Can Financial Counsellors add value to financial literacy initiatives?

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Introduction:

This paper will explore financial literacy in the context of financial counselling. It will argue that for financial literacy strategies to be effective in the broader sense, it is essential that financial counsellors be involved. It puts the case for ‘inclusion’ to be a necessary addition when ‘financial literacy’ is discussed, ie ‘Financial literacy and inclusion’

In addressing the needs of low income, marginalized and vulnerable consumers who are the client group of financial counsellors across Australia, the Financial Literacy Foundation, banks and other groups interested in this area need to work in partnership with the financial counselling sector. Recent research by the ANZ bank confirms that financial counsellors are most effective in delivering financial literacy and inclusion strategies to those people who need them most.
In this paper, some of the partnerships between financial counsellors, Government and industry will be explored including strategies currently underway and being developed. The paper draws heavily on a key note speech to the Financial Counsellors Association of Western Australia’s conference in October 2004 which is available at www.afccra.org.

This paper concludes that the answer the question: “Can Financial Counsellors add value to financial literacy initiatives?” is YES.

What is financial counselling?

Developed by Government in the 1970s as a response to the increase in family breakdown, over the last 30 years, financial counselling services have spread to all states and territories in metropolitan, regional and rural Australia. In any research on family breakdown, depression, suicide, homelessness, physical and mental ill health, financial problems are writ large as contributing and exacerbating factors, hence the development of financial counselling as a preventative and crisis response service which has proven effective and cost efficient.

(Pentland, 2006)

Financial counsellors provide:

- An initial assessment of the client’s overall financial and family situation;
- Options to address financial problems and the implications of these options;
- Information on credit law, debt collection practices and bankruptcy;
- Advocacy with creditors and/or assistance for clients to self-advocate;
- Information about financial assistance and eligibility for Government benefits;
- Debt and money management strategies;
- Referral to other appropriate organisations.

It can be argued that the Australian financial counselling model is world’s best practice (Pentland, 2006). Certainly its mix of casework, community education, community development, policy work on legislative reform and changes to industry practice is unique. The fundamental principles underlying Australian financial counselling is that it is:

- Free to people accessing the services;
- Free of conflict of interest.

While there are financial counsellors in every state and territory, service provision is patchy depending on the level of support from state and commonwealth Governments. The Victorian Government provides over six million dollars annually for financial counselling while the Queensland Government provides about $200,000.
The Commonwealth Financial Counselling Program provides $2.5 million annually for financial counselling casework services nationally. This has been supplemented by time limited funding to financial counselling services as part of the Commonwealth Government’s Sugar Industry Reform Program.

In contrast, the Commonwealth Government is providing $5 million annually to the Financial Literacy Foundation (FLF) with no actual service provision to people in financial difficulty or delivery on the ground of financial literacy community education. The Australian Financial Counselling and Credit Reform Association (AFCCRA) is working with the FLF on the needs of our client groups but currently there is an expectation that financial counsellors will take up the financial literacy challenge without additional resources.

Financial counselling services have never been able to meet the demand for their services which means varying length waiting periods for consumers wishing to access a service. It has also led to a reluctance by the sector to promote their services and add to a demand which they can’t currently meet.

(Pentland 2004)

National and state/territory networks

AFCCRA is the peak body for financial counsellors in Australia. Comprised of a representative from each state and territory, the AFCCRA council meets bi-monthly, largely by telephone link up. AFCCRA held its first national conference for 10 years in Melbourne in June 2005 and another national conference on 30 June 2006. This event was preceded by AFCCRA’s ‘Financial Literacy and Inclusion Forum’ on 28 June (more about this later).

In all states but Tasmania, state associations have been formed to represent financial counsellors in funding and program work, in broader policy and advocacy, and to provide information, professional development and networking opportunities for the sector. In Tasmania and the territories, networks of financial counsellors provide similar opportunities for support and advocacy.

Increasing need for financial counselling

The cost effectiveness of financial counselling has been demonstrated (Consumer Affairs Division of the Department of Industry, Science and Tourism, 1998) and together with the state and territory associations and networks which make up its membership, AFCCRA is actively promoting the need for additional funding for the sector. Increasing indebtedness in Australia is a clear indicator of the growing need for more financial
counsellors – and this from the current inadequate funding base. Yet, recent ACNelson research for the ANZ Bank (2005) confirmed the effectiveness of financial counselling in crisis interventions with their clients, and in contributing to better money management:

_For people who saw a financial counselor, it was a unanimously 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 behaviour._

**Financial counselling’s contribution to financial literacy and inclusion**

Financial counsellors and consumer advocates have been key contributors to developments in financial literacy and inclusion for over 30 years.

Through their day to day casework with families and individuals; through their community education and community development activities; and through their broader policy and social change work financial counsellors have contributed to past and present debates, and developments in financial literacy and financial inclusion. Not surprisingly, the financial counselling sector’s contributions have been identified as essential to the development and effective delivery of relevant, appropriate, effective financial literacy initiatives such as the ANZ’s MoneyMinded.

Financial counsellors were and continue to be important contributors to the development of No Interest Loans and Low Interest Loans which are both significant financial inclusion initiatives.

**The current focus on Financial Literacy**

Financial literacy is the flavour of the moment (and the last year or so). The banking sector’s reconsideration of some of its community service obligations has contributed and in fact, driven the early initiatives on financial literacy. Both State and Commonwealth Governments got on the bandwagon more recently. The Consumer Protection division within the Australian Securities and Investment Commission (ASIC) had made financial literacy a priority for some years but with limited traction. It was in 2004 when the Commonwealth Government established the Financial Literacy Taskforce and then the Financial Literacy Foundation in 2005 that Governments allocated significant resources.

Certainly, it makes a lot of sense in our increasingly complex financial world to try to bring consumers up to speed on how it all works. Commonwealth and State Governments and sections of the financial services industry, particularly the ANZ Bank, NAB and Westpac are to be congratulated on the effort and resources they are putting into this area.
AFCCRA particularly applauds the banks' involved in some financial literacy projects where they have deliberately chosen NOT to brand the material. This contrasts to school education resources provided by the banks a decade or so ago which were branded. Our view is that these resources were designed to encourage the use of banking products such as credit by young people.

The financial counselling sector’s response

The first and important contribution that financial counsellors can make to the current financial literacy discourse is to always say ‘financial literacy and inclusion’ when talking about financial literacy. The financial counselling and consumer advocacy sector is concerned that the current flurry of activity around financial literacy can become another victim blaming experience for our client group: low income, vulnerable and marginalised people. It is essential that the experience and expertise of financial counsellors gained from over 30 years of working with this group is fully utilised for the current activity around financial literacy and inclusion to be effective.

We support much of the current initiatives in financial literacy, but we

...are aware of the danger in seeing financial literacy as the answer, not part of an answer. The broader focus on financial inclusion as well as financial literacy is an important one. It will be important that work on financial literacy/financial inclusion addresses the:

- current hegemony of rampant consumerism;
- bad practice by the mainstream financial services industry;
- bottom feeders and scams at the margins of the financial services industry;
- potential to blame the victim for ‘poor money management’ and acknowledgement of the excellent money management skills of many low income Australians;
- oversimplification of what is a complex issue.

(Pentland, 2004)

Consume, consume, consume!

In our material world, your self worth can be dependent on what you have/consume. Self esteem for young people can be driven by the ‘need’ to have a mobile phone and whether you wear the latest brand name clothing. Consumerism has grown by access to easy credit and the message is buy now and pay later: consume, consume, consume. Perhaps this will change as part of a growing concern about global warming and climate change and the need for the developed world to reconsider our lifestyles.
Are we happier consuming so much, owning so much? The ‘affluenza’ discourse indicates that having more does not necessarily make us happier (Hamilton and Denniss, 2005). Perhaps it makes us unhappier as we carefully guard what we have and try to accumulate more; looking over our shoulder to make sure that our friends and neighbours are not getting more than us! This may be marginal to the current financial literacy and inclusion discourse, but in any fundamental change to how we understand our finances, it should be addressed.

An increasingly complex financial context for all consumers

Aside from the push to buy, buy, buy – and pay later, the financial world is becoming increasingly complex. Concerns of financial counsellors include:

- Line of credit mortgages which promise to pay off home loans quickly. These products can be complex especially when sold by mortgage brokers and mortgage reduction spruikers with their selling techniques fuelled by commissions;
- Off-set mortgages with ‘swept’ credit cards attached which can work well if you already have excellent debt and money management strategies in place and can stick to them. To really make it work as intended, the availability of easy credit on the card attached to the home loan must be resisted;
- Credit cards attached to the job which are a necessary part of the life of many professionals who travel can lead to confusing work and personal spending, and lead to over-indebtedness;
- Equity lending on family homes for investment. Financial planners tell us that to maintain our lifestyles, we will need to have a retirement investment strategy. While promoted as simple equity loans can be complex products. Recently I heard radio advertising encouraging me to ring an ASIC authorised financial planner for a ‘five minute financial health check’! How many of us really understand our ‘retirement investment strategy’ if we have one? And why am I so cynical of the financial planning industry which is rife with commission selling and conflict of interest?
- Commonwealth legislation which gives us ‘super choice’. For our client group, compulsory superannuation is the most important retirement resource. But will this be another example of consumer confusion rather than consumer choice, and lead to poor outcomes when workers are persuaded to change from well performing union based super to those with higher fees promising to deliver better outcomes?
- reverse mortgages which may be appropriate for some if clearly understood, but are a complex product sold to older people.

There is also the ‘disclosure’ culture embraced by Governments and the financial services industry which gets them off the hook as long as everything is ‘disclosed’ in the contract and product information. But who reads and understands the 40 page loan contracts and
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the small print credit card information brochures, let alone the mobile phone contracts, which even if you can get them, run to 100 pages?

**Blaming the victim**

Financial literacy has the potential to become another victim blaming experience for our client group.

*Most debtors who present to financial counselling services already think that their financial problems are their fault. The common belief is that if they had managed their money better, they would not have their current problems. But our assessment of their situations uncovers other underlying reasons why they find themselves in our offices.*

(Pentland, 2004)

The experience of being blamed for their difficult financial situation is a common experience for the clients of financial counseling services. They blame themselves; television current affairs shows focus on stereotypes which confirm the prejudices of their viewers; politicians give the impression that large numbers of beneficiaries are rorting the system; and those who have not faced the challenges of low income people make judgments which absolve them from responsibility to make Australia fairer.

Financial counsellors hope that the focus on information delivered through television advertising, seminars, the internet, and printed resources does not exacerbate the feeling of powerlessness felt by the disadvantaged in our communities. From our experience, we know that these strategies are likely to have minimal if any impact on low income people.

**Low income people and money management**

Most low income people have to be good money managers – and they are. The problem is that often they simply don’t get enough money to meet their essential living expenses. Out of inadequate Centrelink payments low income people have to pay rent, electricity, gas, and phone, as well as buying food and clothing.

*Better not get sick – or be a smoker, have an occasional glass of beer, be seduced by the pokies or want to buy your mother a birthday present! A person on a pension or unemployment benefits will be getting less than some middle class families pay in private school fees for one child!*  

(Pentland, 2004)

It is extremely difficult to manage in these situations and the financial literacy rhetoric may impose middle class beliefs and strategies on the genuine battlers. In money
management it’s likely that we can learn from low income people. And in terms of sharing resources and making ends meet, indigenous people and those migrating to Australia from impoverished backgrounds have lessons to teach us. However, I believe that there is a genuine commitment by many: in Government, in the financial services industry, and in the community services sector, to improve financial literacy for all Australians. The question of whether the middle class will actively engage with financial literacy is yet to be answered. More importantly, will current efforts costing millions of dollars impact on the financial lives of the most disadvantaged Australians?

An acknowledgement of financial inclusion as an essential component of financial literacy is essential to this outcome. If we put the emphasis on knowledge and skills training, such strategies risk being another victim blaming experience for the client group of financial counsellors. Such strategies if not broadened may also let the financial services industry off the hook in terms of their responsibility.

**The Financial Literacy Foundation**

An important and complex initiative such as financial literacy takes a while to develop and time to put effective strategies in place. We have seen the first round of the Financial Literacy Foundation’s (FLF) advertising and information package. Let’s hope for a very positive outcome because it’s cost a lot of money especially when you consider that the Commonwealth Financial Counselling Program is funded at $2.5 million per year to deliver services across Australia.

With funding of $5 million per year to the FLF for operating costs as well as the $10 million plus for the information campaign, we need to see some traction across the board: for middle class Australians, for the working poor, and for those on pensions and benefits. The financial resources provided to the FLF would provide a lot of resources for financial counselors to deliver effective financial literacy and inclusion initiatives. AFCCRA continues discussion with the Foundation about how it will address the needs of low income, vulnerable and disadvantaged people.

The FLF together with the Australian Bankers Association provided a small amount of funding to AFCCRA for the Financial Literacy and Inclusion Forum in Melbourne on 28 June 2006. Over 100 people from all parts of the country attended the forum including the MoneyBusiness indigenous workers from remote Australia. Feedback was excellent with most participants requesting another such forum in 2007. Papers from the forum as well as other papers on financial literacy are available at [www.afccra.org](http://www.afccra.org). Representing financial counsellors and their client group, AFCCRA welcomes the opportunity to continue to work with the FLF to achieve outcomes for low income and marginalized people.
Financial counselling partnerships with Government and industry

Financial counsellors have been involved in financial literacy and inclusion work with their clients for over 30 years. In our work with individuals and families, this has included providing information on how the financial services industry works, especially around credit and debt. We encourage people and help them develop skills to self advocate on financial issues. We also assist people with money management processes such as budgeting and banking, eligibility for financial assistance and Government benefits.

Community education strategies include talks on various financial topics to community groups, money management courses, development of information and resources. An important aspect of the sector’s information and education initiatives is in representing our client group in the media and around consumer issues.

The Australian financial counselling sector is unique internationally as being free of conflict of interest in its casework. Recent research has shown that overseas models have been found wanting due to their reliance on industry funding and resultant conflicts of interest (Pentland, 2006). Government funding in Australia for financial counselling casework has been the strength of our model.

Financial counsellors are rightly wary of industry funding of our sector even for non-casework projects but there is a growing willingness to explore opportunities for partnerships while retaining our highly valued independence.

The independence of financial counsellors must not be compromised:

*Therefore AFCCRA’s strongly held view and practice is that any industry funding is accepted for non-casework only, and on the basis that financial counsellors will continue to be fierce advocates for and with our clients, often with the very businesses which are providing the funding. AFCCRA’s industry funding policy is available at [www.afccra.org](http://www.afccra.org)*

(AFCCRA, 2006)

Given this fundamental starting point, the financial counselling sector is increasingly considering and becoming involved in appropriate partnerships with industry. A few of those of which I am aware include:

- NAB support for the No Interest Loans Schemes with significant input from financial counsellors;
- Financial counsellors’ involvement in the research, development and implementation of the ANZ’s MoneyMinded program including current initiatives to further develop the program for indigenous people and those recently arrived in Australia;
Westpac’s involvement in the Financial Income Management projects with links increasingly being developed with financial counsellors;
• The ANZ’s provision of significant funds to support financial counsellors’ conferences and networking;
• The ANZ’s support to AFCCRA for implementation of the nationally accredited training course for financial counsellors;
• Financial counsellors’ contribution to the development of the NAB ‘Step Up’ loans program;
• The involvement of financial counsellors and consumer advocates in ANZ’s continuing research on financial literacy and inclusion.

AFCCRA is currently involved in discussion with Government and several major players in the financial services industry to progress the further development of the financial counselling sector. A fundamental part of that development is financial literacy and inclusion.

**The risk of financial literacy being over simplified**

How do we keep it simple without oversimplifying the challenges of achieving positive financial literacy and inclusion outcomes? Our financial world is complex and ever changing, challenging us all.

*The notion that disclosure of information is the key is unrealistic and frankly, not working even for educated and articulate consumers. We can’t understand it all and even if we did, tomorrow it will be different. The best strategies will provide basic knowledge frameworks and encourage skill development based on what the consumer already knows and can do.*  

(Pentland, 2004)

Financial literacy and inclusion strategies will be most effective in the long term when they focus on building confidence and assertiveness in consumers, particularly those who have been marginalized by the financial services industry:

• confidence in and acknowledgement of their current skill and knowledge
• confidence to ask questions and not feel stupid
• confidence to be guided by their ‘gut instinct’ around ‘too good to be true’ offers

Such strategies will need be aware of and work within the culture and context of the individuals and groups to be effective.

*When we think of culture, we can immediately think of indigenous communities, and particular ethnic cultures where constructs of use of money differ from mainstream Australia, but financial counsellors are also aware of the cultural
Financial literacy program evaluations have clearly demonstrated that financial counsellors are a most effective delivery channel. For financial literacy and inclusion strategies for low income and marginalized people to deliver positive outcomes, the inclusion of the financial counselling sector in development and delivery is vital.

**Conclusion:**

Those who are putting effort and resources into the important area of financial literacy and inclusion, including financial counsellors are to be congratulated. As the national peak body for financial counsellors, AFCCRA is keen to be involved. We strongly believe that financial counsellors have an important contribution to make to current Government and industry initiatives.

Part of that contribution will be vigilance so that we don’t let industry and Government off the hook in terms of addressing their responsibilities. Ensuring that financial literacy and inclusion is the focus is another.

“Can Financial Counsellors add value to financial literacy initiatives?” Not only is the answer “Yes”, it is imperative that financial counsellors participate in financial literacy initiatives, particularly those aimed at low income, vulnerable and marginalized people. For these people who need it most, financial counsellors have a critical role to play.

Financial counsellors have the experience, knowledge and skills to expand on their current financial literacy and inclusion work at an individual, group and community level. It is simply a resourcing issue.
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