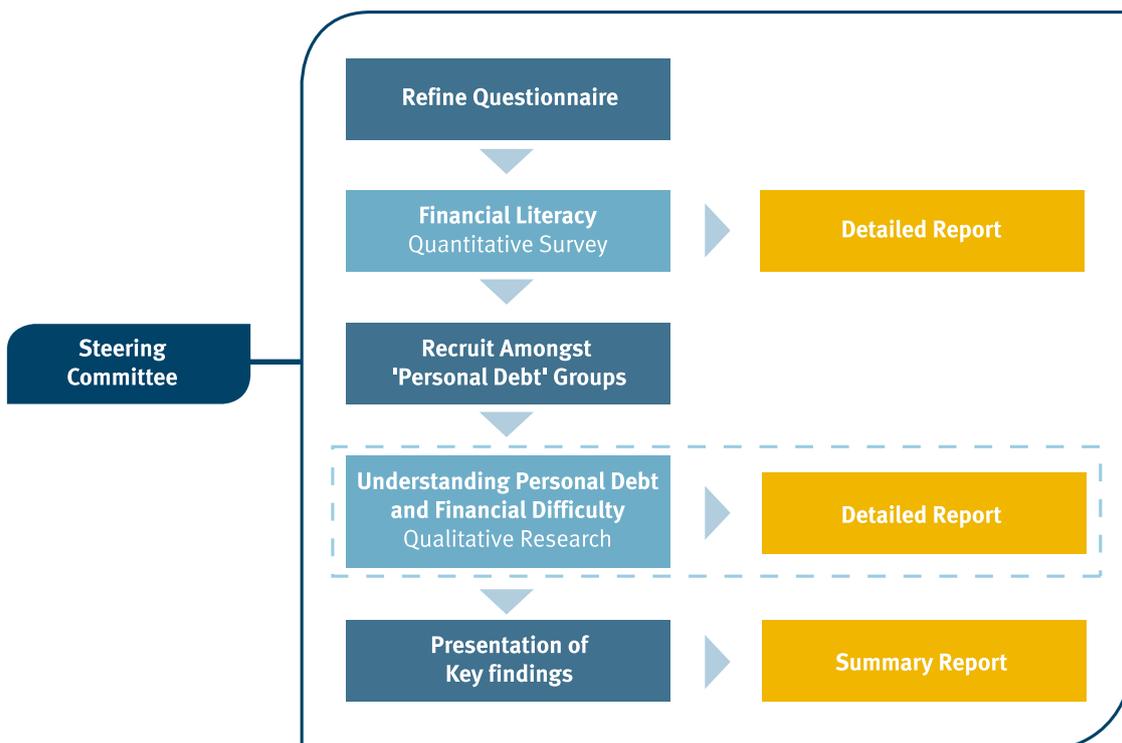
There were two primary phases to this research project:

- A follow up of a large scale quantitative study focusing on financial literacy; and
- Qualitative investigation of personal debt focusing on the reasons people get into financial difficulty.

Both of these phases of the research were overseen by a steering committee. Steering committee membership consisted of Jane Nash (Head of Government & Regulatory Affairs, ANZ); Delia Rickard (Regional Commissioner & Deputy Executive Director, Consumer Protection & International, Australian Securities & Investments Commission); Carolyn Bond (Manager, Consumer Credit Legal Service; Chair, Consumer Federation of Australia), Catherine Wolthuizen (then Financial Services Policy Officer, Australian Consumers Association) and Andrew Jenkinson (Market Research Manager, ANZ).

As indicated by the project outline diagram below, the primary focus of this report is the qualitative findings. However, where the quantitative findings shed further light on the issue of financial difficulty in relation to personal debt, this is incorporated into the report as appropriate.

Figure 26. Project Outline



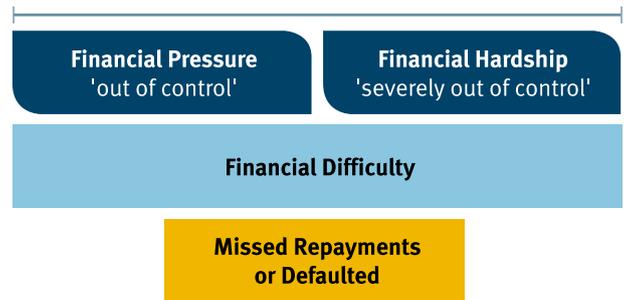
Research Definitions

For the purposes of this research, the following definitions applied:

- *'Financial difficulty'* was used to describe the continuum of experience of financially *'out of control'*. This experience applies to all people in the research study;
- *'Financial pressure'* was used to describe people who felt relatively moderately *'out of control'* with their finances. This was typically people who had not missed payments and/or defaulted, but felt *'out of control'* with their finances regardless;
- *'Financial hardship'*, in comparison, was used to describe people who felt severely *'out of control'* with their finances. This pertained to those people who had missed payments and/or defaulted, and in addition had a stated *'felt'* experience of financial hardship. (Note. Missing payments and/or defaulting in and of itself was not solely used to define financial hardship, but had to also coincide with a stated *'felt'* experience of financial hardship.);
- *'Personal debt'* refers to all financial and other lending institution products, and could also include utility bills (for a small number; these people had to also have own personal debt products from lenders). For the purposes of this study, it refers to personal debt as it relates to the continuum of *'financial difficulty'*;

The following diagram conceptualises the relationships between these concepts, with financial pressure and financial hardship at different ends of the one continuum, with the personal debt focus for this study applying to both ends of the financial difficulty continuum.

Figure 27. Inter-Relationships of Research Concepts



Research Sample

In order to gain a comprehensive overview of financial difficulty in Australia, the research encompassed the two broad sample audiences below:

| | CURRENTLY IN FINANCIAL DIFFICULTY | NO LONGER IN FINANCIAL DIFFICULTY |
|--------------------------|--|---|
| Rationale for Inclusion: | To understand the circumstances relating to financial difficulty. This is the core focus of the current study. | To understand what helped these people overcome their financial difficulties, in order to determine and inform prevention strategies. |
| Definition for Research: | People who feel <i>'out of control'</i> in relation to their current financial situation, including a cross-section of people who are in arrears/ defaulted by three months or more. | People who have been in arrears/ defaulted (by three months or more) and <i>'felt out of the control'</i> in the past, but who are no longer in arrears/ defaulted. |

Those Currently in Financial Difficulty

In order to ensure an adequate representation of financial difficulty, while not being too prescriptive given the exploratory nature of the study, the following two broad groups were identified for inclusion in the research:

1. People who felt *'out of control'*, but were not in arrears/ defaulted on personal debt products or utility bills; and
2. People who felt *'out of control'*, and were in arrears/ defaulted by three months or more on personal debt products or utility bills.

There was a small segment of people who were in arrears/ defaulted on utility bill payments only while still making regular payments on personal debt products. They were included as they had 'chosen' to default on utility bills rather than on personal debt products, and it was considered beneficial to understand this.

Those No Longer in Financial Difficulty

For people who have had past financial difficulty, existing research points to the fact that seeing a credit counsellor was advantageous for them in getting out of debt (Courchane & Zorn, 2005). To understand the role and benefits of financial counselling in an Australian context relative to those who did not see a financial counsellor, the following two broad groups were included in the research:

1. People who have experienced financial difficulty and saw a financial counsellor; and
2. People who have experienced financial difficulty but did not see a financial counsellor.

For this segment, people who had stated that they had been in 'financial difficulty' in the past were recruited. Some of these people had declared bankruptcy and/or defaulted, while others just felt that they had been in financial difficulty. Some respondents had seen a financial counsellor, others had not. For the purposes of this research, financial counsellors were taken to mean free community-based services (usually government funded).

Research Methodology

The research methodology utilised was chosen as it was able to fulfil the dual aims of being appropriately sensitive to the nature of discussions about financial difficulty, while also being methodologically sound.

Those Currently in Financial Difficulty

An in-depth interview approach of two hours in length was chosen for those who were currently feeling financially *'out of control'* due to the sensitivity of the subject matter. In addition, respondents were given the option of having an additional person attend the interview for any of the following reasons:

- They had someone who had shared with them in their financial difficulty (*'couple in-depth'*); or
- They had someone who had supported them through their financial difficulty but excluding someone they had borrowed money from (*'support in-depth'*); and
- They were comfortable with having this person attend an interview to discuss their situation.

From a methodological perspective, the presence of another person who had been intimately involved in the situation (partner, family member, or friend) was advantageous for a number of reasons. Firstly, for respondent's who had selected this option they were more likely to feel comfortable disclosing information in this environment. Secondly, the presence of an additional person who had intimate knowledge of the same experience served as an important aid to memory recall. Around half of respondent's chose this paired depth option.

The majority of in-depth interviews were conducted at the respondent's location to facilitate an environment of familiarity and comfort.

Those No Longer in Financial Difficulty

Mini-focus groups, involving 4-5 respondents, were utilised for those who had experienced financial difficulty but were no longer in financial difficulty. This was two hours in length. The advantage of using a focus group methodology was the interaction and synergy between respondents as they recounted their individual experiences, giving valuable insight into those learnings that were shared and different amongst the group. A mini-focus group was used so that adequate focus could be given to both understanding individual experiences, as well as collective discussion amongst the group.

Research Design

Those Currently in Financial Difficulty

The sample design included 80 in-depth interviews, including representation of metropolitan, regional and rural locations, as well as different lifestyles, as specified below:

| Segment | Area | CURRENTLY IN FINANCIAL DIFFICULTY | | | | | Total: |
|---|----------------------------|-----------------------------------|------------------------|--------------------|----------------------|-----------|-----------|
| | | 18–22 years | Young Singles/ Couples | Dual Parent Family | Single Parent Family | 55+ years | |
| In arrears for 3 months/ defaulted & felt 'out of control' ** | Metro 1* (Melbourne, VIC) | 2 | 3 | 2 | 3 | 2 | 12 |
| | Metro 2* (Brisbane, QLD) | 2 | 3 | 2 | 3 | 2 | 12 |
| | Regional 1 (Dubbo, NSW) | – | 1 | 1 | 1 | 1 | 4 |
| | Regional 2 (Geelong, VIC) | – | 1 | 1 | 1 | 1 | 4 |
| | Rural 1 (Glenn Innes, NSW) | – | 1 | 1 | 1 | 1 | 4 |
| | Rural 2 (Charleville, QLD) | – | 1 | 1 | 1 | 1 | 4 |
| Felt 'out of control' financially | Metro 1* (Melbourne, VIC) | 2 | 3 | 2 | 3 | 2 | 12 |
| | Metro 2* (Brisbane, QLD) | 2 | 3 | 2 | 3 | 2 | 12 |
| | Regional 1 (Dubbo, NSW) | – | 1 | 1 | 1 | 1 | 4 |
| | Regional 2 (Geelong, VIC) | – | 1 | 1 | 1 | 1 | 4 |
| | Rural 1 (Glenn Innes, NSW) | – | 1 | 1 | 1 | 1 | 4 |
| | Rural 2 (Charleville, QLD) | – | 1 | 1 | 1 | 1 | 4 |
| | Total: | 8 | 20 | 16 | 20 | 16 | 80 |

* Metropolitan areas included inner and outer metropolitan suburbs.

** Arrears/ defaulted included both on personal debt products and/or utility bill payments. There was a small segment of people who were in arrears/ defaulted on utility bill payments only while still making regular payments on personal debt products. They were included as they had 'chosen' to default on utility bills rather than on personal debt products, and it was considered beneficial to understand this.

Those No Longer in Financial Difficulty

A total of 8 mini-focus groups were conducted amongst:

| Area | NO LONGER IN FINANCIAL DIFFICULTY | |
|-------------------------------|-----------------------------------|----------------------------------|
| | Saw Financial Counsellor | Did not see Financial Counsellor |
| Metro 1 (Melbourne, VIC) | 1 group | 1 group |
| Metro 2 (Brisbane, QLD) | 1 group | 1 group |
| Regional 1 (Dubbo, NSW) | 1 group | 1 group |
| Rural 1 (Sunshine Coast, QLD) | 1 group | – |
| Rural 3 (Ballarat, VIC) | – | 1 group |

People formerly in financial difficulty to be 'not in arrears/ defaulted' currently, but to have been in 'arrears/defaulted' in the past. 'Out of control' measure not specified. Financial Counsellor services taken to mean a free, community-based service (usually government funded).

Sampling Methodology

In line with standard qualitative research practice, this research used a convenience sample for participation in the research. That is, utilising those respondents who qualified that were both willing and available to participate. The services of an accredited recruitment company were utilised to source respondents (from an existing database and the White Pages), with a comprehensive recruitment screener administered to ensure respondents qualified. The recruitment companies used were Infonet Market Research Services and Q&A Market Research Services. In addition, for the mini-focus groups who had seen a financial counsellor, financial counsellors were used to recruit respondents. The recruitment screener and fieldwork protocols are provided in Appendices C and D.

DeltaQual™ Framework

In understanding and deconstructing the experience of *'financial difficulty'*, ACNielsen's qualitative framework – DeltaQual™ – was utilised.

The key underpinning principles of DeltaQual™ are summarised below:

- **Ways of thinking.** In line with advances in cognitive psychology, DeltaQual™ explores the ways of thinking that people use to guide their lives. For this study, the focus was on understanding the ways people think about their finances, and the accompanying decisions they made, and the resultant impact on their lives.
- **Influences on experience.** The influences on people's lives that had an impact on either their attitudes or behaviours in relation to debt (e.g. family influence, made redundant, won the lotto, etc.).
- **Focus on actual experience.** Unlike other qualitative methodologies, DeltaQual's™ inherent starting point is on actual experience(s), then drills down to attitudes, heuristics, and feelings underpinning and influencing behaviour. This is as opposed to general or linear questioning styles.
- **Focus on time and history as powerful forces of the present.** It looks at the broader picture of how the past has impacted on the current by gaining an overview not only of their current circumstance, but the factors leading up to that circumstance from when they first started being involved in financial matters.
- **Incorporated memory principles in its methodology.** It utilised cognitive interviewing, which is a collection of techniques that are based on the principles of memory retrieval.

A discussion guide is given in Appendix F.

Qualitative Research Analysis

In line with a DeltaQual™ framework, a thorough content analysis process was utilised to explore the data. This process provided a means to gradually build a picture from individual responses allowing meaningful collation of numerous, rich and diverse responses. This was further complemented with principles of grounded theory analysis, whereby 'theory' was built via constant comparison and a continual search for evidence that disconfirmed the emerging theory. Thus the approach was inductive, rather than deductive, in line with exploratory research. To further aid rigorous and comprehensive analysis of unstructured textual data, a qualitative data analysis program was utilised.

Context of Qualitative Research Findings

In line with accepted qualitative research methodology, the perceptions described in this report were collected from a relatively small sample of people utilising a convenience sample, and while deep insights are elicited, the sample may not accurately reflect the broader population experiencing financial difficulty. Where available and appropriate, quantitative research results have been used to complement this report in order to shed light on broader population findings.

RECRUITMENT SCREENER QUESTIONNAIRE

Standard Introduction – Recruiter Database/ Cold Calls

Good (...). My name is (...) from ----, the market research company.

Today we are conducting some research about attitudes to money, as part of an important national study.

Can I speak to the person in the household aged 18 years or older who is next in line for a birthday?

[When directed to appropriate person]

Re-introduce as appropriate:

The research will take the form of a face-to-face discussion and would be conducted at a time and place convenient to you. As a thank-you & in recognition of your time we will be giving you a cash incentive to the value of \$60. The topic is in relation to money. I would like to stress that the research is strictly confidential.

We'll tell you more about it later, but before we proceed, we are wanting to speak to a good cross section of people, from all walks of life, that represent the Australian population.

To see if you qualify would you mind if I ask you a few questions?

Qualifying Checklist

| CODE | SPEC 1 | SPEC 2 | QUALIFYING RESPONSE NEEDED | |
|------------------------|------------------|--------------------------|--|--|
| Current (A+O) | Current | Arrears + Out of Control | Q7 (codes 1 or 2), Q8 (code 1), Q10 (code 2 or 3) | In addition to location and lifestyle specifications |
| Current (O) | Current | Out of Control | Q7 (codes 1 or 2), Q8 (code 2), Q11 | |
| Formerly in Debt (F) | Formerly in Debt | Financial Counsellor | Q8 (code 2), Q11 (code 1), Q12 (code 1), Q13 (code 2), Q15 (NOT codes 1-4), Q16 (code 3), Q17 | |
| Formerly in Debt (N-F) | Formerly in Debt | Non-Financial Counsellor | Q8 (code 2), Q11 (code 1), Q12 (code 1), Q13 (code 2), Q15 (NOT codes 1-4), Q16 (code 3 or 4) | |

SECTION 1. Market Research Screener

1. To begin with, have you been to a market research interview/ focus group before?

| | |
|-----|---|
| Yes | 1 |
| No | 2 |

If yes, when was that? _____

TERMINATE if in last 6 months

2. Do you, or any of your family or friends, work in the following industries? **[READ OUT]**

| | | |
|----------------------------|---|--------------------------|
| Market Research | 1 | If yes to any, TERMINATE |
| Marketing/ Advertising | 2 | |
| Public Relations | 3 | |
| Media/ Journalism/ Writing | 4 | |
| Finance Industry | 5 | |
| Public Policy | 6 | |

SECTION 2. Initial Screeners

3. And which of the following age brackets do you fall into ...?

| | | |
|----------------|---|-----------|
| Under 18 years | 1 | TERMINATE |
| 18–22 years | 2 | CONTINUE |
| 23–35 years | 3 | CONTINUE |
| 36–55 years | 4 | CONTINUE |
| 55+ years | 5 | MATURE |

4. And which of the following best describes your household situation...?

| | | |
|-----------------------------------|---|----------------------|
| Single – Live Alone | 1 | |
| Single – Live in Shared Household | 2 | |
| Single Parent | 3 | SINGLE PARENT FAMILY |
| Couple – Children At Home | 4 | DUAL PARENT FAMILY |
| Couple – No Children At Home | 5 | |

If 22-35 years, and codes 1, 2 or 5 then YOUNG SINGLES/ COUPLES

5. And which of the following best describes your situation ...? **[MR]**

| | | |
|------------------------------|---|---|
| Working | 1 | |
| Not working | 2 | CONTINUE |
| Part time university student | 3 | |
| Full time university student | 4 | TERMINATE if also 18–22 year bracket Otherwise, CONTINUE |

6. What finance topics would you like more information or education on?... **[MA] [READ OUT]**

| | | |
|--|---|----------|
| Budgeting | 1 | |
| Investing | 2 | |
| Superannuation | 3 | |
| Taxation | 4 | CONTINUE |
| Business finance | 5 | |
| How to make complaints/ resolve disputes | 6 | |
| Other | 7 | |

D

Appendix D: Recruitment Screener

7. Which one of the following statements BEST describes how you generally feel about your CURRENT financial situation?

Would you say it feels?... [SA] [READ OUT]

| | | |
|--|---|---|
| Out of control ALL of the time | 1 | POTENTIAL CURRENT, Continue |
| Out of control MOST of the time | 2 | |
| Fluctuates between being in and out of control | 3 | NOT CURRENT but continue to next question |
| In control MOST of the time | 4 | |
| In control ALL of the time | 5 | |
| (DON'T READ) Can't say | 6 | TERMINATE |
| (DON'T READ) Refused | 7 | |

8. Would you mind telling me if at any time in the **last 12 months** you have NOT been able to make a repayment on any loans, mortgages, credit cards or any other types of repayments that you have? It doesn't matter whether this was because of something outside your control, or for some other reason. **This can also include utility bills, where you still have personal loan products that you are making the regular repayments on** [SA].

| | | |
|-----|---|---|
| Yes | 1 | POTENTIAL CURRENT (A+O), Go to appropriate section |
| No | 2 | NOT CURRENT (A+O) If Codes 1 + 2 at Q6, go to POTENTIAL CURRENT (O) Section Otherwise, POTENTIAL FORMERLY IN DEBT, go to appropriate section |

SECTION 3. Potential Currents (A+O)

9. Could you please tell me what repayment it was that you were unable to meet? Were there any others?

[MA] [DO NOT READ OUT]

| | | |
|--------------------|----|-----------------------|
| Credit card | 1 | RECORD, ENSURE SPREAD |
| Charge card | 2 | |
| Store card | 3 | |
| Mortgage | 4 | |
| Personal loan | 5 | |
| Personal overdraft | 6 | |
| Hire purchase | 7 | |
| Car lease | 8 | |
| Utility bills | 9 | |
| Other (specify) | 10 | |

10. And for the repayment(s) that you were unable to meet, were there repayments you were not able to meet for 2 months or more?

| | | |
|-----|---|---|
| Yes | 1 | Go to Section 5 – POTENTIAL FORMERLY IN DEBT |
| No | 2 | CURRENT (A+O) Go to Section 6 |

SECTION 4. Potential Currents (O)

11. You mentioned that you felt 'out of control', is that through debt incurred as part of being a student?

| | | |
|-----|---|--------------------------------------|
| Yes | 1 | TERMINATE |
| No | 2 | CURRENT (O) CONTINUE to Section 6 |

SECTION 5. Potential Formerly in Debt

12. At any time in the past **10 years** have you **NOT** been able to make a repayment on any loans, mortgages, credit cards or any other types of repayments that you have? **We are not talking about utility bills, just loans, cards and other types of borrowings [SA]**

| | | |
|-----|---|-----------|
| Yes | 1 | CONTINUE |
| No | 2 | TERMINATE |

13. And for how long were you not able to make the repayment for...? **[READ OUT]**

| | | |
|--------------------|---|-----------|
| Less than 3 months | 1 | TERMINATE |
| 3 months or more | 2 | CONTINUE |

14. And when was that...? **[DO NOT READ OUT]**

| | | |
|-----------------|---|----------------|
| 2 – 5 years ago | 1 | RECORD, ENSURE |
| 6–10 years ago | 2 | SPREAD |

15. Would you mind telling me what were the main reasons you could not make this (these) payments?
Any others? **[MA] [DO NOT READ OUT]**

| | | |
|--|---|--|
| NOT ONLY loss of income/lost my job | 1 | TERMINATE IF DUE TO ANY OF THESE FACTORS ONLY |
| NOT ONLY Partner lost income/lost job | 2 | |
| NOT ONLY unexpected medical expenses/ illness in the family | 3 | |
| NOT ONLY when at university | 4 | |
| Other | 5 | CONTINUE |

[Note. Circumstance has to be within their control as to why they got into debt.
Further, cannot include times at university when couldn't pay bills.]

16. And what helped you overcome that...? **[DO NOT READ OUT]**

| | | |
|----------------------------|---|---|
| NOT came into money | 1 | TERMINATE |
| Saw a financial counsellor | 2 | POTENTIAL SUVIVOR (F), Go to next question |
| Went bankrupt | 3 | FORMERLY IN DEBT (N-F) |
| Other | 4 | |

[Note. Can be any answer that is self-motivated, as opposed to windfall or bankruptcy.]

17. [If saw a financial counsellor] And was that a free service or government funded...?

Check that free service/ government funded
IF IS THEN FORMERLY IN DEBT(F)

GO TO LAST SECTION – INFORMING RESPONDENTS ABOUT RESEARCH

SECTION 6. Information about Research

| PAIRED DEPTHS | GROUPS |
|---|---|
| <ul style="list-style-type: none"> – The discussion will last around 2 hours – To thank you for your time, offering cash incentive of \$60 – Just to let you know the discussion will be asking in a lot of detail about your financial situation, and how to you got to be there, some of which may be sensitive and private information for you – There is an opportunity for you to bring someone along to the interview with you. This person should be someone who has intimate knowledge of your situation, shared it with you in some form, and you are happy to discuss in front of them your experiences. This person may be a partner, relative or friend, and they will also receive \$60. Some people choose to bring someone, others don't – it is totally up to you. For your personal situation, would you be comfortable bringing someone or not? – NOTE: <ul style="list-style-type: none"> • This person must NOT be someone they have borrowed money from • Please make sure you ring the other respondent attending and ensure they are informed of the sensitive nature of the discussion – Please be assured that it is all confidential and anonymous, and not for commercial benefit but for the prevention of personal debt – Researcher is happy to come to visit you or they can arrange another meeting place; whatever is convenient for you | <ul style="list-style-type: none"> – The discussion will last around 2 hours – To thank you for your time, offering cash incentive of \$80 – It will be a discussion with a group of people who have had past experiences of being in debt – it will involve talking with these other people about your past experiences with debt and what you have learned; are you comfortable with this? – Please be assured that it is all confidential and anonymous, and not for commercial benefit but for the prevention of personal debt – Give location and time relevant to group |

In light of the sensitive nature of the research, the following protocols for fieldwork were put into place to safeguard against a potential negative experience for respondents:

Recruitment

In terms of recruitment of respondents:

- Respondents were *informed* of the discussion involved in the interview and the requirements of the additional person (that is, they must have intimate knowledge of the situation and feel comfortable to talk about it in front of them; as well as the confidential nature of the discussion);
- Respondents were given the opportunity to *self-select* as to whether they would be comfortable for an additional person to attend;
- The paired depth scenario did not include those respondents who are financially indebted to the second respondent;
- Recruiters made every effort to contact the additional respondent:
 - To ensure they are personally *informed* of the sensitive nature of the discussion;
 - To confirm that the second respondent is not owed money by the first respondent.

Conduct of Interview

- Respondents were *informed* once again of the requirements of the interview and the sensitive nature of the discussion (as well as confidentiality);
- *Permission* to proceed was secured;
- The objectives of the research was made transparent to respondents and framed in a prevention light to encourage participation:
 - *This research is conducted as part of an important National Study to understand issues related to personal debt in Australia*
 - *It will inform strategies to help prevent people from getting into financially difficult circumstances, and to help people better manage personal debt overall*
 - *Please understand that some things that we talk about today may be sensitive – please know this in the context that it may help other people in a similar situation*
- An opportunity to ‘*opt-out*’ was provided to respondents at the beginning of the interview after further information was provided;
- No respondent was forced to do an exercise they were not *comfortable* doing;
- The respondent could *terminate* the interview at any time if they felt uncomfortable. It is important to note that this situation did not arise throughout the research process, with respondents eager to participate and share their experiences.



Depth Interview - Discussion guide

NOTES TO GUIDE:

This guide gives an indication of the topics of coverage but not the specific techniques used as this is proprietary information.

The group discussion guide was very similar in content and techniques to the depth discussion guide.

This guide was treated as free-flowing in nature, with the natural flow of the conversation taking precedence over the wording and sequence within in line with qualitative research principles.

Guide Sections

Topic Coverage

1. Introduction
2. Current Situation Exploration
3. Financial Difficulty Experience
4. Summary of Experiences
5. Repainting the Past
6. Creating the Future

Close

Introduction

Expected timing:
5 mins

Objectives:

Settling people, establish parameters, meet responsibilities to respondents.

Advise:

- Welcome
- This research is conducted as part of an important National Study to understand issues related to personal debt in Australia
- It will inform strategies to help prevent people from getting into financially difficult circumstances, and to help people better manage their personal debt overall
- The purpose of this interview is to talk about your current financial situation, and in particular any debt related issues
- We're interested in your journey and experiences
- We are after your opinions – there is no right/ wrong
- **Support Depths:** We've asked that you bring someone along with you today so that they can 'fill in any gaps' that you may not remember, as we will be talking about your experiences in some detail
- **Couple Depths:** We've asked both of you to come along today as it is something that you are both involved in and it will be easier to recollect your experience with the help of another person
- Please understand that some things that we talk about today may be sensitive – please know this in the context that it may help other people in a similar situation
- Further everything we talk about will be confidential and anonymous:
 - No-one will see your name
 - Anything that you say will be reported as part of a group of other opinions (talking to potentially over 150 people in total)
- We would like to record the discussion – recordings are for research purposes only:
 - We will be talking about a lot today and we don't want to take notes the whole way through as it detracts from our discussion
 - Recordings will be destroyed in one year's time (privacy legislation)
 - Are you comfortable for us to record this?
- Duration – 2 hours
- Any questions?
- To paired respondent: Now that you know more about the research, do you feel comfortable to be part of the interview? If not, we have some self-completions that one of you can fill out on your own in another room that will also be of benefit to us, and after you have completed all of that, we have some light reading
- Are you comfortable to proceed?

Warm-Up:

We're going to be spending a couple of hours with each other today – can you start by telling me a bit about yourself (yourselves)...

- Have you got anyone at home with you?
- Working/ not working? (type of work if working)
- Hobbies/Interests?
- How long have you lived in this area?
- For Support Person: How do you know each other?

Current Situation Exploration

Expected timing:
30 mins

Objectives:

Understand in general their current situation, respondent 'representation' of the situation, and the emotional 'undercurrent'.

Meaning of Word - 'Debt'

- I've got here several types of 'financial commitments' someone could have. What would you call these collectively?
- When I say 'debt' what types of things come to mind...
 - Which of these would you consider as 'debt'?
 - What is it about that which makes you think of it as a 'debt'?

[Showcards = Credit Cards, Mortgage, Personal Loan, Store Card, Charge Card, Personal Overdraft, Hire Purchase, Car Lease, Borrowings from Friends/ Family, Utility Bills, Phone Bills, Rent]

[Researcher Note. Please substitute respondent's collective language for financial commitments if it is not 'debt']

Relevant Debt – Current Situation

I'd like to talk about your current financial situation.

Clarify - if couple...

- We've invited you together as you've been on this 'journey' together
- We're interested if you have the same or similar perspective on the same situation; if you have a different perspective please let us know as we go through

Clarify - if friend/ relative...

For (*Respondent 2*), when (*Respondent 1*) is taking us through this...

- We've invited you along so that you can 'fill in any gaps' that either (*Respondent 1*) can't remember or likewise that you might remember but (*Respondent 1*) doesn't
- Generally for the most part (*Respondent 1*) will be talking & taking us through it

SHOWCARDS.

I'd like to go through the showcards again and sort them into piles in terms of their relevance to your life. For each card while sorting them:

- Do you currently have this form of debt?
- Have you had this form of debt in the past? (put separately)
- And are there any that you are behind in/ particularly struggle with?

Discuss the way in which respondent sorted them. Note the cards that are relevant to the respondent (past and present), and take other cards away

Dealing with Debt

Of the pile (or in general) that you said you particularly struggle with, tell me about that...

- Why do you particularly struggle with this group?
- How do you currently deal with this?
 - Extent to which have strategies to manage vs. not; explore further
 - For couples: Role of each person
- What has this meant for you?
 - Personally, relationships, work, social?
 - Is it something that you talk to other people about or keep private? Why is that?

Current Situation Exploration continued

Emotional Undercurrent

I want to do an exercise that requires you to be a bit creative, and by creative I mean not thinking about it too much, going with the first thing that comes to mind. I've got here a whole range of pictures which I'd like to spread out on the table. What I'd like you to do is to choose one picture for 4 different things. Each picture that you choose is to 'capture the essence' of what we are asking. Please choose a picture each for the following:

- How you felt about your experiences with 'debt' in the past
- How you feel about your current experience with 'debt'
- How you envisage your future experience with 'debt' will be
- What your life would be like if you suddenly had no 'debt' (technique = ban)

What is it about each of these pictures that influenced you to choose them? Let's go through one by one...

Personal Debt Experiences

Expected timing:
50 mins

Objectives:

Understand in detail the specific 'ways of thinking' and 'influences' that have had an impact on the present situation

Personal Debt Experiences

Open-ended discussion about their experiences utilising DeltaQual techniques, which is followed up/multi-faceted with the following probe content questions.

Probe when spontaneously exhausted and as appropriate:

General Attitudes:

- For you personally, are there any finance commitments that are more 'okay' than others?
- Are there any providers that you are more comfortable with than others?
(researcher note: mainstream vs. fringe lender)

Initial Application for Credit/ Loan Products:

- Did the sales person play any role? What role did the sales person play, if any for you?
- For products have – did you decide to apply (bought) or did the lender/ salesperson suggest it to you (sold)?
 - If suggested credit: How did you feel about that? Were you surprised that you were being offered credit?
 - What sort of questions did you ask when you took out the loan/ credit?
 - How long did you take to think about it?
- Thinking about how you feel about 'debt' in general, did this impact on your decision to apply for the product?

Financial Literacy for variety of Credit/ Loan Products: -

- How was the amount you borrowed set?
 - Was it your own self-imposed limit or did the lender decide?
 - Was it just the limit that was offered to you or other?
 - Do you know how the amount of credit available was set?
- When applying, did you consider the number of other financial commitments you had at that time?
 - Is there a number in relation to financial commitments that in your mind is too many?

Personal Debt Experiences continued

- Some people shop around a lot, others don't. For you, did you shop around to compare rates? Why is that? Do you consider it important to do that (even if didn't do it)? Why?
- For products have – did you feel you understood how they worked before taking it out?
 - Was that important to you at the time? Why?
- Did you read the terms and conditions or product disclosure statement?
 - How did you find that? Did you understand it?
 - Did you understand the basic conditions of the agreement you entered into?
- Overall, did you feel you understood or had the right knowledge in taking it on? Was it easy to understand or not?

Managing Finances Overall:

- Tell me about how you manage your finances...
 - What types of things do you do?
 - What types of things do you think you should be doing but don't? Why is that?
 - Probe for any of following:
 - › Budget/ Track expenses
 - › Savings buffer
 - › Spending
 - › How do you work out whether you can afford repayments?
 - › Degree of planning overall
 - › Extent to which you prioritize certain debt over others; why?

Managing Credit/Loan Products (includes all in 'debt' showcards, including pay day lenders):

- Tell me about how you use your credit/ loan products...
 - What types of things do you think about?
 - Is the interest rate something that you think about? Why/ why not?
- Thinking about how you feel about 'debt' in general, did this impact on your use of credit/ loan products?
- Has your credit/ loan limit increased since taking it out?
 - Was that something you personally did or did the lender/ salesperson suggest it?
 - How did you feel about that?
 - What did you consider before taking it on?
 - Did it have an impact on your situation?
- Do you know how to avoid or reduce interest on your credit card/ loan if you wanted to?
- At the time, if you had not been able to get the loan/ credit limit increase, what do you think might have happened?

Experience of Missing Repayments:

- What was this experience like?
- Did you contact the provider/ lender/ counsellor regarding a missed payment?
- How did you feel treated?
- How did they respond?
- Did you disclose all other debts when you applied for the loan?

| | |
|---|--|
| <p>Personal Debt Experiences continued</p> | <ul style="list-style-type: none"> • Did you try and come to any alternative arrangement? • What about a repayment break? Was this something you asked about? <p>Experience of Lenders:</p> <ul style="list-style-type: none"> • Overall, what is (or was) your experience of the bank/ financial institution/ pay day lender? <p>Whether considered impact of interest rate rise/ other economic factors in:</p> <ul style="list-style-type: none"> • The media often talks about interest rate rises. Are you aware of this? Do you take notice of this? • Do you consider the impact of an interest rate rise for any of the following: <ul style="list-style-type: none"> – Ability to repay – Taking out loans – Thinking about loan term and amount – Using credit cards – Taking on increased credit limit <p>Hidden Debt.</p> <ul style="list-style-type: none"> • Did you borrow or think about borrowing from friends or family? • How did you feel about that? <p>Minimising Borrowings.</p> <ul style="list-style-type: none"> • What do you think you could do to help your situation? • What options are you aware of? (e.g. transferring to a card with a lower interest rate, debt consolidation, etc.) |
| <p>Summary of Experiences Expected timing: 15 mins</p> | <p>Objectives: <i>Summarise and elicit any further ‘ways of thinking’ or ‘influences’ not covered in the previous exercise</i></p> <p>Ways of Thinking <i>General overall summary of key ways of thinking from previous section</i></p> <p>Influences <i>General overall summary of overall influences on situation from previous section</i></p> |

Repainting the Past

Expected timing:
15 mins

Objectives:

Understand what respondents consider could have prevented their situation.

Benefit of Hindsight (Spontaneous)

I'd like you to imagine that your current situation is different – you feel 'in control' of your current situation with limited debt (or feel you can manage it).

- Looking back, understanding that some things cannot be changed, what do you think would have been different so that the current situation is different?
 - Differences in the way you think? (attitudes)
 - Differences in the things you know? (knowledge)
 - Differences in the way you act? (behaviour)
 - Difference in the way other people act?

Strategy Testing (Prompted)

Materials:

Showcards (as below, develop as research progresses)

I've got here a list of things – we are wanting to know if you think any of them would have helped your situation. What things do you think you SHOULD do versus you ACTUALLY would do? Why?

- Recognising the benefits of controlling your spending
- Recognising the benefits of keeping track of your expenses
- Recognising the benefits of having money allocated for emergencies
- Having someone train you as to how to plan and track your finances in the form of a budget
- Seeing a financial counsellor – who will work through with you what options you have
- Being more armed with knowledge about taking on financial commitments
 - What specific knowledge would you have needed?
- Understanding the benefits of not borrowing up to the limit
- Understanding the benefits of not having too many financial commitments
- Taking more time to read the terms and conditions
- Others as relevant
- When you think of the word 'savings' what comes to mind?
- When you think of the word 'budget' what comes to mind?

| | |
|---|--|
| <p>Creating the Future</p> <p>Expected timing: 5 mins</p> | <p>Objectives:</p> <p>Understand respondent's sense of hope and strategies for the future</p> <ul style="list-style-type: none">• What do you think the future will be like?<ul style="list-style-type: none">– Refer back to initial photo chosen• What do you think your situation will be like in 5 years time?<ul style="list-style-type: none">– What will have changed?– What will have to be changed from your current situation for that to happen?• Do you think any of the things we spoke about before would help?<ul style="list-style-type: none">– Which particular ones? Why? |
| <p>Close</p> | <ul style="list-style-type: none">• Thank for contribution; assure of confidentiality• Give incentive(s) and show bag• Ask for any final comments/thoughts |