



# **Literature Review on Personal Credit and Debt in Australia**

Families at Risk Deciding on Personal Debt

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# Literature Review on Personal Credit and Debt in Australia

## 1. Overview

In this literature review we detail current knowledge about how people decide on personal debt in Australia, with particular reference to low income families. These readings form the starting point of our study of *Families at Risk Deciding on Personal Debt*. The aim of our study is to understand financial decision-making so that we can address what needs to be done to empower consumers and alleviate debt problems amongst the most vulnerable families in Australia. This literature review on personal credit and debt in Australia complements the accompanying literature review on the theoretical frameworks and literature around the study of personal debt and credit. These literature reviews do not include a detailed discussion of consumer education as this will form the subject of a separate report.

### 1.1 Extent of literature on personal debt and credit in Australia

The literature on personal debt in Australia is sourced from consumer bodies, regulators and academia. This review has benefited from the input of consumer organisations and hence brings together literature that is not always accessible. All agree that more research is needed, particularly on financial decision-making. Our literature survey shows the main gap lies in the study of the social and cultural dimensions of debt, credit and decision-making. With the inclusion of the social and cultural perspectives, financial decision-making no longer remains an individual, economic issue. There is a further need to measure the impact of these cultural factors so that they can be part of models of consumer behaviour that are beginning to underlie strategies regarding financial literacy, provision of credit and regulation.

The different literatures agree there are limits to the rationality of the market and that adequate disclosure of the terms of a loan is a necessary but not sufficient condition for decisions that make for consumer well being. They agree there needs to be an integrated approach keeping in mind the four prongs of financial literacy, credit provision, regulation, and social, cultural and behavioural aspects of financial decision making.

There remain differences in the emphasis that is placed on each of these three aspects. Consumer advocates point out that debt and related decision-making by low-income families is part of the wider story of the aspirations, and the needs of a group that is at present at the “margins”. Credit is a means of “inclusion”, rather than a matter only of financial literacy. Hence they stress the supply of low-cost or no-cost credit; a combination of savings and community credit plans; financial literacy; together with plugging the holes in the legislation and its implementation. They welcome the increased cooperation between consumer and financial organisations but stress that steps have to be taken to ensure that exploitative industry practices are curtailed.

### 1.2 Dimensions of personal debt and credit in Australia

We found it useful to distinguish between the terms “debt” and “credit”. We refer to “debt” as financial distress or constraint because of borrowings, whereas “credit” refers to borrowings. This distinction is important, for Reserve Bank of Australia studies show that household credit has increased in Australia. However household

debt when measured as the percentage of financially constrained households, has remained the same or decreased. It has to be noted that the percentage of households with debt is highest in the 40 percent of households with the lowest incomes. This is detailed in section two.

### **1.3 Credit to the poor**

In section three, we address the literature on the provision of credit to the poor. We place credit within the frameworks of financial inclusion and exclusion. The poor find it difficult to get small loans in a way that is affordable, convenient, fast, understandable and maintains their dignity. Industry practices continue to encourage overcommitment among the poor.

At the same time there are some joint initiatives between banks and community organisations that have tried to address the problem. There are also no-interest loans spearheaded by community organisations that are working at a restricted level. Microfinance initiatives are also important. However, the breach is often filled by fringe providers such as pay-day lenders, book up and pawn-brokers.

### **1.4 Regulation of credit**

In section four, we show how "truth-in-lending" is the basis of consumer credit legislation in Australia. Consumer literature and reviews of the Uniform Consumer Credit Code suggest that information has become more accessible to consumers. However consumer behaviour differs according to the credit markets. Consumers compare information on housing and personal loans more than they do for credit cards and linked credit. Hence, regulation has its limits and needs to work with other initiatives.

Reviews of the Code come to differing conclusions. From the consumers' perspective the Code has proved ineffective because of providers' efforts to avoid coming under the Code, inadequate disclosure, insufficient protection for vulnerable consumers and inadequate enforcement of the Code. Reviews of the effectiveness of the Code initiated by regulators focus on truth-in-lending. These reviews show that the Code is achieving its aims but suggest ways to increase the legislative safety net and strengthen the truth-in-lending principles.

### **1.5 Financial literacy**

In section five we turn to the research on financial literacy. The concept of financial literacy is broader than previous approaches that saw a linear approach between information given and decisions made. It includes the psychological dimensions of decision-making and also notes cultural differences in attitudes to debt. However throughout the discussions, money and debt are seen as wholly economic phenomena. The consumer is rightly at the centre of the model. But it is always the consumer as an individual, rather than the consumer as a member of a household or family. The useful discussion about financial literacy would be strengthened if it included the growing body of literature on the social and cultural meanings of money.

### **1.6 Measures to address issues of household debt**

The literature shows there needs to be a four pronged approach – education for consumers; provision of credit that addresses the needs of the poor and a curbing of exploitative industry practices; regulation that supports effective consumer credit as a

tool for a more meaningful life; and more research on the social, cultural and behavioural aspects of financial decision-making. .

## 2. Dimensions of personal debt and credit in Australia

In this section we differentiate between ‘debt’ as the inability to pay household bills and meet payments, and ‘debt’ in the sense of consumer credit. We then detail the increase in household credit. This is however accompanied by a slight decline in the percentage of households who are ‘financially constrained’.

We then detail the characteristics of households who are at risk. Though financially constrained households are found across all income groups, they are concentrated in the 40 percent of households with the lowest income. In our study, the primary focus is on households with families receiving social security benefits, for they comprise households below the poverty line. A detailed analysis of the socio-economic characteristics of this group still remains to be done.

### 2.1 Household debt and credit

We distinguish between “debt” and “credit”. Following Kempson et al (2004) we use the term ‘debt’ to refer to two different situations. Firstly, “people are said to be ‘in debt’ if they have fallen behind with the payments on their household bills and commitments” (Kempson, McKay, & Willitts, 2004). This is similar to the notion of “financially constrained” households, that is households who are having difficulty paying their bills (Cava & Simon, 2005).

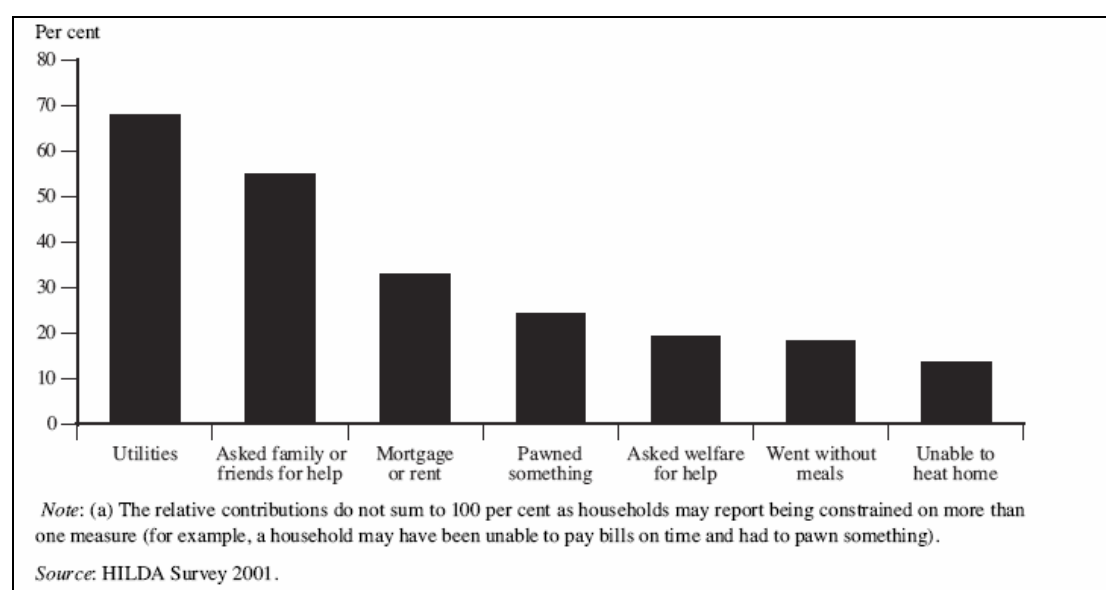
Cava and Simon (2005) interpret financial constraint as having difficulty paying bills because of a lack of cash. They identify seven measures drawn from the HILDA (Household, Income and Labour Dynamics in Australia), 2001 and HES (Household Expenditure Survey) 1993-94 and 1998-99 data.

Financially constrained households are those that:

- (i) could not pay their utility bills due to a shortage of money;
- (ii) could not pay their registration or insurance on time (rent and mortgage in HILDA);
- (iii) pawned or sold something due to a shortage of money;
- (iv) went without meals due to a shortage of money;
- (v) were unable to heat their home due to a shortage of money;
- (vi) sought assistance from welfare organisations due to a shortage of money; and
- (vii) sought financial help from friends or family due to a shortage of money (Cava & Simon, 2005).

It is this first sense of personal debt and financial constraint that is the focus of the study.

Figure 1: Measures of Financial Stress  
(percent of constrained households reporting each problem)<sup>a</sup>



Source: Cava and Simon, 2005

The second conventional usage of the term “debt” is the use of consumer credit. We follow this usage of the term ‘debt’ when dealing with the extent of household debt in Australia, using Reserve Bank of Australia figures.

This difference between these two meanings of ‘debt’ is important. In section 2.3 we detail that analysis of household expenditure surveys and the HILDA data show that while household credit has increased in Australia, the percentage of financially constrained households has remained the same or decreased.

## 2.2 Increase in household credit

Household credit has increased at an annual rate of 14 percent in the last decade. As a result, the household credit to income ratio has risen from a low of 56 percent to a high of 125 percent over the decade to 2002. The economic factors behind this increase in household debt are lower interest rates, lower inflation and financial deregulation (Reserve Bank of Australia, 2003a). At present, the ratio of household debt to income in Australia is less than Japan and the Netherlands; is similar to the United Kingdom and slightly higher than Canada and the United States (Reserve Bank of Australia, 2003b).

The increase in household credit in Australia has resulted mainly from increased borrowing for housing. More than four-fifths (83.5%) of household credit comprises borrowings for housing (See Table 1) (Reserve Bank of Australia, 2003a).

**Table 1: Household Debt**  
December quarter 2002

	Share of total	Average annual growth	
		Percent	Percent
	Percent	Past decade	Past 5 years
Housing <sup>(a)</sup>	<b>83.5</b>	<b>15.3</b>	<b>15.4</b>
–Owner-occupier	58.1	13.4	13.4
–Investor	25.4	21.6	20.7
Personal	<b>16.5</b>	<b>8.8</b>	<b>11.6</b>
–Credit cards	4.2	17.4	20.9
–Other	12.3	7.0	9.3
<b>Total</b>	<b>100.0</b>	<b>13.9</b>	<b>14.7</b>

(a) Shares based on bank lending data

Sources: (Reserve Bank of Australia, 2003b)

### 2.3 Personal credit is a small but growing portion of household credit

Personal credit made up 16.5 percent of household credit in the December quarter of 2002 (See Table 1). The worry is that all elements of personal credit have grown faster in the past five years than in the past decade.

Most of the personal credit (12.3 percent) comprised personal loans to buy cars and other durables. Credit card debt was a smaller portion of personal debt than other forms of credit, at 4.2 percent. However credit card debt had an average annual growth in the last five years to 2002 of 20.9 percent. This growth is the highest of any category of household credit.

This shift in the quantum and growth of credit is particularly important for the poorest 20 percent of Australian households (See Table 2). This quintile is defined in terms of net wealth and income, rather than other socio-economic characteristics. The mean net wealth of the poorest one-fifth of Australian households (according to income) is \$217,400. This group has \$232,700 in assets and \$15,300 in credit (Reserve Bank of Australia, 2004).

Table 2: Personal Credit amongst the Poorest Households in Australia

Lowest quintile of households	Mean Credit	Credit card debt		HECS		Other personal credit	
		% of households	Median value	% of households	Median value	% of households	Median value
According to income	\$15,300	16%	\$1,000	8 %	\$8000	12%	\$3000
According to net worth	\$20,200	28%	\$2,000	22%	\$9,000	38%	\$7000

(Reserve Bank of Australia, 2004)

As Table 2 depicts, 16 percent of the poorest one-fifth of Australian households (according to income) have credit card debt. The median value of this credit is \$1,000. Eight percent have HECS credit valued at \$8,000 and 12 percent have other personal credit worth \$3,000.

Twenty-eight percent of the poorest one-fifth of Australian households (according to net worth) have credit card debt with a median value of \$2,000; 22 percent have HECS debt with a median value of \$9,000 and 38 percent have other personal debt with a median value of \$7,000 (Reserve Bank of Australia, 2004).

It is difficult to go behind these figures to work out the impact of credit card debt on the poorest consumers. Visa International says that only 35 percent of households pay interest on their credit card accounts. The bulk of interest bearing debt is carried by households with average and above average incomes. They say “Low-income earners (\$15,000 pa or less) represent only 5% of cardholders and account for only 4% of interest bearing card debt. This group pays off their card bills in full by the due date in the same proportion as do many higher income.” They paint a rosier picture with credit card debt representing 3.8 percent of total household debt at June 2002 (compared with RBA figures of 4.2% at the end of Dec 2002) (Visa International, 2002). This view is disputed by some consumer advocates. Carolyn Bond, Manager of Consumer Credit Legal Service (Vic), says,

Credit cards are basically two products in one - a payment facility (like a cheque book) and a credit facility. While there is some crossover, about two-thirds of consumers use them as a payment facility and one-third as a credit facility. That one-third owe about three-fourths of the outstanding debt. I doubt there are official figures on this, but until there are, we won't be able to understand the extent of credit card debt/overcommitment... - and figures around mean credit card debt outstanding ...distort the true picture<sup>1</sup>.

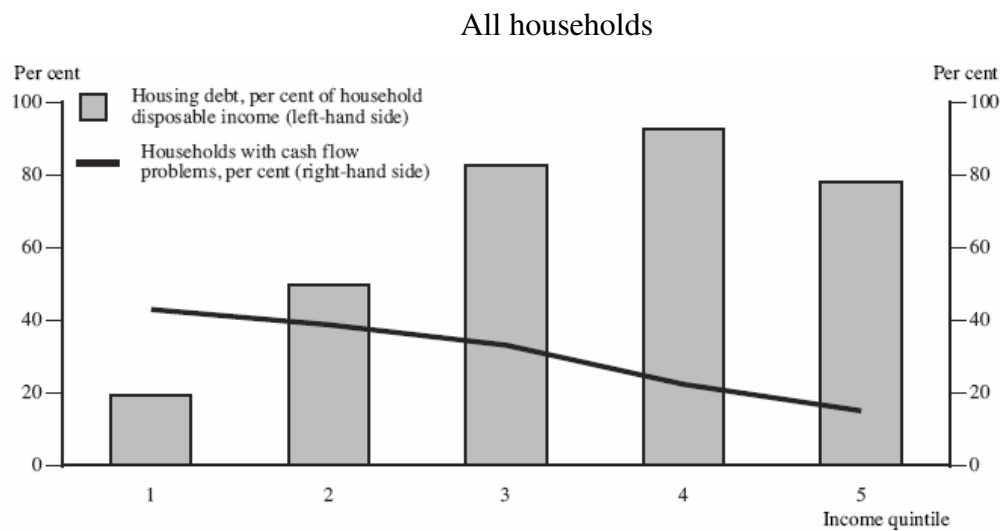
## **2.4 Level of household debt is lower over the last decade**

Over the last decade “household debt (as a share of household income) has reached historically high levels” (Cava & Simon, 2005). However, the percentage of financially constrained households has fallen between 1994 (33.4%), 2001 (30.6%) and 2002 (30.2%). This is because much of the increase in household credit has been incurred by households who are financially able to support increased repayments. It must be noted that La Cava and Simon use housing debt as a proxy for household debt.

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<sup>1</sup> Personal communication, Carolyn Bond, Manager Consumer Credit Legal Service (Vic), 12 May 2005

Figure 2: Housing Debt and Financial Stress by Income



Source: HILDA Survey 2001, cited in Cava and Simon, 2005

- Not all low-income households are financially constrained. There is a high proportion of older people who own their homes without a mortgage (Australian Bureau of Statistics, 2004). However, households that receive Centrelink payments are poor. It is clear from research by the Brotherhood of St Laurence that except for couples or people over 65 on support pensions, all households that receive Centrelink payments fall below the poverty line (See Figure 3). Employed singles are the most disadvantaged, but in the second category are employed couples and single parents with children (Brotherhood of St Laurence, 2004a).

The Henderson Poverty Line has been the most widely used measure of poverty in Australia. However the measurement of poverty taken in the HILDA (2004) study is more dynamic, as poverty is seen as both short and long-term. The HILDA study shows that households can move in and out of poverty due to changing situations. The study found that only 3.8 percent of those surveyed were deemed poor on each of the three years of the study (Melbourne Institute of Applied Economic and Social Research University of Melbourne, 2004).

- Age: Younger households are likely to borrow more to build up assets which will be repaid through their middle years. This debt is likely to reduce as the household head gets older (Cava & Simon, 2005).
- Other socio-economic variables: There are high rates of poverty among unemployed people, sole parent families, people with disabilities, indigenous Australians and some groups of immigrants and refugees (Brotherhood of St Laurence, 2002). A detailed analysis of the HILDA Survey would further expand our knowledge in this field.

Figure 3: Centrelink Income Support and the Henderson Poverty Line

The Henderson Poverty Line compared with Centrelink income support Australian dollars per week, quarter ending June 2004			
Life circumstances <sup>a</sup>	Centrelink payments <sup>b</sup>	Henderson Poverty Line <sup>c</sup>	Difference
<b>Head in the labour force<sup>c</sup></b>			
16-17 years, single	159.25	313.04	-153.79
18, 19, 20 years, single	159.25	313.04	-153.79
over 21 years, single	194.60	313.04	-118.44
Couple (over 21)	351.10	418.76	-67.66
Couple with one child	416.58	503.37	-87.03
Couple with two children	481.58	587.98	-106.40
Couple with three children	574.55	672.59	-98.04
Couple with four children	661.77	757.20	-95.43
Single parent with one child	339.30	401.89	-62.59
Single parent with two children	405.54	486.44	-81.90
Single parent with three children	486.72	571.05	-84.33
Single parent with four children	573.94	655.66	-81.72
<b>Head not in the labour force<sup>c</sup></b>			
Single parent with one child	339.30	342.62	-3.32
Single parent with two children	404.54	427.23	-22.69
Single parent with three children	486.72	511.84	-25.12
Single parent with four children	573.94	596.45	-22.51
Persons over 65 years, single	235.00	253.83	-18.83
"    couple	390.50	359.55	30.95
Persons eligible for disability support pension, single	235.00	253.83	-18.83
"    couple	390.50	359.55	30.95

Notes: <sup>a</sup> Not all family types and payment variations are detailed here. <sup>b</sup> Typical Centrelink payments for households with head in the labour force (which includes looking for work) include Newstart Allowance, Youth Allowance and Parenting Payment (partnered or single). Typical payments for households with head not in the labour force include Age Pension, Disability Support Pension or Parenting Payment (single). Figures quoted here are the full rates; payments are reduced if recipients earn more than a certain amount in wages or other income. Rent Assistance is not included. See technical notes over page for more information about the calculations made here.  
<sup>c</sup> Different Poverty Line estimates are made for households with head in the labour force, and for households with head not in the labour force.

Source: (Brotherhood of St Laurence, 2004a)

There is an increased push to go beyond considering socio-economic factors as primary contributors leading to consumer vulnerability and disadvantage. Market and transaction characteristics are also important. As David Cousins, Director, Consumer Affairs Victoria (2004) says

Typically, vulnerability and disadvantage are considered in relation to an individual's personal characteristics. However, when considering vulnerability and disadvantage in the consumer context, it is also necessary to have regard to the characteristics of markets which impact on decision making by, in particular, affecting the availability of information (Consumer Affairs Victoria, 2004).

Consumer vulnerability and disadvantage is thus viewed as a result of "the interaction of particular market and transaction characteristics which may create information problems with personal capacities and circumstances that affect consumers' access to and processing or use of information" (Consumer Affairs Victoria, 2004).

This wider approach to consumer disadvantage and vulnerability will no doubt be reflected in the Consumer Credit Review recently announced.

### 3. Credit to the poor

The poor find it difficult to get small loans in a way that is affordable, convenient, fast, understandable and maintains their dignity. In this section we place credit within the frameworks of financial inclusion and exclusion and detail some of the main ways of accessing credit.

#### 3.1 Access to credit and financial exclusion

Access to credit is an important element of belonging to society. Research in Australia shows that people are financially excluded because of a lack of affordability and access (Connolly & Hajaj, 2001; Kliger, 2004). Unlike international experience financial exclusion in Australia does not necessarily translate into being unbanked but being 'underbanked' – that is they have difficulty accessing the most relevant financial services (Connolly & Hajaj, 2001; McFarlane, 2003).

The ANZ Bank, drawing on market surveys, finds that low savings and income levels are the most likely indicators of financial exclusion. As a result

...the sectors of the community most likely to be at risk of financial exclusion include people in poverty, people from Indigenous backgrounds, people with a disability and people on social security benefits. Long-term financial exclusion can be caused by factors such as financial illiteracy, learned dysfunctional credit or savings behaviour and intergenerational exclusion (ANZ Bank, 2004, November).

These findings are substantiated by other studies (Commonwealth of Australia, 2004; Connolly & Hajaj, 2001; Kliger, 2004; Russell & Wakeford, 2005).

Drawing on the Roy Morgan Finance Monitor data, ANZ finds that 0.8 percent of Australia's adult population that is over 120,000 people can be considered to be financially excluded from the financial system.

The poor, like others in Australia use credit cards as their first preference to access credit. This is because of their immediacy and recognition. These credit cards have significant disadvantages in terms of hidden costs, low minimum repayments and the ease of overcommitment. Families at risk cannot often access credit cards with low interest rates. The other preferences are for personal loans up to \$3000, payday lenders, pawnbroking, Centrelink advance, No Interest Loans and borrowing from family and friends (Kliger, 2004).

A comprehensive study of the access to credit relating to the United Kingdom (Jones, no date) sheds some light on the Australian situation, because of similar frameworks. Low income consumers in the UK, are often excluded from using mainstream financial providers and rely on alternative lenders such as home credit companies, mail order catalogues, pawn shops and some retail purchase shops.

Over 90 percent of the Liverpool participants had obtained some form of credit to buy essential items and to make ends meet. The most important factor when selecting a credit option was accessibility. It is important to people on low incomes that they are not refused a loan and that lenders approve loans with minimum procedures and investigation. Other influencing factors were:

- Ease and flexibility of the repayments (linked to affordability);
- Speed of the loan decision;

- No credit checks nor questions about a person's financial situation;
- Familiarity of the service (linked to previous access or recommendation by family and friends);
- Convenience and ease of the application as well as simple straightforward terms and conditions;
- Social stigma associated with the credit source.

The cost of credit was generally assessed in relation to affordability of the weekly repayments rather than the overall total cost. The research highlighted that for many low income consumers, the actual interest rate and costs associated with accessing credit was unknown and decisions were based on whether the amount of the repayment could be budgeted.

### **3.2 Community organisations working with mainstream providers**

There have been recent initiatives where community organisations and mainstream providers have worked together to allow for more social inclusion of low-income consumers.

- Saver Plus – In partnership with ANZ, the Brotherhood assists low-income people to save for their children's education. Each dollar saved is matched with a further two dollars by ANZ Bank up to a combined limit of \$3,000. There is a financial literacy component to this program which was developed with the assistance of the Victorian Schools Innovation Commission. This program has now been extended in partnership with other community organisations (Brotherhood of St Laurence, 2004b; Russell & Wakeford, 2005).
- Advance Personal Loan - In partnership with Bendigo Bank, the Brotherhood of St Laurence provides personal loans of \$500 to \$2,000 to people on low-incomes. The program was developed in response to the limited sustainability of earlier interest free loans programs. Access to the mainstream financial sector is also considered an important aspect of social inclusion and economic development (Brotherhood of St Laurence, 2004b).
- The National Australia Bank has partnered with Good Shepherd Youth and Family Service to develop a low interest loan Step Up Loan Program for low-income consumers (Schilling, 2003). The Step Up program was aimed at breaching the gap between no interest loans and mainstream credit. Providing access to appropriate and affordable mainstream financial services is a way to promote social and economic participation and empowerment for people on low incomes (Good Shepherd Youth and Family Service, 2004). The pilot program commenced in October 2004 and will go through to October 2006. The loans are for between \$800 and \$3000 for the purchase of necessary household goods and services. The interest rate is 7.15%<sup>2</sup>.
- Business Loans - Studies have shown that self-employment is an important solution for people experiencing barriers to the labour market, such as mature aged job seekers and people from a non-English speaking background. The

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<sup>2</sup> Personal communication Colette McInerney, Manager, Microfinance, Good Shepherd Youth and Family Service, 18 May 2005.

Brotherhood of St Laurence and Fitzroy Carlton Community Credit Cooperative provide loans of around \$2,000 to small businesses to promote self-employment. (Brotherhood of St Laurence, 2004b).

- Citigroup and YWCA have entered into a corporate community partnership to run *Finance First*, a financial literacy program for low-income families in NSW. The program is designed to deliver financial literacy education to primary school children and their parents, using the family context to reinforce learning outcomes (Citigroup & YWCA, 2003).

These are hopeful signs of a changing climate. Industry practices however continue to entice low-income consumers into over-commitment by unsolicited offers for credit cards and mortgage extension loans. There are also unsolicited offers to increase the credit limits on home loans and credit cards (Kliger, 2004). As Connolly and Hajaj (2001) have noted, “Consumer organisations have argued for many years that banks, whether acting deliberately or not, have created a “bank fee poverty trap” from which their poorer customers are unable to escape. “ (Connolly & Hajaj, 2001).

### **3.3 Interest free loans**

Community organisations have also been part of initiatives relating to no-interest loans.

The Good Shepherd’s NILS (No Interest Loan Schemes) offer access to credit for essential household items, medical services or products and high energy efficient products. This credit is without any fees, charges or interest repayments. For many people, access to a no interest loan increases their standard of living, their self esteem, their confidence in managing their finances, their consumer knowledge as well as addressing the immediate need for an essential household item (Good Shepherd Youth and Family Service, 2004).

The latest development is a No Interest Loan Scheme called Better Energy Appliance Loan Program in partnership with Origin Energy. Colette McInerney, Manager, Microfinance, Good Shepherd Youth and Family Service, says,

These loans are to purchase a limited catalogue of high energy efficient goods (fridges, washing machines, and dryers) with the view of cutting energy costs over the longer term. This is also a pilot program and is available across a number of local government areas (Melbourne, Darebin, Moreland, Yarra, Brimbank, and Mornington Peninsula Shire Council). We have broadened out the income eligibility criteria to include: Centrelink Health Care Card, Pension Card, and/or in receipt of Family Tax Benefit Part A - with the hope that we might capture some of the 'working poor'.<sup>3</sup>

The Brotherhood of St Laurence also provides no-interest loans of up to \$1,000 for household goods to people on low-incomes.

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<sup>3</sup> Personal Communication, Colette McInerney, Manager, Microfinance, Good Shepherd Youth and Family Service, 18 May 2005.

### **3.4 Microfinance**

Microfinance initiatives in Australia include credit provision, savings plans, financial counselling and management and financial literacy. The aims of microfinance in Australia are the same as in developing countries – alleviating poverty and encouraging social and economic inclusion. However as Burkett 2003 notes there is not as much of an emphasis on credit for enterprise development in Australia because of regulatory and social welfare provisions (Burkett, 2003). Except for some experimentation in Aboriginal communities, credit is provided to the individual rather than to groups, generally groups of women as happens in the Grameen Bank and other celebrated initiatives such as CEMEX in Mexico (Pralhad, 2005).

In Australia, microfinance initiatives focus on:

- Improving the welfare of the poor, though microfinance does not reach the poorest in the society;
- Supporting community initiatives to develop microfinance products;
- Developing initiatives in the mainstream financial institutions that will support people in poverty.

Some of the initiatives are low or no interest loans; microloans given with no collateral or credit history; savings and loans circles; low/no cost savings schemes; microenterprise credit in Aboriginal communities (Burkett, 2003) or among women of low income coming from culturally and linguistically diverse groups (Saxson, 2004).

### **3.5 Payday lending**

Payday lending is an important though expensive way of getting money to pay bills or cover living expenses for low income people. The professional service makes it more respectable than going to the pawn broker (Wilson, 2002).

Nearly two-fifths of the (38%) people who borrow from payday lenders receive Centrelink benefits. More than three-fourths (76%) had no formal qualification. The average payday borrower is equally likely to be male or female in their late twenties or early thirties, Australian born and from an English speaking background. Sole parents with dependents are particularly vulnerable to financial shocks given the various expenses associated with children i.e. education and health (Wilson, 2002).

Wilson measured the cost of a \$200 loan for a period of two weeks and found that the typical cost ranged from \$48 to \$69 for the two weeks - an annual percentage rate of up to 700%. He found that the people who used this debt were not protected by the Uniform Credit Code. However, the lack of other alternatives that were as convenient and easy to use, meant that 40 percent of those who had borrowed from payday lenders had not borrowed from anyone else. Payday lending was also seen as less open ended than credit card debt and not as embarrassing as borrowing from friends. There was no stigma attached to using a payday lender as it was seen as a legitimate way of accessing credit.

Wilson noted that the Centrelink advance payment of \$500 was accessed by 20 percent of consumers. His research did not find evidence to support the assumption that pawnbrokers and payday lenders are serving the same consumer base. Only 15 percent of payday loan borrowers had used a pawnbroker in the past 12 months.

### **3.6 Book Up**

The paucity of the supply of credit has led to practices like “book up”. Book up is a practice that mainly occurs in rural and regional areas. It is particularly prevalent among Aboriginal communities. A store, taxi, or airline (new) may provide short term loans while holding the person’s social security cheque, debit card and PIN or signed blank withdrawal forms. Though book up is an easy way of getting credit where there are a few other alternatives, it can lead to financial disadvantage because of tying a person to a particular store or provider, overcharging, lending for alcohol and allowing the person’s relatives to gain credit (Renouf, 2002).

### **3.7 Lack of community development finance institutions (CDFI)**

Australia does not have a range of community development finance institutions (CDFI) (Parker and Lyons, 2003). Parker and Lyons (2003) define CDFIs as

... a range of organizations that had emerged over the last two decades to mobilise finance for the economic development of severely disadvantaged communities and to lobby governments for supportive policies (p.3).

If disadvantaged communities can develop appropriate financial structures and practices that are acceptable for their community this may prevent the need for more regulation on the provision and use of credit and empower the individuals.

Credit unions, friendly societies and regional banks carry out similar activities, though are not as broad as CDFIs. Typically CDFIs act like banks except that they lend to individuals and small businesses who are not eligible for mainstream credit. While their main lending is to support local enterprise they also provide personal credit. Parker and Lyons (2003) report their successful use in the USA, UK, Canada and Europe. Unlike Australia, in these countries, they are supported by government policy.

There are hopeful signs that mainstream financial institutions are recognising the need for CDFIs. ANZ Bank recognises there is a need for community development finance programs to provide:

- Small loans to provide alternatives to payday lending;
- More financial counseling services and financial literacy education;
- Low-fee transaction accounts; and
- Low-cost, interest-bearing savings accounts or savings incentive programs.

## 4. Regulation of credit

On 1 November 1996 the Uniform Consumer Credit Code began operation as a “uniform national legislative scheme” (Niven & Gough, p. 3). The rationale for a uniform code is that:

It is generally acknowledged to be in the interests of the public and of persons and authorities concerned with the administration of the laws regulating the provision of consumer credit that there should as far as possible be uniformity both in those laws and their administration in the States and the Territories of Australia (*The Consumer Credit Code: Australian Uniform Credit Laws Agreement 1993*, 1993).

The Code covers a range of activities and remedies including: Credit contracts; Related Mortgages and guarantees; Changes to obligations under credit contracts etc; Ending and enforcing credit contracts etc; Civil penalties for defaults of credit providers; Related sale contracts; Related Insurance Contracts; Advertising and related conduct; Consumer leases; and Miscellaneous issues.

### 4.1 Truth in lending

The principle of "truth-in-lending" is the basis of consumer credit legislation in Australia. The Code follows similar legislation enacted in the United States in the 1960s and then in the United Kingdom, Canada and New Zealand (Malbon, 1999).

As Avram (1997) says,

This legislation aims to ensure that consumers have ready access to accurate and comprehensive information. This is to enable consumers to compare alternative sources of credit and make the optimal choice from their personal perspective, thereby contributing to the competitiveness of the market and benefiting the community as a whole (Avram, 1997, p. 16).

Malbon (1999) puts it in a similar way.

The essential aim of “truth in lending” is to make it relatively easy for consumers to find out what loans are on offer and on what terms. Ideally it aims to make it easy to find out both the prices of credit on offer (ie the interest rate, together with charges) and the contract terms (eg repayment terms, and foreclosure terms if a consumer defaults in repayments). The easier it becomes for consumers to make comparisons between products, the more likely an increased number of consumers will shop around for the best deal. The greater the number of shoppers, the more likely the market will be competitive (all things being equal). A competitive market, so the theory goes, will be economically more efficient, which serves to benefit individual consumers and the economy as a whole (Malbon, 1999).

Avram and Malbon’s reports examine the scope and effectiveness of “truth-in-lending”. They are based on surveys and are bounded by legislative frameworks. Their reports give a picture of who takes credit, for what, from whom and how decisions are made.

Avram’s survey of 597 people in Victoria with personal loans, showed:

- A relatively small proportion of consumers shopped for credit by comparing alternative lenders;
- The dollar amount of the repayment and the interest rate of the loan were the most important aspects of the loan for credit consumers. This was particularly true for consumers with lower education levels, loan amounts and household incomes;
- Though information is important, “not all of these consumers will make decisions based on price” (Avram, 1997).

Avram concludes that:

...credit consumers do not always minimise the direct costs of credit... truth-in-lending is important, and the challenge is to provide financial information which is readily accessible and comprehensible. However truth-in-lending cannot guarantee equity for all in consumer credit markets. Thus effective consumer protection must optimise truth-in-lending requirements and provide an effective safety net to protect those consumers who were unwittingly enticed into unjust loan agreements." (p. 2)

Malbon conducted a national phone survey and focus groups. He found that credit users with incomes above and below an annual income of \$31,000 used information in a similar way for various kinds of credit. He says,

We found, somewhat surprisingly, that the behaviour of consumers when making decisions about purchasing credit, is largely the same, regardless of income category or gender or whether they reside in metropolitan or non-metropolitan areas. ...to the extent that there are differences in behaviour of the income groups, lower income consumers may be more inclined to take the loan they are offered without question because they believe it is the only loan they will be offered. (Malbon, 1999, p. 10).

He found that the differences in shopping for credit had more to do with the kind of credit rather than the socio-economic differences of consumers. He notes:

- The majority of consumers (58%) seeking housing and personal loans shop around for their loans. Of these more than three-fourths (77%) could easily compare loan products. Interest rate comparisons were easier than comparing fees and charges and so most said the interest rate was the factor that decided them on the lender.
- "Only 26% of respondents shopped around for their credit card loan. Of those who shopped around, most compared interest rates (80%), and found it relatively easy to compare loan products offered." (Malbon, 1999).
- For personal loans, 61 percent said that previous dealings with the lender were the most important factor. Eleven percent said that advertisements were important. Eleven percent also said that advice of family and friends was important. “Only 8.5% stated that shopping around was the most decisive factor leading them to choose their personal loan.” ((Malbon, 1999). The interest rate was the major factor for deciding on personal loans for 40 percent of the people surveyed.

For linked credit, that is loans offered by suppliers of goods, loyalty to the lender is less important. Advertising is the most important influence (39%), followed by the

goods that are to be purchased (18 %). The focus for 46 percent of the consumers was on the goods to be purchased rather than the loan.

It appears from our research that the truth in lending objectives of the Code are not misplaced. If readily comprehensible information is provided to consumers, then many will use it for making rational choices about the product that best suits their needs (p. 12).

## **4.2 Reviews of the Uniform Consumer Credit Code**

Reviews of the Uniform Consumer Credit Code (UCCC) come to differing conclusions. From the consumers' perspective the Code has proved ineffective because of providers' efforts to avoid coming under the Code, inadequate disclosure, insufficient protection for vulnerable consumers and inadequate enforcement of the Code (Howell, 2004; Niven & Gough, 2004). Reviews of the effectiveness of the Code by the Standing Committee of Officials of Consumer Affairs (KPMG Consulting, 2000) and the Ministerial Council on Consumer Affairs published as the Malbon Report in 1999 are mixed. Both are satisfied that the Uniform Code is achieving its aims, particularly that of truth-in-lending. They acknowledge that price is not always the important element in decision-making on consumer credit, but see legislation as the main tool for consumer protection. They suggest ways to increase the legislative safety net and strengthen the truth-in-lending principles.

Niven and Gough (2004) used case studies of disadvantaged and vulnerable consumers who sought assistance from the Consumer Credit Legal Service Inc (Vic) to evaluate the code (Niven & Gough, 2004). They also drew on the experience of other consumer organizations such as Credit Helpline, Consumer Credit Legal Centre (NSW) and the Consumer Law Centre. Niven and Gough (2004) conclude that "The objects of the Uniform Consumer Credit Code remain relevant, but unfortunately they are increasingly unmet" (Niven & Gough, 2004, p. 31). They recommend that "a more comprehensive review of consumer protection in the context of credit and credit related transactions be undertaken, with a view to implementing a regime that better reflects the realities of the market" (p. 31).

They see the list of failures of the Code to be substantial. One of the most pressing is avoidance of the Code by using the Business Purpose Declaration, so as to remove the matter from the Code. It is an issue that Howell (2004) also discusses in detail in relation to solicitors' lending for consumer purposes. The basic concepts of "consumer" and "credit" are "sufficiently unclear" (Niven & Gough, 2004, p. 4) as to allow for evasion and or manipulation. Niven and Gough (2004) say:

It is clear from the anecdotal evidence provided by credit lawyers and financial counsellors that many consumers who obtain credit are denied the protection of the UCCC. Common examples include credit contracts taken out in car yards and with fringe credit providers, which are often documented in a manner designed to avoid regulation by the UCCC (p. 4).

Howell (2004) in a review of solicitor lending to consumers in Victoria found that these providers were framing consumer loans so that they could evade the provisions of the Code. She says:

The research reiterated concerns that loans that are essentially for consumer purposes can be structured to avoid the operation of the Credit Code. The primary avoidance mechanisms are:

- the lender is not “in the business of lending”; and
- the borrower has signed a business purposes declaration.

She proposes that the legislation needs to be amended to address these issues. (Howell, 2004, p.96)

Niven and Gough (2004) also note providers’ use of methods to avoid the Code such as “sale by installments”, “interest free credit” and “consumer leases” to evade the consumer protections of the UCCC. They say

One of the most troubling aspects of avoidance of the UCCC is that those transactions that are artificially removed from the scope of the legislation are those in respect of which consumers most need access to the protections and remedies otherwise made available to them. Particular consideration must be given to the needs of vulnerable and disadvantaged consumers (p. 31).

There is also a “systemic failure” (p. 13) in disclosing relevant matters such as interest rates, or to properly calculate relevant amounts. There are also cases where providers ignore the 30 day period required before enforcing in event of default. Consumers have few remedies available to them under the Code for the return of their mortgaged goods. Niven and Gough (2004) also stress the limitations in the Code protecting consumers from unjust practices or products. The emphasis in the Code is on procedural rather than substantive unfairness. As these matters are poorly enforced, the protections get diluted.

Malbon’s (1999) review of the Uniform Consumer Credit Code focuses on a review of “truth-in-lending”. Drawing on the empirical study of information and decision-making relating to credit (see previous section), he makes the point that consumer experience of “truth-in-lending” is more favourable in the housing and personal loan markets than those of credit card lending and linked lending. Thus he concludes “the Code itself is not decisive in creating a competitive market” (p. 82). The Code however is significant. He says:

Overall, this research provides grounds for greater optimism about the truth in lending objectives of the Consumer Credit Code that (sic) previous research has suggested. Rather than being ignorant and apathetic about credit information, most consumers appear willing to shop around for the best product and make use of the information readily available to them to assist them make rational choices. The Code plays a significant role in regulating the nature and provision of that information (p. 82)

### **4.3 Regulation of financial reporting**

Other regulatory studies of consumer behaviour relate to financial planning and cold calling scams. These reports point to the lack of quality of financial planning advice (Australian Securities & Investments Commission, 2003b) and some consumers’ inability to identify misleading and fraudulent offers in the market.

It is of some concern that a financial institution can offer an existing credit card holder an increase in his/hers credit limit without the same amount of disclosure that is required by a financial planner to suggest an increase in investment in superannuation.

In ASIC's (2002) report entitled *Hook Line and Sinker: Who Takes the Bait in Cold Calling Scams?* ASIC found that some consumers underestimate the gaps in their knowledge. They also overestimate their ability to understand some of the legalities involved with investing (Australian Securities & Investments Commission, 2002).

## 5. Financial literacy

The most useful studies connecting the perspectives of consumers, providers and the government are the Australia and New Zealand Bank's study of financial literacy in 2003 (Roy Morgan Research, 2003), and the discussions around the paper *Australian Consumers and Money* (2004) (Commonwealth of Australia, 2004) prepared by the Treasury's Consumer and Financial Literacy Taskforce.

These have been useful exercises aimed at placing financial literacy, its measurement and implementation at the centre of policy to empower consumers. These exercises have been generally supported. The main criticism has come from consumer bodies that see this euphoria about financial literacy blocking out the needs to tackle the exploitative provision of credit and socio-economic aspects associated with families at risk.

The concept of financial literacy is broader than previous approaches that saw a linear approach between information given and decisions made. It includes the psychological dimensions of decision-making and also notes cultural differences in attitudes to debt. Throughout the discussions, money and debt are seen as wholly economic phenomena. The consumer is rightly at the centre of the model. But it is always the consumer as an individual, rather than the consumer as a member of a household or family. The useful discussion around financial literacy would be strengthened if it included the growing body of literature on the social and cultural meanings of money.

### 5.1 The ANZ study

There have been previous studies of financial literacy (Chen & Volpe, 1997; KPMG Peat Marwick LLP, 1995; Mandell, 1997; Oppenheimer Funds/Girls Inc, 1997; Princeton Survey Research Associates, 1996; Vanguard Group, 1997; Volpe, Chen, & Pavlicko, 1996). In the Australian context, the ANZ study is the first to explore the dimensions and extent of financial literacy on a national basis across the broad spectrum of financial issues. This report serves as a benchmark for measuring and improving consumer financial literacy levels. The results of the survey are important for consumer education as well as ensuring that the bank delivers effective services.

The survey notes that

Financial literacy is about enabling people to make informed and confident decisions regarding all aspects of their budgeting, spending and saving and their use of financial products and services, from everyday banking through to borrowing, investing and planning for the future (Roy Morgan Research, 2003).

It defines financial literacy as “The ability to make informed judgements and to take effective decisions regarding the use and management of money” (Roy Morgan Research, 2003).

The measurement of financial literacy took into account “knowledge and understanding, behaviour, attitudes, perceptions and awareness as they relate to” (Roy Morgan Research, 2003) mathematical literacy and standard literacy; financial understanding; financial competence and financial responsibility. Hence financial literacy is more than counting the cost of credit but is placed within the broader context of the attitudes towards and the management of money.

Overall, the story is positive. However, in contrast to Malbon's (1999) findings about socio-economic factors and credit decision-making, the ANZ survey found there was an association between low levels of financial literacy, low education, unskilled work, lower incomes and savings levels. They also found that the lowest levels of financial literacy were associated with single people, young people (18-24 years) and those aged 70 years and over.

## **5.2 Australian consumers and money**

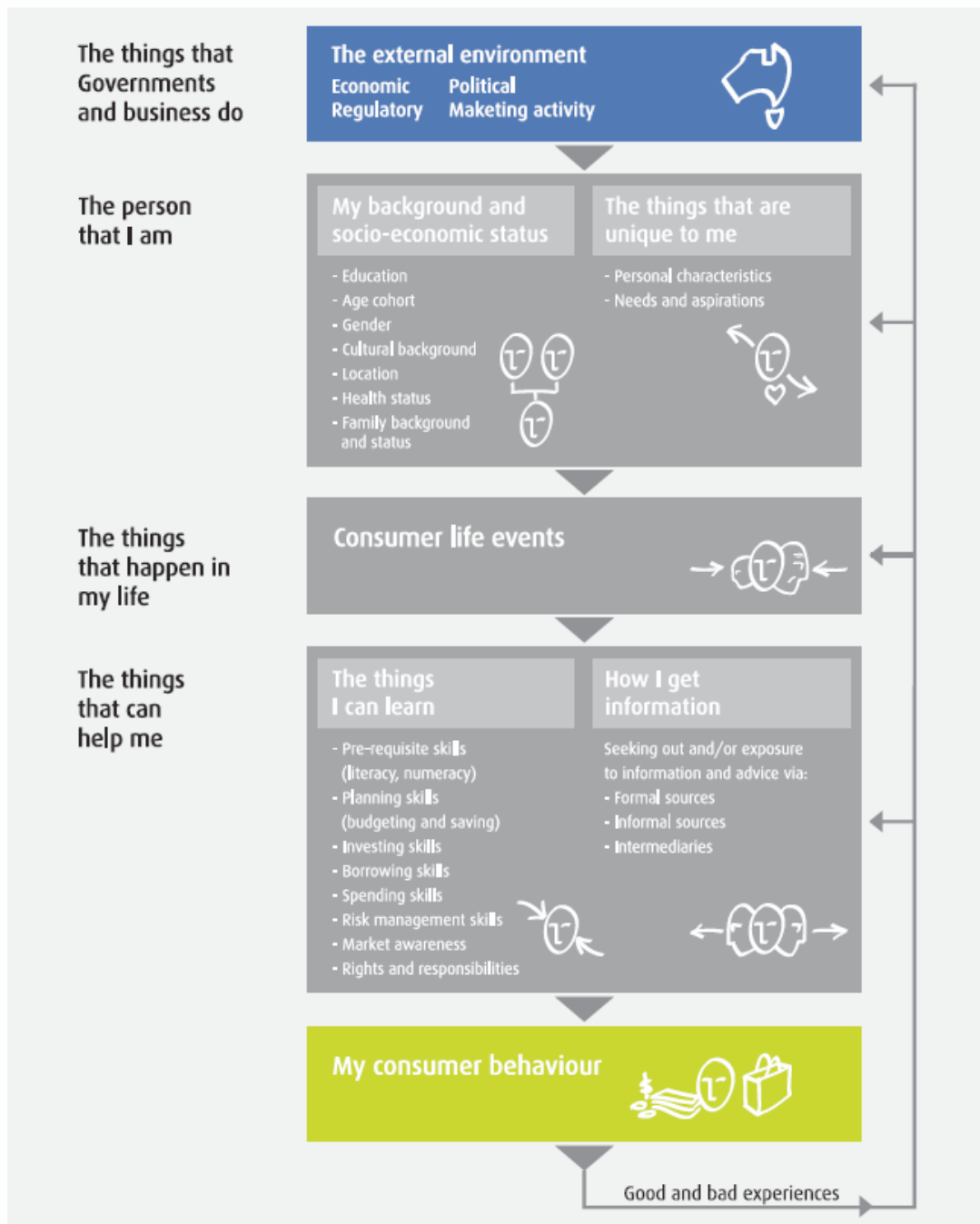
In February 2004, a task force was announced by the Federal Government to develop the National Strategy for Consumer and Financial Literacy. In June 2004 the taskforce released the discussion paper "Australian Consumers and Money" which called for community consultations (Commonwealth of Australia, 2004). The Taskforce produced a multi-faceted paper. Placing the consumer at the centre, it integrates macro developments in the regulatory environment, the economy, financial and political institutions. It also takes into account a person's background and socio-economic status, together with unique personal characteristics. Life stage is equally important for needs and wants change. The paper also focuses on the skills that are needed to make financially advantageous decisions and how these skills can be acquired. For these reasons, the paper has been lauded.

At the centre of the paper is a consumer behaviour model (figure 4). It visually depicts the relationships between the different factors contributing to financial decision making. It is not a model in the sense of being productive. The model remains important for it summarises their understanding of how Australians deal with and think of money. In section 5.4, we suggest that an increased emphasis on culture would ensure that we see money more in the context of a person's social and cultural context, rather than seeing money purely as an economic phenomenon.

The Taskforce paper elicited a wide variety of responses from consumer bodies, credit providers and others. Overall, the reaction has been favourable. In the next section we focus on the reaction of some consumer organisations.

Figure 4: The Consumer Behaviour Model

# Consumer Behaviour Model



Source: (Commonwealth of Australia, 2004)

### 5.3 Consumer bodies react

Consumer organisations that responded to the Discussion Paper were in favour of initiatives aimed at increasing financial literacy as part of the mix of measures taken. However they warned that consumer credit problems often resulted from exploitative practices of financial providers who profited from advertising and marketing goods and services that would harm people of low income. Moreover, financial literacy was only one factor in decision-making. More research was required on the causes of financial problems. Consumer information needs to be simpler and more trustworthy. Thus a sole emphasis on financial literacy to the exclusion of other factors is not desirable.

As the Consumer Credit Legal Centre (NSW) Inc said,

On balance, CCLC is in favour of initiatives aimed at increasing financial literacy in the community, particularly if it incorporates general numeracy. However, while many people make poor financial decisions, this is not exclusively due to low financial literacy.

We agree that financial literacy has a role to play in improving these problems, but we are of the view that there are a few fundamental flaws in the approach taken in the Discussion Paper. In particular, there are erroneous underlying assumptions that obscure the real source of this problem (Consumer Credit Legal Centre (NSW) Inc, 2004).

Some of these assumptions are that:

- Poor financial decision making is the result of low financial literacy;
- With financial literacy there will be uniform improvements in wealth.

CCLC points out that “the reality is that some parts of the industry thrive on the consumers’ making poor financial decisions” (Consumer Credit Legal Centre (NSW) Inc, 2004). Their advice and casework experience show that poorer consumers have problems getting access to mainstream credit. They also find it difficult to respond adequately when credit problems arise. Greater financial literacy about mainstream credit products and services is unlikely to influence this situation. The emphasis needs to be on providing a safer market place.

CCLC says:

Financial literacy is not in and of itself the only solution to consumer problems. We argue that financial literacy is likely to have only a minimal effect on reducing vulnerability to exploitation and unmanageable debt. The mere provision of information to consumers is not likely to bring about permanent behaviour change. It cannot, and indeed must not, distract the government away from providing or encouraging the provision of appropriate and varied choices, and encouraging lenders to take more responsibility by ensuring that they perform proper credit assessment and do not participate in exploitative practices (p. 2).

The Brotherhood of St Laurence argues that it is overly simplistic to see a direct causal relationship between socio-economic factors and financial literacy on the one hand and financial literacy and decision making on the other. The situation is more complex and requires a change of mindset. They say:

A broader understanding of human behaviour is certainly important in addressing consumer and financial literacy....The Brotherhood often observes a feeling of hopelessness amongst people on a low-income, which results in them sustaining themselves from week to week, without clear aspirations. This leads to a lack of interest in longer term issues, such as saving or building a credit record. A change of mindset needs a more powerful circuit breaker than improved financial literacy (Brotherhood of St Laurence, 2004b).

They also point to formal information sources being distrusted with information from friends and family being preferred. Consumer education in school can however have some effect. They conclude:

The Brotherhood appreciates the Consumer and Financial Literacy's discussion paper as we believe financial difficulties are a significant aspect of poverty. However, the Brotherhood would recommend a broader focus on other financial issues, rather than just financial literacy. Most people on low-incomes are excluded from mainstream financial services and thus financial literacy needs to be accompanied by improved access. We would also recommend broader research into the needs and barriers for people on low-incomes in accessing financial services. Whilst we acknowledge individuals need to take some personal responsibility for managing their money, it is also important to research structural issues that affect individuals, such as government regulations, marketing and bank policies (Brotherhood of St Laurence, 2004b).

These points are particularly pertinent as the direct causal connection between financial literacy, individual and economic well-being continues to be made without a focus on consumer life events, the circumstances and cultural background of different groups.

The Commonwealth Bank recently measured the impact of a lack of financial literacy on a person's economic well-being (Commonwealth Bank Foundation, 2005). The study concluded that by increasing the financial literacy of the 10 percent of the population with the lowest scores over a ten-year period, Australia's economy would significantly benefit with an increase in GDP by \$6 billion per year and the creation of 16,000 new jobs.

There are concerns however about the relevance of this report for low-income consumers. The report was based on telephone interviews with 5,000 Australians in August and September 2004. Some of the scenarios focused on decisions about long term and liquid investments, voluntary super, ways of minimising tax, secured loans, life insurance, and donating money from pre-tax pay. These are not issues that are relevant to consumers below the poverty line. It also did not take into account a consumer's life events that are an essential ingredient of the Consumer Behaviour Model.

## **5.4 A Cultural Consumer Behaviour Model**

The Consumer Behaviour Model remains an important tool of analysis and policy. We think it would be more useful if culture was seen as an important macro factor, rather than just one of many aspects that influence a person's decision-making (See figure 5). This is because money is a social and cultural phenomenon. Individual and family

aspirations are couched within a framework of materialism, that is "...the belief that material goods are the chief source of happiness or unhappiness in life" (Belk, 2001). People most often see money as a tool to make possible their life choices and aspirations, as a way of belonging to Australian society (Kliger, 2004). The questions facing our "families at risk" are often 'What do I do to replace the broken washing machine', 'How do I get enough money to pay for the school books?' 'How can I provide choices for my children?' 'Can they have access to mobile phones and the Internet?' The choices for credit are also varied depending on cultural background and the possibility of family support. It is in this context that the decisions have to be made about the most accessible and affordable way of getting credit.

The management and control of money within a household is impacted not only by a family's socio-economic status, but by its kinship and marriage patterns, and the ideology of family and marriage (Pahl, 1990, 1995, 1999; Singh, 1997; Waseem, 2004). These issues are discussed in greater detail in the accompanying literature review on personal debt and credit. It is important however to state that in Australia, among middle-income Anglo Celtic couples, the domestic financial unit is the couple. Hence information about money is most often shared between husband and wife. However there is a difference between the ideology and reality of sharing of money management and control. This is particularly true where the boundaries of family and business money are nebulous. A study of women in small business showed that in husband wife businesses where the man is seen to be the generator of wealth, the woman may be informed, but not have the power to inform decisions. This is an 'informed powerlessness' (Singh, 1995).

The middle-income Anglo Celtic boundaries and management of money are distinctive in that they differ from the patterns most often seen in Asia, Africa, the Pacific and many countries in Europe. The extended family, variously defined, is seen as the domestic financial unit. Hence money and information about money is common to a broader group of people. In Australia, these cultural differences come most to the fore in Aboriginal groups where sharing within the family, rather than individual saving is the moral norm (Martin, 1995, n.d; Sansom, 1988; Senior, Perkins, & Bern, 2002). In New Zealand, the different boundaries of money influence money management in the Pakeha, Maori and Pacific Islander households (Fleming, Taiapa, Pasikale, & Easting, 1997).

#### **5.4.1 Cross cultural issues**

Community organisations have been at the forefront in examining the influence of cultural background on attitudes to debt and the use of credit. Kliger writing for the Financial and Consumer Rights Council Inc., focuses on credit attitudes and behaviour among Arabic-speaking people, and people from the Horn of Africa and Vietnam (Kliger, 2000). She finds that most people of these communities have not dealt with consumer credit in their countries of origin. This is because:

- Consumer credit is not generally available from financial institutions;
- In Islamic societies, loans do not always incur interest;
- There is a preference for informal community-based savings;
- Credit obligations are family-based rather than individual.

Differences in the way credit is perceived are further exacerbated with information that is in English and difficulties in accessing credit because of unemployment. The

Australian financial system thus appears formidable compared to the “certainty and familiarity” offered by the community schemes in their country of origin which enable “people to borrow and financially support each other” (Kliger, 2000).

Kliger recommends disseminating information in multiple languages; ensuring adequate disclosure and financial counseling, together with enhancing the security and awareness of community saving and loan schemes.

In these communities the important factor in credit is not the comparison of costs and contracts, but ensuring that ties with the community remain strong. "Respondents commented that non-payment of money owed to a community scheme would lead to a person being ostracised from their community” (Kliger, 2000).

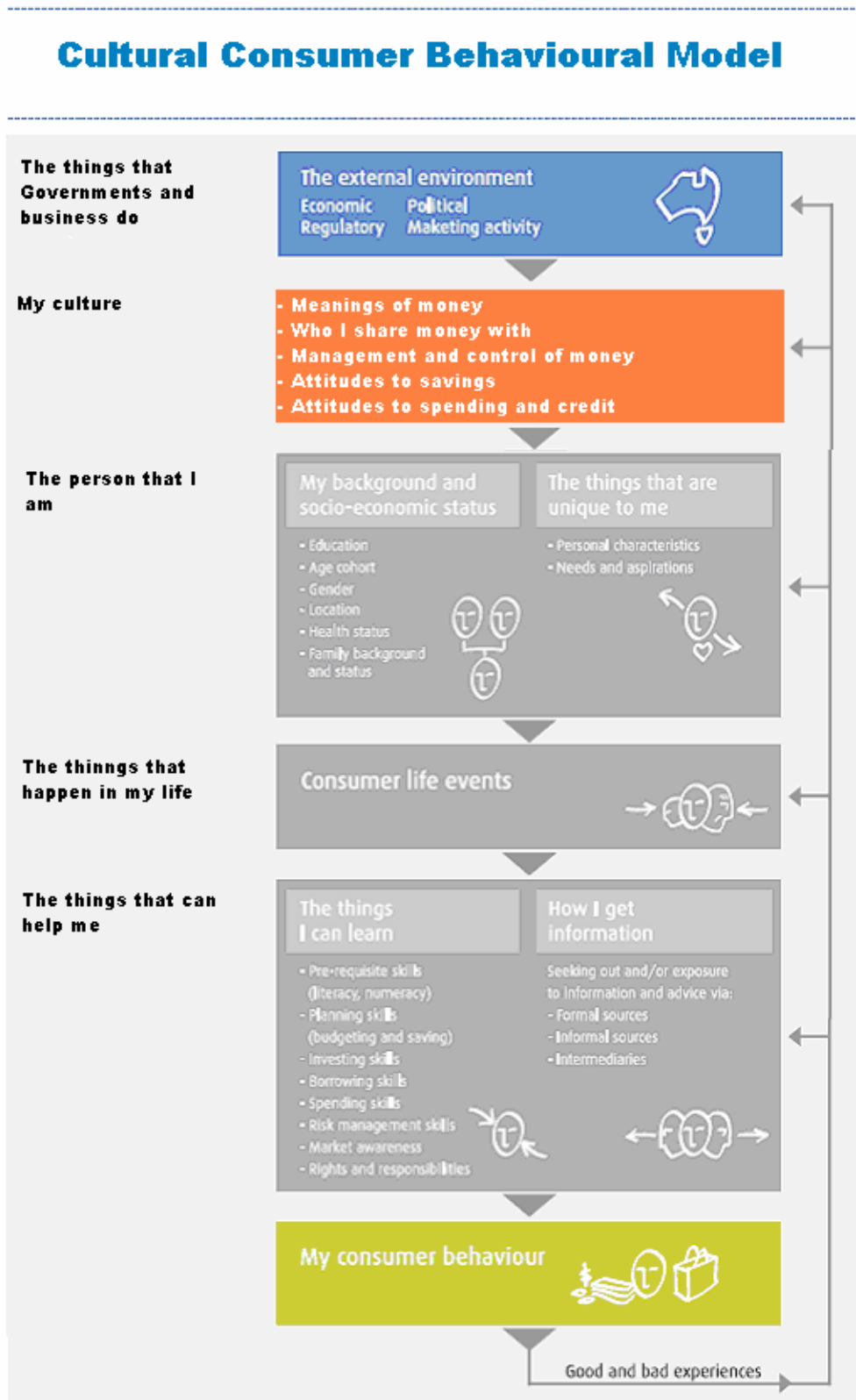
A recent study by the Financial Consumer Rights Council also found significant differences in the attitude to credit by two different ethnic communities in Melbourne. The Former Yugoslav Republic (FYR) and Cambodian communities. In summary they found

The Cambodian and the FYR respondents’ experiences of and attitudes to credit, debt and help seeking were both different from and similar to their counterparts in the Anglo-Australian community, and different from and similar to each other. Key differences included that the *profile* of credit usage among these two communities did not appear to match Anglo-Australian patterns, and both the extent and the nature of credit use differed across the two communities under study. The Cambodian-Australian respondents tended, on the whole, to use credit less than the FYR respondents. They also tended to use a narrower range of credit providers. Nonetheless, the Cambodian-Australians tended to use relatively more of the informal types of credit whereas the FYR respondents tended to use mainstream banks and formal credit provision systems and, possibly to a lesser extent, their family and friends (Financial and Consumer Rights Council & Department of Social Work and Social Policy La Trobe University, 1997)

The Coburg Brunswick Community Legal and Financial Counselling Centre Inc. studied 64 women from different cultural backgrounds in 2004. It has detailed “financial abuse” as an important form of domestic abuse. This varies from women being denied access to bank accounts to not being given money for food and the payment of bills. “Financial abuse” has led the Centre to recommend legal action and that

High school and TAFE financial literacy classes, pre-marriage and relationship counselling and migrant education classes all need to include education on relationships and money management. This should include discussion and strategies around issues of power, control and coercion in money and relationships (Branigan, 2004).

Figure 5: A Cultural Consumer Behaviour Model



## **5.5 Consumer education and financial literacy**

There has been a renewed push for consumer education dealing with financial literacy. In June 2003, the ANZ released the results of its survey on Financial Literacy. Soon after, the Australian and Securities Investments Commission (ASIC) released a discussion paper on Financial Literacy in Schools to examine the existing levels of financial literacy teaching in secondary schools and to present options for improving those levels (Australian Securities & Investments Commission, 2003a). Consumer Affairs Victoria has also summarised developments in consumer education in schools in Australia within an international perspective (Consumer Affairs Victoria, 2003).

These studies conclude that consumer education particularly relating to financial literacy is vital, particularly to address youth debt, but more needs to be done. However in Australia, consumer education has lacked resources, encouragement and has not been given sufficient importance. Time spent on consumer issues has been patchy. The teaching does not cater to a variety of learning styles and curricula have not sufficiently taken into account the needs and perspectives of the young people they address. There also need to be more resources available for teachers (Consumer Affairs Victoria, 2003).

The verdict on the impact of consumer education in schools on financial decision making is mixed. Consumer Affairs Victoria concluded that consumer education in schools has helped youth make better decisions about money in Australia, US and UK. But it is recognised that information gained in school is only one of the many kinds of information that influences decision-making. The Commonwealth Bank study (Commonwealth Bank Foundation, 2005) found that only 31 percent indicated that studies at school was their main source of financial knowledge.

A research report on youth debt prepared by the office of Fair Trading NSW (2003) indicated a looming problem of young people in debt. Despite the efforts of the formal education process, young people are either still attending or leaving school without acquiring the skills to handle debt (Danger Research, 2003).

## **5.6 Curbing exploitative practices by industry**

When dealing with the importance of financial literacy, it is also important to consider there is a tension between industry profit from exploitative practices and industry's attitude of social responsibility. As noted by previous studies it is clear from consumers' experience that industry still continues to directly market products and services that increase the vulnerability of consumers (Connolly & Hajaj, 2001; Klinger, 2004).

It is of concern that industry's advertisements for remedies often increase risky behaviour among the most vulnerable consumers. A study examining remedies in the areas of smoking, debt consolidation and travel insurance showed that remedies that offer solutions to consumer problems work for consumers who do not have the problems. So non-debtors would see debt consolidation remedies as reinforcing their perceptions that going into debt is risky and should be avoided. But as they say the bad news for consumers who are indebted is that

....remedy messages reduce risk perceptions and increase

risky behavior (consistent with research on risk compensation). This boomerang effect provides evidence that remedies undermine risk-avoidance among those most at risk—with negative consequences for consumer welfare (Bolton, Cohen, & Bloom, no date).

## 6. Conclusion: Measures to address household debt

The literature highlights four measures to address household debt: the responsible provision of credit to low income people and a curbing of exploitative industry practices; a focus on financial literacy in consumer education; more effective regulation that goes beyond ‘truth in lending’ formulations; and more research on the social, cultural and behavioural dimensions of financial decision-making.

We will be focusing on the policy measures in a separate report. We hope our study will make a difference to the way families at risk decide on personal debt and credit.

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Genevieve Sheehan	Brotherhood of St Laurence
Peter Gartlan	Financial and Consumer Rights Council
Denis Nelthorpe	Consumer Lawyer
Wendy Smith	Education Advisor, Consumer Affairs Victoria
Colette McInerney	Good Shepherd Youth & Family Services Victoria
Patricia Toohey	ANZ Bank

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