LIFE CHANGING CHATS

Impact of the *financial conversation* on StepUP applicants' financial literacy and capability

April 2015

Acknowledgements

Good Shepherd Microfinance acknowledges the important contribution made by our partners, the National Australia Bank (NAB) and the Department of Social Security (DSS), to the continuing success of the StepUP program.

Recognising the need for small, low-interest loans for low-income earners unable to access affordable credit, Good Shepherd Microfinance and NAB launched the first StepUP Loans in 2004. The partnership has grown in strength since then with the addition of DSS (then the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA)), in 2010 to support the program's growth and to address financial exclusion in Australia.

The expertise and financial support provided by NAB is particularly significant as clients engage directly with branch staff, building confidence and moving closer towards inclusion in the mainstream financial system.

We also acknowledge the work undertaken in 2011 by the then Good Shepherd Youth & Family Service, led by Tanya Corrie, in developing a survey instrument capable of rigorously measuring the impact of these microfinance loans.

We also recognise the StepUP loan staff within our microfinance provider network across Australia for supporting this research. The project took significant time and energy to administer and we are very grateful for their assistance and dedication.

Finally, thank you to the many StepUP applicants who generously and enthusiastically shared their personal experiences during this research project, particularly those who spoke to us despite not receiving a loan.

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Executive Summary

Good Shepherd Microfinance has long held the view that the *financial conversation,* undertaken between a microfinance worker and a loan applicant as part of a microfinance loan interview, assists in increasing the financial literacy and capability of applicants. These 45-60 minute conversations cover budgeting, saving, managing bank fees and bills, and the risks around fringe lending and goods rental.

We conducted this research with StepUP[1] loan applicants to identify if the *financial conversation* did indeed have an impact, and if so, to what extent did it contribute to building their financial literacy and capability? If the applicant did not receive a loan, did the *financial conversation* have an impact?

To quantitatively measure financial literacy and capability we adopted three indicators: skills, knowledge, and behaviour, and used a number of associated actions previously validated in an earlier pilot study.[2] We also utilised a survey instrument developed in the same pilot study with a few methodological refinements to include the ability to analyse behaviour over time and understand applicants' personal perceptions of changes in capabilities.

StepUP applicants completed a self-administered questionnaire immediately pre and post their *financial conversation* and during a three-month follow up telephone interview. Of the initial 215 respondents, 51 per cent of these were younger than 35 years old and almost two-thirds were women. We analysed the data according to whether an applicant was successful in gaining a loan or not.

The findings indicate that the *financial conversation* had a positive impact on financial capability, confidence and literacy, and that the impact was often greater for clients who received a loan. In other words, the *financial conversation* positively impacted financial literacy and capability, but the effect was enhanced when combined with a microfinance loan[3].

This reinforces the fundamental importance of raising financial awareness and boosting self-confidence in order to build financial literacy, capability and self-determination.

Other key findings:

- 66 per cent of loan recipients reported a general increase in confidence in dealing with their own money.
- 47 per cent of applicants who did not receive a loan reported a general increase in confidence in dealing with their own money.
- Even prior to a formal loan application, the *financial conversation* had an immediate impact on applicants' positivity and optimism to improve their future financial skills including keeping a weekly budget, keeping track of living expenses and checking bank statements.
- 12 per cent of applicants started a new job in the three-month period following the *financial conversation*.

  "I am more confident, it's made me realise how to save more and how to use money wisely." (Female, 27 years old, did not receive loan)

[1] StepUP is a not-for-profit microfinance program delivered in partnership with the National Australia Bank (NAB), offering low-interest loans of up to $3,000 repayable over a three-year period.

[2] Undertaken with NILS clients in 2012 by Good Shepherd Youth and Family Service (GSYFS).

[3] The StepUP program conducted 5,627 financial conversations with clients across Australia in the 2013-2014 financial year, with 51 per cent of these resulting in a successful loan application.

To understand the impact of the *financial conversation*, we measured changes in applicants' actual financial skills, knowledge and skills over three months, as well as their perceived changes. The findings suggest that the *financial conversation* had distinct impacts on different aspects of microfinance applicants' financial capability and literacy.

Financial skills

- Immediately following the *financial conversation* applicants were very positive about future changes in their financial skills. Applicants indicated that their abilities would be "a lot better" in terms of budgeting (68 per cent), keeping track of living expenses (50 per cent) and accessing bank statements (50 per cent).
- Applicants' ability to keep track of their money increased after the *financial conversation*, regardless of the outcome of the loan application.

  "I realised the expenses that I have, it [the conversation] made me more conscious of what I spent money on, and I've since been trying not to buy unnecessary items." (Male, 28 years old, loan recipient)

- Three months after their *financial conversation,* more than half of all loan recipients felt that their ability to keep to a weekly budget had improved. A third of those who did not receive a loan also perceived an improvement in their ability to budget. Those who did not receive a loan usually did not have enough surplus income to afford small loan repayments, or had high existing debt levels. In such precarious financial situations, it is unsurprising that adhering to a budget is an ongoing challenge that may intensify over time.
- The ability to check bank statements increased for both applicants who did, and those who did not, receive a loan. For those receiving a loan, the increase was higher and statistically significant.

"I think the main thing was to read my bank statements. I wasted a lot of money going to other teller machines. I've stopped doing that now and I'm saving $20-30 per fortnight." (Female, 33 years old, loan recipient)

Financial knowledge

- Three months after their *financial conversation,* StepUp loan applicants were more likely than before to engage with banks and to seek information and assistance. This was particularly so for people who received a microfinance loan, although there was also a clear positive impact for those who did not.

  "Probably made me a bit more forthcoming, I feel a bit more confident. I don't know, before I was a bit wary about going to a bank or talking about getting a loan but it just seemed to help me a bit. I know now that you can talk to them, it just seems easier." (Male, 64 years old, loan recipient)

- Female applicants were more likely than males to seek help or assistance with questions about money, both before the *financial conversation* and three months after.
- Regardless of the outcome of the loan application, engagement with a microfinance organisation appeared to provide an important boost in self-confidence for people who typically are financially excluded and feel judged by traditional institutions and services.

"Now I have opened up an e-saver which earns interest and I'm using that secondary account to save up for a car. For the first three months I get an introductory offer of 4 per cent interest, which is a good deal. I went into my own bank and asked them about a secondary account." (Male, 24 years old, did not receive loan)

Financial behaviour

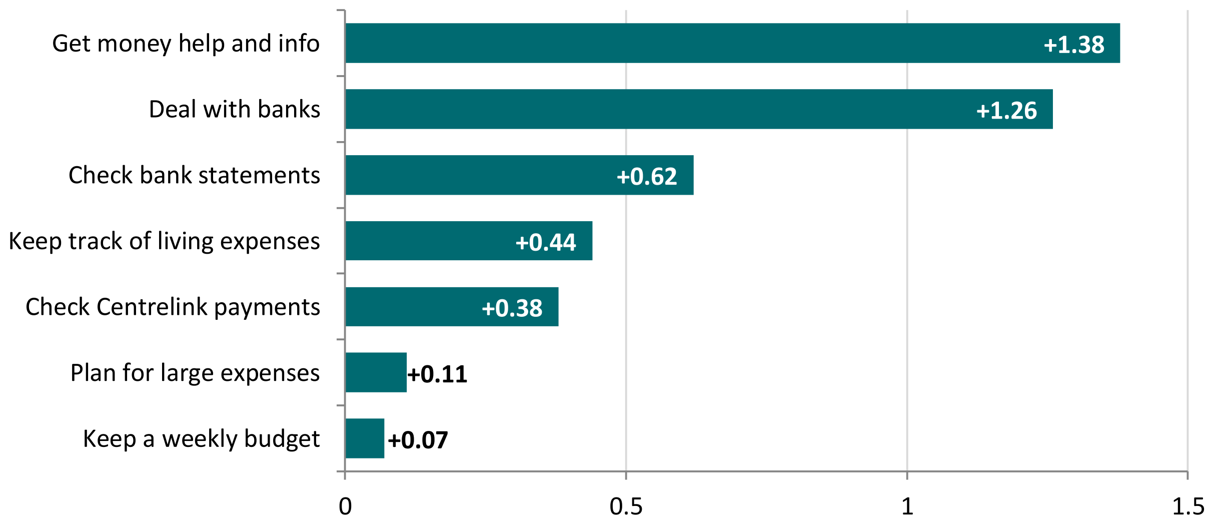
- Applicants were increasingly likely to leave leftover money in a savings account after each stage of the loan application process. Applicants were substantially more likely to save straight after the *financial conversation* and 88 per cent of respondents said they would save leftover money three months later. During the *financial conversation*, StepUP loan staff discuss the use of savings accounts, avoiding withdrawal fees, accessing online banking and using multiple accounts to manage bills and saving.

- After three months applicants were more likely to undertake different strategies when faced with lack of money. These included spending less and accessing emergency relief and Centrelink Advance Payments. Part of this increase is likely attributable to the knowledge and confidence gained through the *financial conversation*.

- Borrowing cash from family and friends was the second most common strategy for money shortfalls before the *financial conversation*. Three months later, this was the fourth most common strategy for respondents.

  "I'm more confident in that if you really need something you can get finance you just have to get things organised. Because once you start getting your paperwork together you realise. Doing the budget gives you confidence and you realise you are wasting money and you become a lot more sensible about money." (Male, 60 years old, did not receive loan)

Financial capabilities: Mean score increases between pre-interview and three months later



Introduction

This chapter introduces the concepts of financial exclusion and sets a theoretical context for understanding and measuring financial capability and literacy. It also provides an overview of Good Shepherd Microfinance, its products and services, and the role of the *financial conversation* for StepUP clients.

Microfinance and financial exclusion in Australia

Microfinance is a "set of tools, approaches and strategies addressing the needs of people who are financially excluded"[4] from mainstream banking and financial systems. Traditionally, microfinance is aimed at people on low incomes, so it is important that the products and services are safe, accessible and affordable to ensure that poverty is alleviated, rather than further entrenched[5].

As the leading microfinance organisation in Australia, Good Shepherd Microfinance offers people, who are on low incomes, access to a range of financial services that they would not necessarily be able to access via the mainstream financial services market. This includes access to small loans (micro-credit); savings incentives (micro-savings); general insurance (micro-insurance), and other essential financial services. Importantly, Good Shepherd Microfinance also focuses on enabling people to define and then to realise their own economic wellbeing, to feel valued and in control of their finances and lives. Increasing peoples' financial confidence and capability is a key component to building financial resilience and enabling their economic mobility. Being financially resilient enables people to access, build and preserve their financial assets and limit their liabilities such that they are able to cope with any financial shocks.[6]

In the Australian context, the concept of microfinance is different to the microenterprise loan programs traditionally offered internationally. Outside of Australia there is an emphasis on providing small loans for enterprise building, whereas in Australia the money lent can assist in asset building, designed equally to alleviate poverty and improve quality of life, but also to mobilise a person economically and to reduce financial exclusion.

Financial exclusion usually occurs where there is a combination of "insufficient income to participate successfully in a market based economy"[7] and processes that prevent poor and disadvantaged social groups from gaining access to the financial system. Safe and appropriate financial services for people on low-incomes are essential components of addressing financial exclusion.

In Australia, few people are 'unbanked', meaning they do not have access to any financial services at all. This is primarily because it is necessary for people to have a transaction account, at the very least, in order to receive Income Support Payments. A gap exists in the market for small personal

[4] Burkett & Simon, 2009, From the Margins to the Mainstream: The challenges for microfinance in Australia. Melbourne: Brotherhood of St Laurence and Foresters Community Finance, pg. v
[5] Ibid
[6] Jacobsen, K, Marshak, A & Griffith, M, 2009, Increasing the Financial Resilience of Disaster-affected Populations, Feinstein International Centre
[7] Landvogt, 2006, Critical Financial Capability: Developing an Alternative Model, Collingwood: Good Shepherd Youth & Family Service, pg. 3

loans with many Australian institutions lending only amounts larger than $5,000, leaving few options for consumers on low incomes.

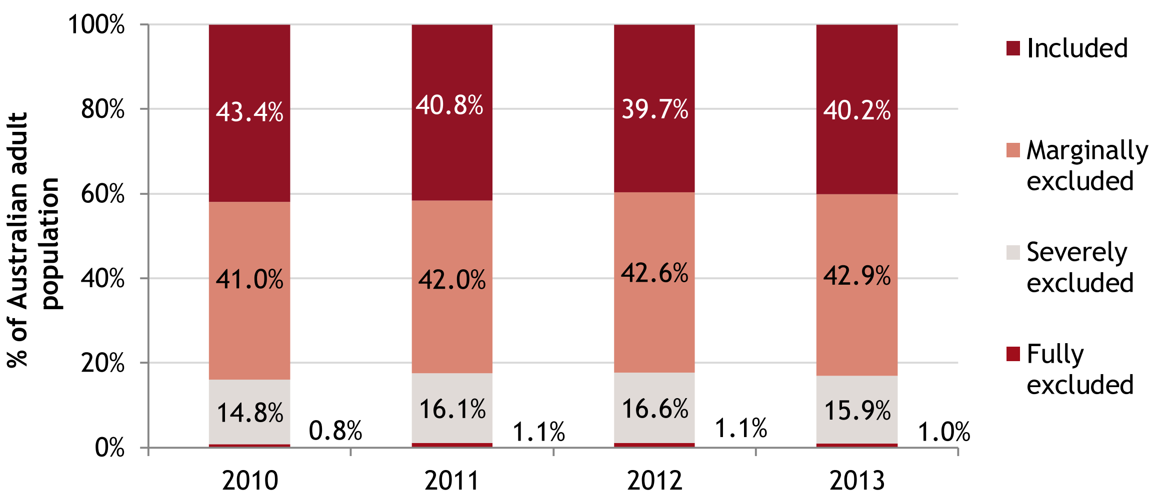
Burkett & Simon (2009) argue that the following factors also need to be considered in regards to financial exclusion:

- Availability: financial services do not exist in a geographical location.
- Access: lack of access to financial services because of structural barriers including bad credit history, language barriers and physical disabilities.
- Awareness: lack of awareness of appropriate product options and lack of capacity to engage with services, including self-exclusion where people do not apply for financial products because they believe they will be refused.
- Appropriateness: financial products offered are not appropriate for people's needs.
- Affordability: pricing structures make financial products for people on lower incomes unaffordable and inappropriate. [8]

In Australia, definitions of financial exclusion vary. However, the Centre for Social Impact (NSW) and NAB have developed an effective measurement of financial exclusion through considering access to essential financial products and services (such as having a transaction account; a moderate amount of credit and the ability to protect assets with insurance) and cost exclusion (the proportion of income spent on accessing essential financial services).

According to this definition, 16.9 per cent of the adult Australian population in 2013 was either fully or severely excluded (Figure 1), as they did not own, or only owned one of the three key financial products specified in the above definition.[9] Key to improving financial capability and resilience is recognising the role of self-efficacy and confidence. Researchers at Griffith University investigating factors that influence financial capability found that confidence, self-esteem and self-belief are key determinants of financial capability.[10] Evidence also suggests that women are more likely to lack confidence in money management, and that women who lack confidence are less likely to keep up with paying bills.[11]

Figure 1: Financial exclusion in Australia, Centre for Social Impact for NAB 2014*[12]*



[8] Burkett, I & Simon, G 2009, From the Margins to the Mainstream: The Challenges for Microfinance in Australia. Melbourne: Brotherhood of St Laurence and Foresters Community Finance

[9] Connolly, C, 2014, Measuring Financial Exclusion in Australia, Centre for Social Impact for National Australia Bank

[10] Vyvyan, V, 2006, Putting the Horse Before the Cart: Factors that Influence Financial Capability and Effectiveness, Griffith University Business School

[11] Russell, R & Banks, M, September 2014, Women & Money Research, RMIT University, Presentation to Good Shepherd Microfinance

[12] Ibid

Good Shepherd Microfinance and the *financial conversation*

Good Shepherd Microfinance provides a range of microfinance programs across Australia and New Zealand, both directly and through contracted partnerships. The primary programs are: NILS (No Interest Loan Scheme), StepUP, AddsUP (a matched savings program), Debt Deduct, and Good Insurance (an affordable insurance pilot). Good Shepherd Microfinance works with 260 providers of these programs across Australia, at 669[13] sites, with significant variation between providers.

As part of the assessment for eligibility and application for these services prospective applicants undertake a *financial conversation* with a microfinance worker. The conversation covers budgeting, managing bills and risks around fringe lending and payday loans. These 45-60 minute conversations are included as part of the formal interview of applicants for microfinance products. Good Shepherd Microfinance is seeking to understand the immediate and long-term impact of this conversation on people's money management skills, financial knowledge and behaviours.

Previous research undertaken by Good Shepherd Youth and Family Service[14] has demonstrated that access to microfinance can improve clients' self-esteem, their capacity to forward plan, and can afford them the opportunities to participate socially and economically[15].

Research into the outcomes and impacts of microfinance programs in Australia has been largely qualitative. Through case study methodologies, it has explored the complexities of people's financial exclusion and experiences of money throughout their lifetime and what this means beyond just material benefits[16]. Such research studies have enabled an association to be made between access to microfinance, improved individual financial capabilities and a social and economic context that enables people to exercise their agency.

Research from Good Shepherd Youth & Family Service also shows that improved capabilities are contingent on the right information being available, and access to appropriate financial services[17]. However, the benefits to borrowers are more than just financial. There are social benefits such as improved self-esteem, better quality of life and a sense of being trusted[18].

International literature and empirical evidence also support the link from financial knowledge to healthy attitudes about money that subsequently influence behaviour[19]. Capuano and Ramsey (2001) describe numerous studies that recognise knowledge is the most significant determinant on financial behaviour, and find that increased access to financial products and services increases social inclusion.

[13] As at 30th June 2014
[14] GSYFS was a unit within Good Shepherd Australia, as was microfinance. In 2011, Good Shepherd Microfinance was formed as a separate entity, and in 2014 GSYFS was incorporated into Good Shepherd Australia New Zealand.
[15] Corrie, T, 2012, Microfinance and the Household Economy: Financial inclusion, social and economic participation and material wellbeing, Good Shepherd Youth & Family Service
[16] Muoy, B, Just Credit, Good Practice, 2011, Good Shepherd Youth & Family Service
[17] Landvogt, 2006, Critical Financial Capability: Developing an Alternative Model, Collingwood: Good Shepherd Youth & Family Service, pg. 3
[18] Ayres-Warne, V, & Palafox, J, 2005, NILS Small Loans – Big Changes, Collingwood: Good Shepherd Youth & Family Services
[19] Capuano, A & Ramsey, I, 2011, What causes suboptimal financial behaviour? An exploration of financial literacy, social influences and behavioural economics, Centre for Corporate Law and Securities Regulation, The University of Melbourne

The StepUP *financial conversation* and loan process

StepUP is a not-for-profit microfinance program delivered in partnership with NAB. It offers loans of up to $3,000 that are repayable over a three-year period at a low interest rate. Over 6,800 loans have been approved since the program started in 2004, with an average loan size of $2,700 at the maximum loan repayment term of three years.

At the point of enquiry, all potential StepUP applicants undergo an initial telephone screening with a community based microfinance worker to assess basic eligibility. Depending on the situation, this contact may or may not include the start of a *financial conversation* in relation to credit file history or utilities arrears. If basic eligibility appears to be met, a loan enquiry pack is distributed outlining documentation necessary for an application to be made.

Once all the necessary documents have been gathered, an appointment is made where potential applicants attend a loan interview with the microfinance worker of anywhere between 45 minutes to 1.5 hours.

In this interview, the microfinance worker reviews all the documents in detail and prepares a budget with the applicant to ensure they have the financial capacity to undertake a StepUP loan. It is at this stage that the detailed *financial conversation* is held.

If it is clear an applicant is in financial difficulty, they will be referred to other support services and invited to re-apply later when their situation has improved. The microfinance worker acts as a support person for the borrower during the loan application process as well as for the duration of the loan.

If all the documents are in order and financial capacity can be demonstrated, a loan application is submitted to NAB on behalf of the client for formal assessment. The loan assessment process at NAB includes a verification review of the application form and supporting documents, in addition to a credit check.

If the loan is approved, loan documents are sent to the applicant’s preferred NAB branch and they arrange to drawdown on the loan and setup loan repayments. The microfinance worker may go with the client to the branch to provide support.

If the loan is declined due to credit file or budget surplus issues, NAB notifies applicants by letter and the microfinance worker calls to provide support and make appropriate referrals.

Previous trial study

In 2012, the Australian Government's former Department of Families, Housing, Community Services and Indigenous Affairs funded a report to explore the influence of the *financial conversation* on people's money management skills, financial knowledge and behaviour.

The then Good Shepherd Youth and Family Service[20] undertook the pilot to develop and trial indicators and data collection methods that would best measure the impact of the 'money conversation' on the financial capabilities of microfinance loan applicants.

It was hypothesised that the money conversation would positively impact on financial capabilities because microfinance loan applicants would be able to discuss and access information about their own money and financial situation. This would improve their confidence and money management skills, knowledge and behaviours (i.e. financial capability).[21]

A conceptual framework was adopted that integrated well-recognised and widely tested definitions of financial literacy and financial capability used in the ANZ Financial Literacy survey[22] and the work of the Financial Services Authority (FSA) in the United Kingdom[23].

Arguably, financial capability is broader than financial literacy and refers to the financial skills, knowledge and behaviour of a person in the context of the structural barriers and enablers that hinder or support them. Importantly, previous research has shown that people on low incomes are often exceptional money managers and that low financial capabilities of respondents should not be assumed. For example, the *Microfinance and the Household Economy* report found that "while low income earners are more likely to suffer from financial stress, the idea that people on low incomes are less able to manage money is challenged by the findings of this research. This research indicates that it is a lack of appropriate financial and social resources that often lead to financial stress".[24]

Figure 2 below depicts the conceptual framework that was developed through this process and directly informed the research process in *Measuring the Impact of Microfinance "Money Conversations" on Financial Capability*[25].

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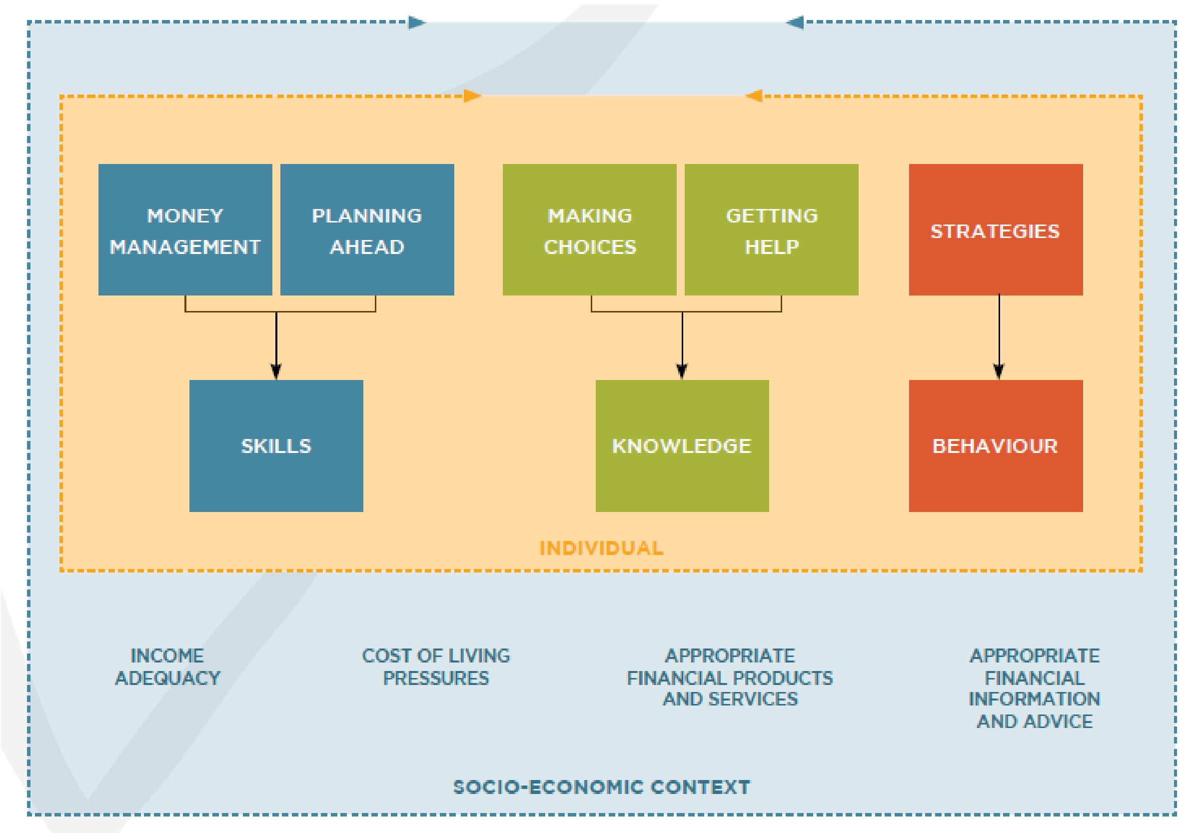
[20] GSYFS was a unit within Good Shepherd Australia, as was microfinance. In 2011, Good Shepherd Microfinance was formed as a separate entity, and in 2014 GSYFS was incorporated into Good Shepherd Australia New Zealand.
[21] Corrie, T, 2012 Measuring the Impact of Microfinance "Money Conversations" on Financial Capability: A Trial Study, Good Shepherd Youth and Family Service
[22] Australia and New Zealand Banking Group, 2011, ANZ Survey of Adult Financial Literacy in Australia. Melbourne: ANZ.
[23] Good Shepherd Youth and Family Service were incorporated into Good Shepherd Australia and New Zealand in June 2014
[24] Corrie, T, 2012, Microfinance and the Household Economy: Financial Inclusion, Social and Economic Participation and Material Wellbeing, Good Shepherd Youth & Family Service
[25] Corrie, T, 2012 Measuring the Impact of Microfinance "Money Conversations" on Financial Capability: A Trial Study, Good Shepherd Youth and Family Service

Figure 2: Conceptual framework for measuring financial capability



Each of the components of financial capability represents a number of actions that contribute to the financial capability of an individual (Table 1).

Table 1: Financial skills, knowledge and behaviour: Measurable actions

	FINANCIAL CAPABILITIES	ASSOCIATED ACTIONS
SKILLS	MONEY MANAGEMENT	Managing budgets Keeping track of expenses Planning for lumpy expenditure Resisting pressure to spend or borrow
	PLANNING AHEAD	Saving money for an emergency Saving money for future goals
KNOWLEDGE	MAKING CHOICES	Choosing financial service
	GETTING HELP	Knowing who to ask if there are questions about money Knowing where to go if there are questions about money
BEHAVIOUR	STRATEGIES	Strategies when money is short Strategies when money is left over

The pilot developed and tested survey instruments that measured each of the financial capabilities over three phases, testing and refining the survey instruments and the method of delivery, as well as gathering initial results of the financial capability of those who had accessed microfinance.

The research concluded that there was a relationship between the microfinance loan or financial conversation and improved financial capability, and that the extent of this improvement could be quantified. Similarly, access to appropriate financial services was shown to positively improve confidence and therefore financial capability.

Measuring the Impact of Microfinance "Money Conversations" on Financial Capability developed a number of key recommendations regarding the methodological approach of future research including:

- Conduct a pre-test with respondents who had not yet participated in the microfinance application process to develop and appropriate baseline against which to measure change.
- Conduct a post-application survey, ideally with the same group as interviewed in the pre-test, to quantify any change in financial capability.
- Conduct a post-application questionnaire with all applicants, regardless of whether they received a microfinance loan or not, in order to measure both the impact of the conversation as a stand-alone intervention, as well as the combination of the conversation and the loan.
- Retain subjective evaluations of respondents' perceived financial capabilities.

Given that the survey instrument appeared robust, Good Shepherd Microfinance undertook to duplicate the Money Conversations research, in order to assess the impact of the financial conversations on a specific group of clients seeking a low interest StepUP loan, but with the added recommendations of conducting pre, post and follow-up surveys.

By utilising a larger number of microfinance clients, the Good Shepherd Microfinance research also serves to further validate the survey instrument.

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Research Aim

- The purpose of this research was to investigate and measure the impact of the financial conversation on the financial capability and resilience of microfinance applicants.
- The research also aimed to build the validity of the survey instrument developed by Good Shepherd Youth and Family Service.

Methodology

Respondents – StepUP clients

Good Shepherd Microfinance chose to undertake this research with microfinance clients applying for a StepUP low interest loan. A number of factors influenced this decision, including:

- The cohort of StepUP clients allowed for a sound representative sample to be drawn.
- Good Shepherd Microfinance has a direct connection with StepUP microfinance workers through dedicated support staff. Community based StepUP microfinance workers were well placed to personally explain the research project to respondents.
- Training could be conveniently delivered to all StepUP workers as part of their national meeting held in Melbourne. The one workshop also allowed an opportunity for microfinance workers to provide feedback about the methodology. This was key to gaining support from StepUP workers, and ultimately contributed to the high survey response rate.

It is important to emphasise that this survey is based on the experiences of StepUP clients, who often have substantially different needs and capabilities than other clients in our network including NILS clients.

Instruments

Using the survey questionnaire developed during the Money Conversation pilot, we implemented:

- A pre-conversation questionnaire between the months of May and July 2014.
- A post-conversation questionnaire between the months of May and July 2014.
- A follow-up questionnaire, in the form of a telephone interview between the months of August and October 2014.

The questionnaires investigated each associated action of financial literacy and capability, asking respondents to rate their abilities or indicate when barriers existed. Each questionnaire was identical in structure and varied only in the time period that respondents were being asked to consider, as Table 2 demonstrates.

Table 2: Pre, post and three month follow up measurements

ACTIONS - INDICATORS	MEASUREMENTS
Managing budgets Keeping track of expenses Planning for lumpy expenditure Resisting pressure to spend or borrow	**Pre-conversation** • Current ability **Post-conversation** • How much change *will* there be? **Three month follow-up** • Current ability • How much change *has* there been?
Saving money for an emergency Saving money for future goals	
Choosing financial service	
Knowing who to ask if there are questions about money Knowing where to go if there are questions about money	
Strategies when money is short Strategies when money is left over	**Pre-conversation** • Current strategy **Post-conversation** • Future strategy **Three-month follow-up** • Current strategy

Method

Good Shepherd Microfinance surveyed StepUP clients across Australia three times - pre-*financial conversation*, post-*financial conversation* and at a three-month follow-up. By comparing questions across the three time intervals we could identify any changes in perceptions and behaviours, as well as generate information to develop the survey instrument in future applications. The three stages of the data collection process are depicted in Figure 3 below.

Figure 3: Three stages of data collection

Pre-conversation and post-conversation

We sent 350 sets of pre-conversation and post-conversation questionnaires to 40 StepUP microfinance workers across Australia. There was a response rate of 61.4 per cent, with 215 sets returned fully completed. Prospective StepUP applicants were asked to complete a questionnaire prior to their interview then another one immediately afterwards. Both questionnaires asked participants about each aspect of financial capability, however there were some key differences:

> **Pre-conversation** - questions were phrased to gain an understanding of current financial capability and behaviour.
>
> **Post-conversation** - questions were phrased for participants to consider how much each of the aspects of financial capability would change after the application process.

Participants were offered the opportunity to complete the second questionnaire offsite and return it to Good Shepherd Microfinance themselves.

It is important to recognise the potential for responses to be influenced by the fact that they were administered by the same microfinance worker that made initial loan eligibility assessments and that the loan application was still in progress at the time.

Three-month follow-up

All participants who provided their phone numbers were contacted to undertake a telephone interview three months after their *financial conversation*, including those who had not been approved for a loan. Interpreters were used when requested or necessary.

A rigorous and concerted effort was made to ensure each participant had the opportunity to contribute to the three-month follow-up research, with only eleven participants explicitly declining to take part. In total, 128 telephone interviews were conducted across Australia.

Questionnaires and interviews administered at the three-month follow-up point asked clients to assess their current financial capacity, and how much this had changed since their financial conversation and loan application. The telephone interview concluded with the addition of a number of qualitative questions.

Analysis

Quantitative data from all questionnaires was collated and analysed using the statistical analysis program SPSS, most often to compare mean averages of responses to ascertain areas of statistical significance.

Qualitative analysis was undertaken using NVivo, used to triangulate the findings from SPSS and to generate further insight into the key issues for clients.

1 Findings and Discussion - Respondents

This chapter presents the findings of the research and discusses the implications of these results in understanding the impact of the financial conversation that is undertaken as part of a microfinance loan application.

In Section 1 we present the demographic data of respondents, at the time of the *financial conversation* (pre/post) and then 3 months later, when the loan outcome is known.

In Section 2 we present the findings related to each indicator of financial capability and the associated actions.

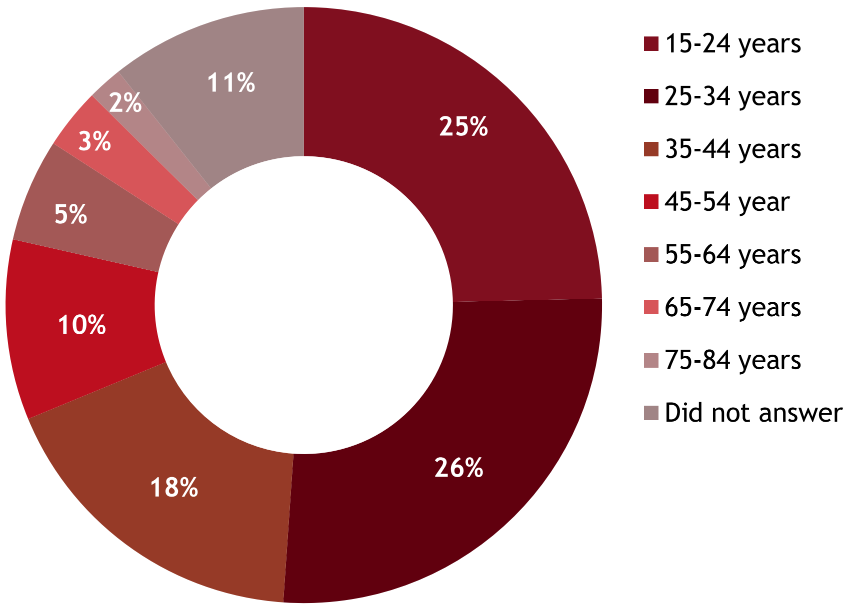
Pre/post questionnaires

a) NUMBER OF RESPONSES

A total of 215 responses to both the pre and post questionnaires were received from across the network, a response rate of 61.4 per cent from 350 questionnaires originally sent.

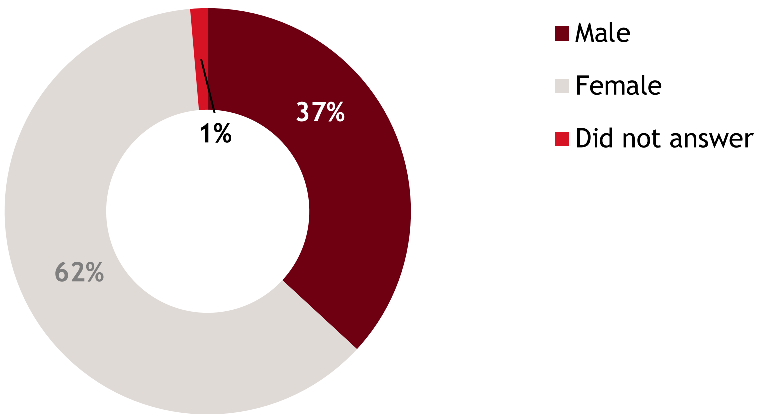
b) RESPONDENT AGE

Figure 4: Age of respondent (pre and post financial conversation)



c) RESPONDENT GENDER

Figure 5: Respondent gender (pre and post financial conversation)



37.2 per cent of respondents were male, 62.3 per cent of respondents were female and 1.4 per cent of respondents chose not to answer this question.

d) INCOME SOURCE

Table 3: Respondents' income source

	Number of Respondents	%
Newstart	58	21.2
Family Tax Benefit	47	17.2
Parenting Payment - Single	41	15.0
Disability Support Pension	35	12.8
Carers Payment	22	8.0
Youth Allowance	20	7.3
Paid employment	18	6.6
Age Pension - Centrelink	13	4.7
Other	8	2.9
Parenting Payment - Couple	6	2.2
Self-Employed	5	1.8
Age Pension - Veterans Affairs	1	0.4

It was possible and common for respondents to provide multiple responses when indicating income source, as it is possible to simultaneously receive an income support payment, undertake paid employment and also receive a family tax benefit. 'Other' usually referred to a respondent who received Austudy payment or another Centrelink payment provided as an option in the survey.

e) INCOME AMOUNT

The income amount refers to fortnightly income, as the majority of respondents receive fortnightly payments from Centrelink.

Table 4: Respondents' fortnightly income amount

	Number of Respondents	%
$0 - $399	8	3.7
$400 - $799	89	41.4
$800 - $1199	79	36.7
$1200 - $1499	21	9.8
$1500 - $1999	2	0.9
$2000 - $2999	2	0.9
$3000+	2	0.9
No answer	12	5.7

f) HOUSEHOLD TYPE

The two largest groups of respondents were single, with equitable representation between single parents caring for children (25.1 per cent) and those with no children (27 per cent).

Table 5: Respondents' household type

	Number of Respondents	%
Single - no children	58	28.0
Single - with children	54	26.1
Extended family	34	16.4
Couple - with children	28	13.5
Group Household	19	9.2
Couple - no children	8	3.9
Other	6	2.9

Three month follow-up

g) NUMBER OF RESPONSES

Telephone interviews were undertaken with 127 respondents three months after the initial questionnaires, with a response rate of 59.5 per cent from the original cohort of 215. Three questionnaires were undertaken with non-English speaking respondents with interpreters. Each respondent was given the opportunity to participate at the three- month period and attempts to contact were made on numerous occasions but many clients were unable to be contacted.

There were only 11 explicit declines to participate, the majority of the other people who did not participate did not respond to multiple contact attempts.

A number of StepUP workers indicated they were reluctant to ask non-English speaking clients to participate in the research project due to the additional time and stress of arranging this through an interpreter.

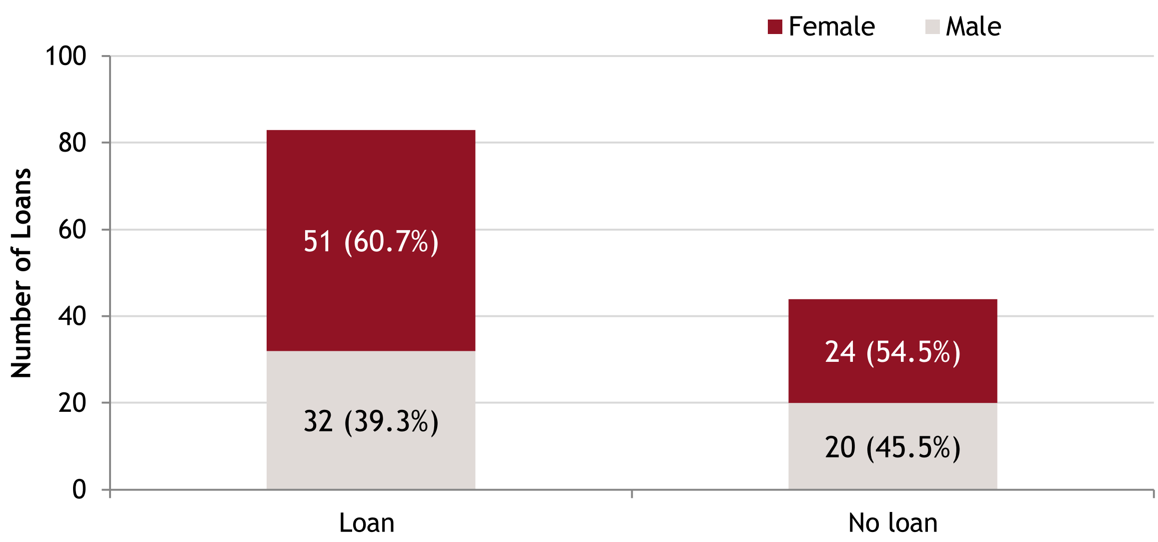
h) LOAN RECIPIENTS

Of the 127 respondents, 83 (65.4 per cent) were successful in their loan application and received a StepUP loan, while 44 (34.6 per cent) had either been declined or chosen not to continue with their application. At the three-month follow-up about one third of the respondents had not received a StepUP loan.

i) LOANS APPROVED BY GENDER

Female respondents represented a high proportion (60.7 per cent) of loan recipients than males. The gender difference was less pronounced among those who did not receive a loan.

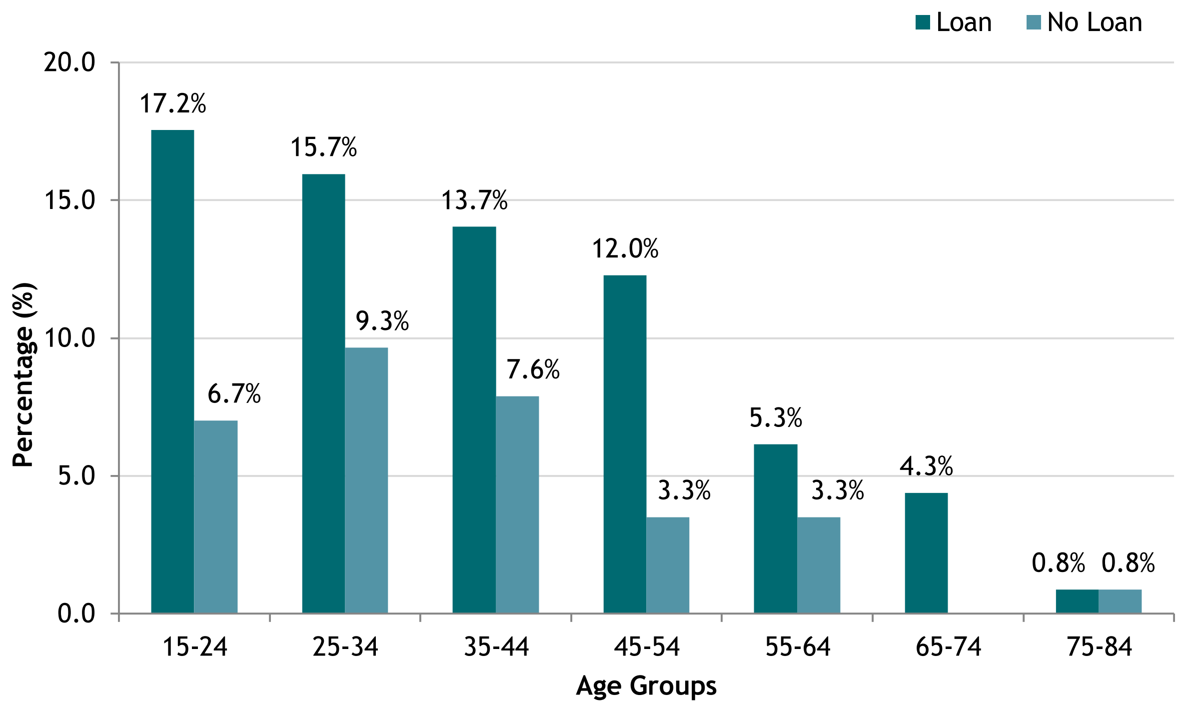
Figure 6: StepUP loans approved by gender



j) LOANS APPROVED BY AGE GROUP

These results indicate that respondents between 25 to 44 years of age were slightly less likely to receive a microfinance loan after the financial conversation.

Figure 7: StepUP loans granted by age



2 Findings and Discussion - Financial Conversations

In order to understand which aspects of financial capability and literacy were impacted by the *financial conversation*, we measured changes in clients' actual financial behaviour, knowledge and skills as well as their perceived change.

In order to understand the impact of the *financial conversation*, we measured changes in clients' actual financial behaviour, knowledge and skills as well as their perceived change.

We initially reported any differences between respondents' abilities before the financial conversation and their abilities three months after the *financial conversation*. We then reported respondents' perceived change immediately after the *financial conversation* and how much change they believed there was three months on.

Data was analysed in a number of combinations, however we were keen to investigate the different impacts that might have occurred for respondents who received a loan and for those who did not. One third of respondents who took part in the three-month follow-up telephone questionnaire and interview had not successfully received a microfinance loan for reasons including:

- Unpaid bills - 12 respondents had unpaid bills or debt that would mean they were ineligible for a loan. Such clients were often advised to reapply once they had addressed the issue.
- Changed mind - Six respondents changed their mind about their need for a StepUP loan, either arranging alternative finance or being influenced by a personal change in circumstances.
- No surplus - Six respondents were advised by the microfinance worker after the financial conversation that they did not have enough income surplus to afford loan repayments.
- In progress - Four respondents were still in the progress of applying.
- Alternative finance - Four respondents had arranged alternative finance, including borrowing money from family, friends and arranging a Centrelink loan. Two indicated they would have preferred the microfinance option.
- Gave up - Two respondents gave up as they believed the process to be too complicated.
- Self-assessed - Two respondents felt they would be ineligible or rejected so did not proceed with an application.
- Incarceration - One respondent was incarcerated after his financial conversation.
- Not appropriate – One respondent's request for a loan was not within the approved purpose guidelines.
- Not immediate enough – One respondent indicated that they did not proceed, as the loan would not be approved quickly enough.

Financial Skills

The main findings related to the impact on the respondents' financial skills were:

- The ability to keep to a weekly budget increased for respondents who received a loan; however it decreased for those who did not receive a loan. Those who did not receive a loan usually did not have enough surplus income to afford small loan repayments or had high existing debt levels. In such precarious financial situations it is unsurprising that adhering to a budget is an ongoing challenge that can intensify over time.
- The results indicate that regardless of the outcome of the loan application, applicants' ability to keep track of their money does increase.
- The ability to check bank statements for fees and expenses increased both for respondents who did and those who did not receive a loan. However, the increase was more so and statistically significant for those who did receive a loan.
- The financial conversation and interaction with the microfinance worker, even prior to their loan application being submitted, had a substantial immediate impact on respondents' optimism and confidence to make positive changes in their financial capability in the future.

1.1 Money management

In general, respondents indicated that they had good money management skills prior to their loan application for a microfinance loan, particularly in relation to keeping a weekly budget and keeping track of living expenses. This reflects the findings of the Money Conversations report and previous research that investigated the financial capabilities of low-income earners.

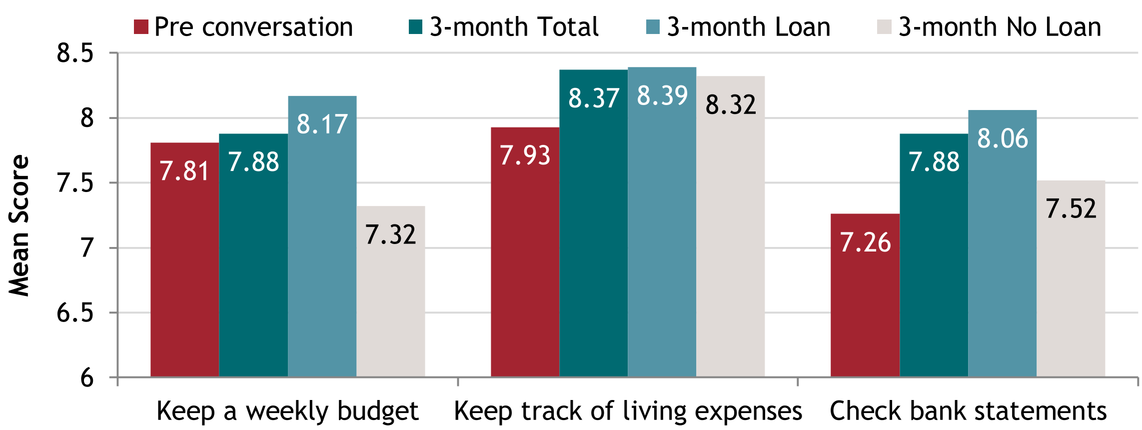
Comparing these initial response to those from the three-month follow-up questionnaire generated important insights into the impact of the *financial conversation*.

Respondents were asked to rank their current abilities before the *financial conversation* and then three months later on a scale from 1 – 10 (1 = "never" and 10 = "always") for three key aspects of money management:

1. Keeping a weekly budget
2. Keeping track of living expenses
3. Checking bank accounts

The mean responses given at the three-month follow-up were then segmented according to the outcome of the loan application process. Further analysis investigated the potential impact of a range of variables including; gender; age group; loan purpose; location; income, and/or other impacting factors. Figure 8 displays the mean scores at pre, post and three-month follow-up.

Figure 8: Money management - Responses to "How often do you feel able to…..?"



As Figure 8 indicates, the ability to keep to a weekly budget three-month after the *financial conversation* increased for respondents who received a loan; however it fell for those who did not receive a loan. It is likely that loan recipients were more likely to adhere to their weekly budget due to the need to be more organised and ensure loan repayments are made on time. Respondents who did not receive a loan typically were declined or did not continue with the application because they lacked the capacity to repay. This finding can be seen to reflect the precarious financial position of microfinance clients more broadly.

The ability to keep track of living expenses refers to a respondents' ability to understand their day-to-day flow of money. This increased consistently across most groups in the three months after the *financial conversation*, with the mean scores for both those who receive a loan and those who did not both rising comparatively.

Respondents indicated that although they may not be sticking strictly to the budget developed with the microfinance worker in the interview, they found the process gave them a clear and valuable insight into the ways they spent money on unnecessary expenses. It also provided them with tips and tools for making simple changes. This often flowed on to changed behaviour, with respondents indicating that increased awareness had led to more responsible spending on things like takeaway food, clothing and cigarettes.

> *"Seeing a budget done up on the screen was different and I realised the expenses that I have, it made me more conscious of what I spent money on, and I've since been trying not to buy unnecessary items." (Male, 18 years old, loan recipient)*

The budgeting exercise that occurs during the financial conversation appeared to increase respondents' awareness of their personal financial situation, contributing to an increase in knowledge of personal expenses and spending habits. Respondents with often extremely modest incomes may not possess the resources to keep to a weekly budget, however the results indicate that regardless of the outcome of the loan application, their ability to keep track of their money increased.

The *financial conversation* also often includes a discussion about understanding bank statements, avoiding bank fees and information about accessing banking facilities, including online banking. Clients who receive a loan must inevitably use online or in-person banking facilities to enable a smooth loan setup process and ongoing repayment schedule.

As shown in Figure 8 the ability to check bank statements for fees and expenses increased for respondents who both did and those who did not receive a loan, with a statistically significant increase recorded for those who did receive a loan.

Interestingly, prior to undertaking a financial conversation, males rated their ability to check bank statements higher than females, but regardless of the outcome of the loan application process, three months after the interview, female applicants recorded the largest increase in ability to check bank statements.

Respondents also indicated that their increased ability to understand their bank statements has led to lower bank fees and charges, including a number of respondents switching to no-fee banking accounts, as well as using foreign ATM's less frequently.

"I think the main thing was to read my bank statements. I wasted a lot of money going to other teller machines. I've stopped doing that now and I'm saving $20-30 per fortnight." (Female, 33 years old, loan recipient)

1.2 Planning ahead

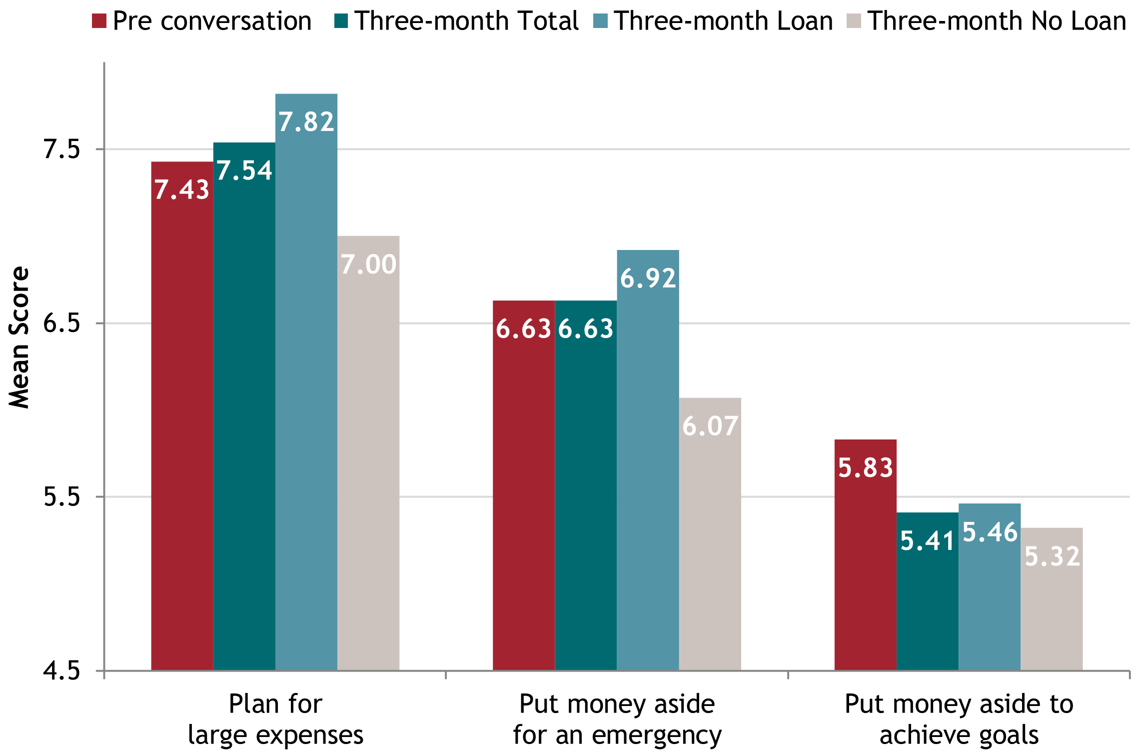
Planning ahead for large expenses, saving for emergencies and achieving savings goals, is contingent on a surplus income, however small. Prior to their *financial conversation*, respondents indicated lower levels of ability for these financial activities, reflecting the diminished priority for low-income earners.

As in the previous section, respondents were asked to rank their current abilities before the financial conversation and then three months later on a scale from 1 – 10 (1 = "never" and 10 = "always") for three key aspects of planning ahead:

1. Planning for large expenses
2. Putting money aside for emergencies
3. Putting money aside to achieve goals

The mean responses three months later were then separated according to the outcome of the loan application process. Further analysis investigated the potential impact of a range of variables including; gender; age group; loan purpose; location; income and other impacting factors.

Figure 9: Planning ahead - Response to "How often do you feel able to.......?"



The ability to plan for large expenses appears to be associated with the success or not of a microfinance loan application, with the increase for respondents who received a loan matched by a decrease in respondents who did not. This is probably highly influenced by the financial situation of a respondent prior to engagement with a microfinance provider.

Importantly, 77 per cent of respondents who did not receive a loan indicated that "not earning enough money" impacted on their financial skills, a significantly greater percentage than respondents who did receive a loan (Figure 10).

This finding was statistically significant for each of the money behaviours linked to planning ahead: planning for large expenses, saving for emergencies, and saving for goals.

Reflecting the need for car owners to plan for car registration and insurance costs, three months after the *financial conversation*, respondents who successfully took a loan to purchase a car recorded a significantly higher ability to plan for large expenses.

Saving to achieve goals was the only money management behaviour that fell overall, with loan recipients also indicating a decreased ability. This shows that for loan recipients it is harder to save money while they are making loan repayments, and that additional money is more likely to be spent on large expenses related to the loan like car registration and repairs.

That "putting money aside to achieve goals" received considerably lower mean scores may reflect the use of holiday as an example of this type of saving. Many respondents' at each stage in the interview process indicated that they never consider taking holidays.

Notably, three months after the *financial conversation* and loan application, 11 per cent of participants indicated they had started using a new financial product, including three respondents who had begun using the AddsUP matched savings program.

> *"Everything seems to be falling into place. Because I'm succeeding with the StepUP loan I've actually changed to the NAB to save on fees and charges. I've also got a savings account so I can start trying to save for large expenses. If I ever have extra money I stock up on necessities. Having the internet banking process at my fingertips gives me confidence that in the future I will see big improvements in my financial situation. If I can achieve small goals like saving a little bit the longer goals will fall into place."*
> *(Female, 44 years old, loan recipient)*

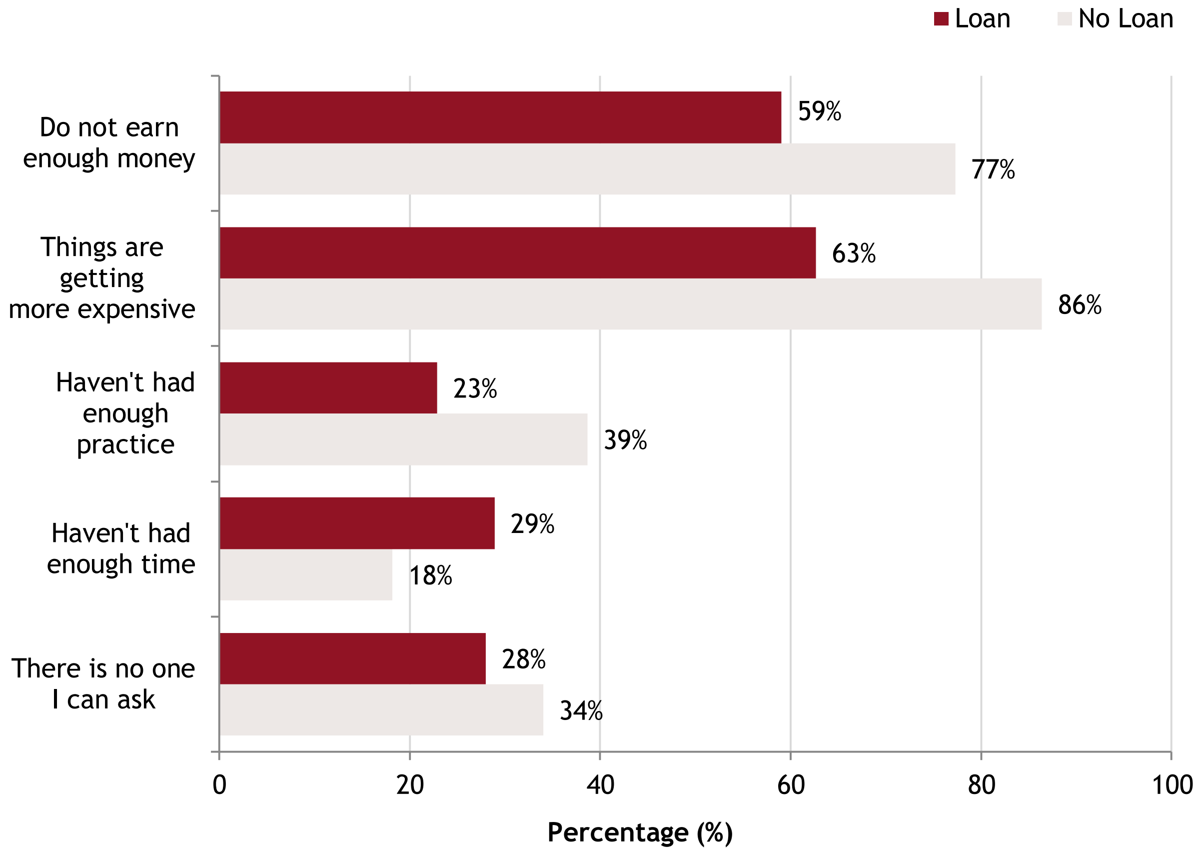
1.2.1 Barriers to money management and planning ahead

Respondents were asked to identify barriers to their financial abilities and skills in money management and planning ahead, including budgeting and saving money. More than one option could be chosen.

Three months after the *financial conversation*, a clear difference was observed (Figure 10) between successful loan applicants and those who did not take a microfinance loan.

A high proportion of respondents in both groups identified that a low income and rising living costs affected their ability to implement financial skills. However respondents frequently demonstrated their underlying strength and resilience, stating that "you work around that in your budget" and "that's life and I make do".

Figure 10: Barriers to acquiring financial skills by loan application status



These results reinforce the pressure felt by people with low incomes who are constantly faced with rising prices, and that interaction with a microfinance organisation and a successful loan application can make a positive contribution to alleviating this stress.

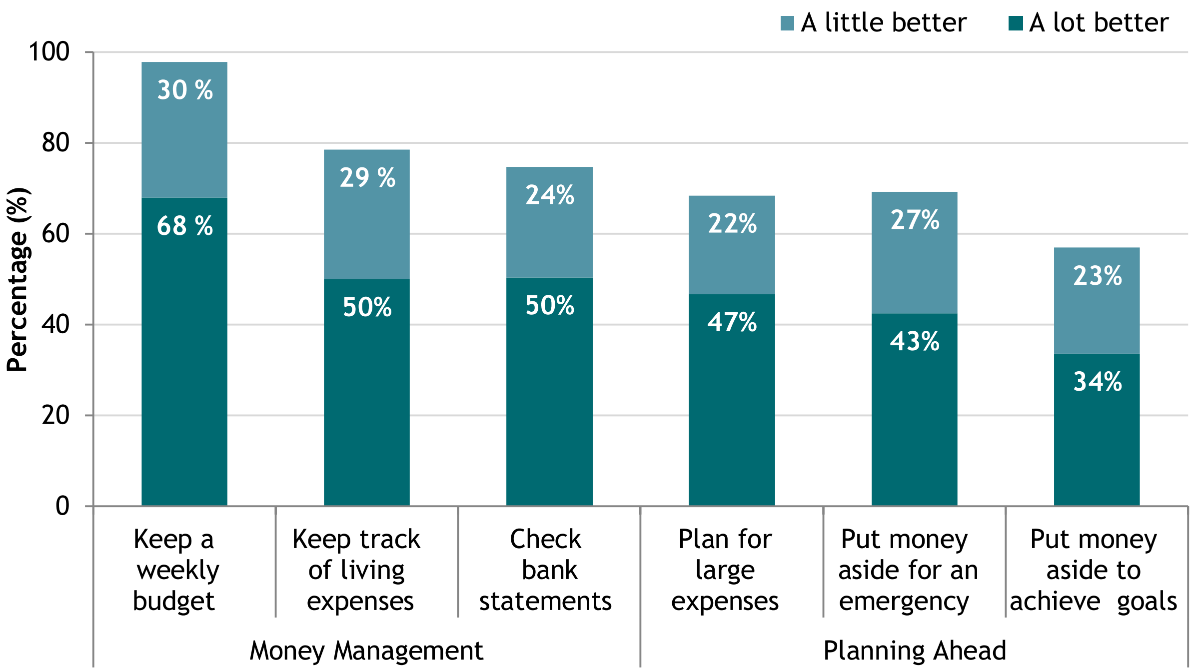
1.2.2 Post-conversation

Immediately after the *financial conversation* participants were asked to predict how much change they expected in their money management skills.

During the loan application interview, financial literacy tools including examining bank statements and developing a realistic budget are discussed, as are accessing credit history information and addressing issues related to default credit listings.

These aspects are always covered to assess eligibility before a formal loan application is made, and further paperwork requested. At the completion of the post-conversation interview respondents did not know the outcome of the loan application, and some may have not yet decided whether to proceed with the process.

Figure 11: Post conversation - Predicting "How much change there will be in….?"



Results from the post conversation questionnaire show considerable immediate impact on respondents' confidence in their ability to improve their money management skills. Straight after the *financial conversation* respondents were very positive about the potential change in their financial skills.

More than 50 per cent of respondents in each of the three skill areas felt that that their abilities would be "a lot better". Respondents were also confident about the prospect of improving their financial planning skills.

Researchers at Griffith University investigating factors that influence financial capability have found that self-esteem; confidence and self-belief are key determinants of financial capability.[26]

Our research findings suggest that the *financial conversation* and interaction with the microfinance worker, even prior to their loan application being submitted to NAB, has a substantial immediate impact on respondents' optimism and confidence to make positive change in the future.

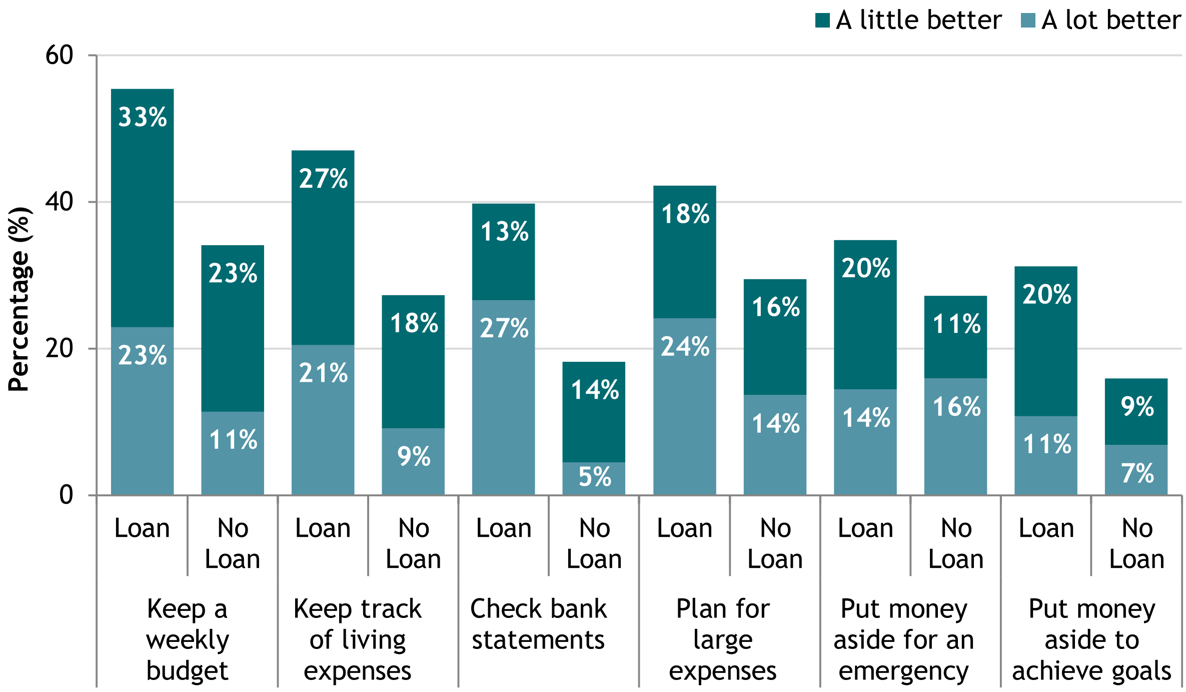
1.2.3 Three months later

Three months after their *financial conversation*, respondents were asked to reflect on changes in their abilities. A high proportion felt that their ability to manage their own money had improved.

As Figure 12 shows this was more often the case for successful applicants, but there were also notable increases for respondents who did not receive a loan.

[26] Vyvyan, V, 2006, Putting the Horse Before the Cart: Factors that influence financial capability and effectiveness, Griffith University Business School

Figure 12: Money management & Planning ahead - 3 mth f/up: "How much change has there been in your ability to…?"



Almost all of the remaining respondents felt there had been no change in their abilities, which shows the high level of money management skills often possessed by applicants prior to engaging with microfinance.

On the rare occasion that a respondent indicated things had gotten worse in the past three months it was always circumstantial and usually the result of a substantial change in circumstances such as losing a job or having a child.

Financial Knowledge

Three months after their *financial conversation* respondents were overall more likely to engage with banks, seek information and assistance; this was particularly so and of statistical significance for people who successfully applied for a microfinance loan.

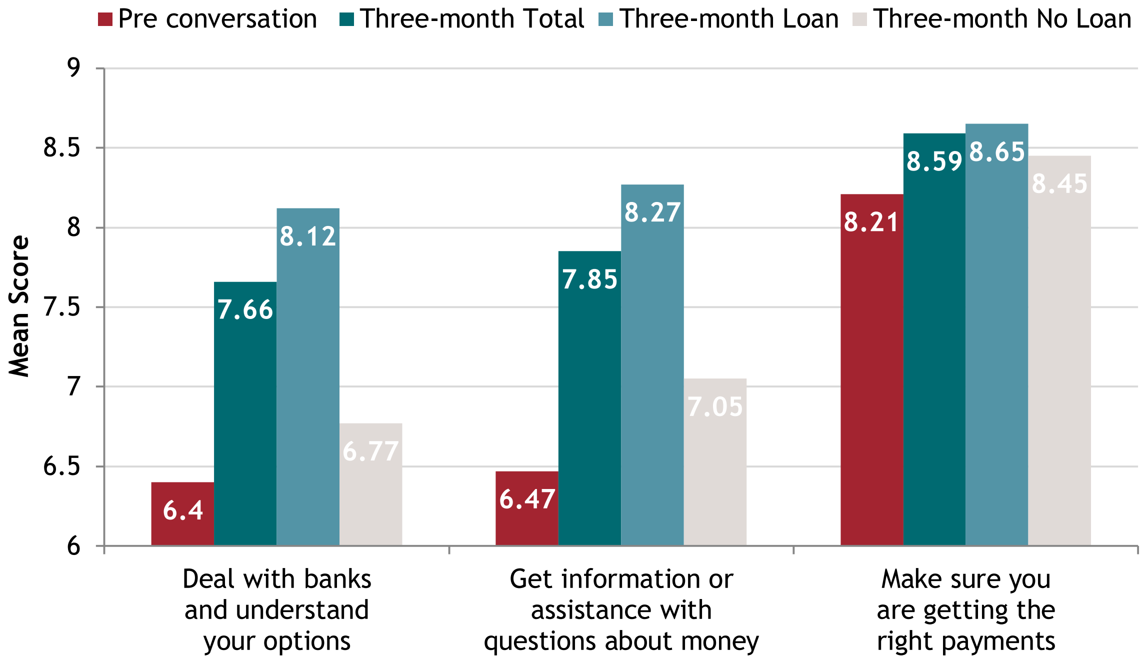
Gender appeared to be a factor on the ability of respondents to seek help or assistance with questions about money, with women indicating they were more comfortable than men to do this both before and after the financial conversation.

Regardless of the outcome of the loan application, engagement with a microfinance worker appears to provide an important boost in self-confidence for people who typically are financially excluded and feel judged by traditional institutions and services for their financial situation.

2.1 Making choices and getting help

Engagement in a *financial conversation* with a microfinance worker has an impact on financial knowledge, regardless of the outcome of a loan application. This impact is larger when this financial knowledge is combined with a successful loan application and the associated boost to self-confidence and financial capability.

Figure 13: Knowledge - Response to "How often do you feel able to…..?"



Before the *financial conversation*, respondents generally indicated a lack of confidence in their financial knowledge and their ability to engage with financial institutions and products and seek help when they had questions about money.

StepUP clients must engage with the National Australia Bank (NAB) to finalise their loan application. The research results prove that this interaction helps clients to feel comfortable engaging with more mainstream financial institutions and products.

> *"Probably made me a bit more forthcoming, I feel a bit more confidence. I don't know, before I was a bit wary about going to a bank or talking about getting a loan but it just seemed to help me a bit. I know now that you can talk to them, it just seems easier."*
> *(Male, 64 years old, loan recipient)*

Gender appeared to be a factor on the ability of respondents to seek help or assistance with questions about money, with women indicating they were more comfortable than men to do this both before and after the financial conversation. However, the confidence and prospect to seek help or assistance increased considerably and correspondingly for both male and female respondents.

Respondents frequently expressed their gratitude to their microfinance worker, with glowing and unprompted comments. A common response was that they did not feel judged by the microfinance worker, and that they would be very comfortable to approach them to ask questions in the future.

In comparison to their experiences engaging with other financial institutions, engagement with a microfinance organisation appears to provide an important boost in self-confidence for people who typically are excluded and feel judged for their financial situation. Respondents appreciated the respect offered to them by their microfinance worker and a number of respondents were explicit in their belief that the interaction with the microfinance worker was a defining point in changing their relationship with money.

> *"I was really fearful before I met my microfinance worker Andrea. It felt like a miracle happened. I was so terrified about money and after I sat there and spoke with her she lifted my spirits and made me realise it was possible."*
> *(Female, 40 years old, loan recipient)*

One respondent had experienced issues choosing an appropriate insurance policy after successfully receiving a microfinance loan to buy a car. This highlighted the need for information about insurance to be included in the initial *financial conversation* as well as subsequent interactions with the microfinance worker.

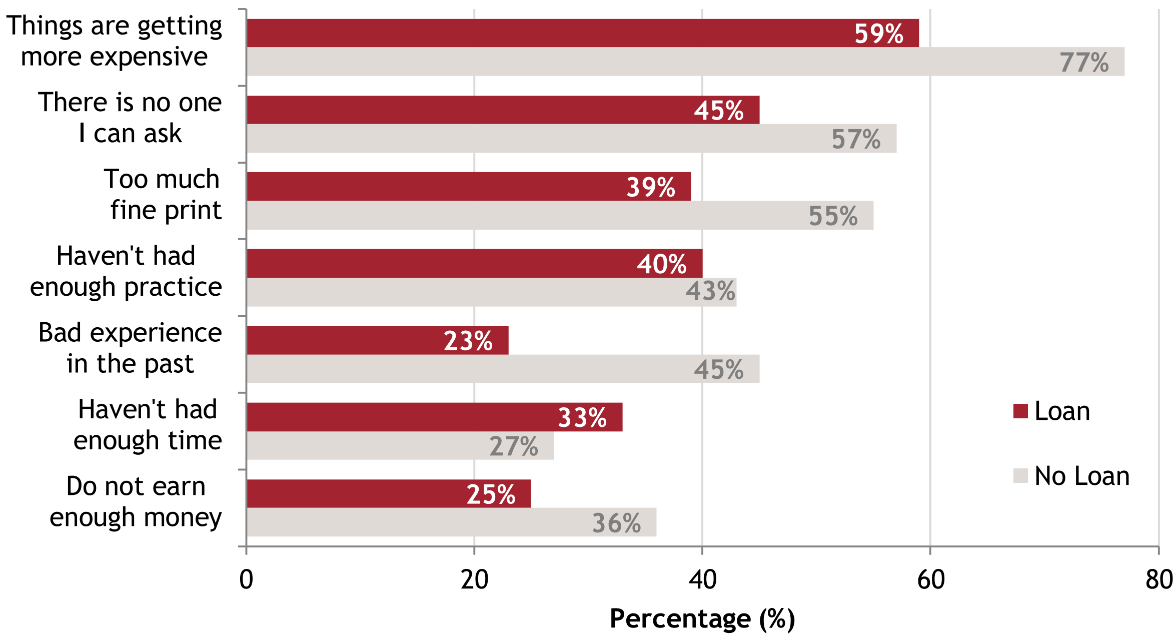
The array of options for vehicle insurance is particularly confusing for people with low financial literacy, and guidance and advice is crucial to ensure respondents have the knowledge and confidence to advocate effectively and choose wisely.

Barriers to knowledge

The majority of respondents did not consider a low income a barrier to being able to get financial information and assistance although a high proportion did feel that rising prices have an impact, particularly so for people who did not receive a loan. This may reflect rising costs of communication and transport to physically access these services, or alternatively reflect rising costs of financial products themselves.

Respondents who did not receive a microfinance loan were generally more likely to experience barriers to their ability to obtain financial knowledge; however not having enough practice was comparative for both groups.

Figure 14: Barriers to acquiring financial knowledge by loan application status

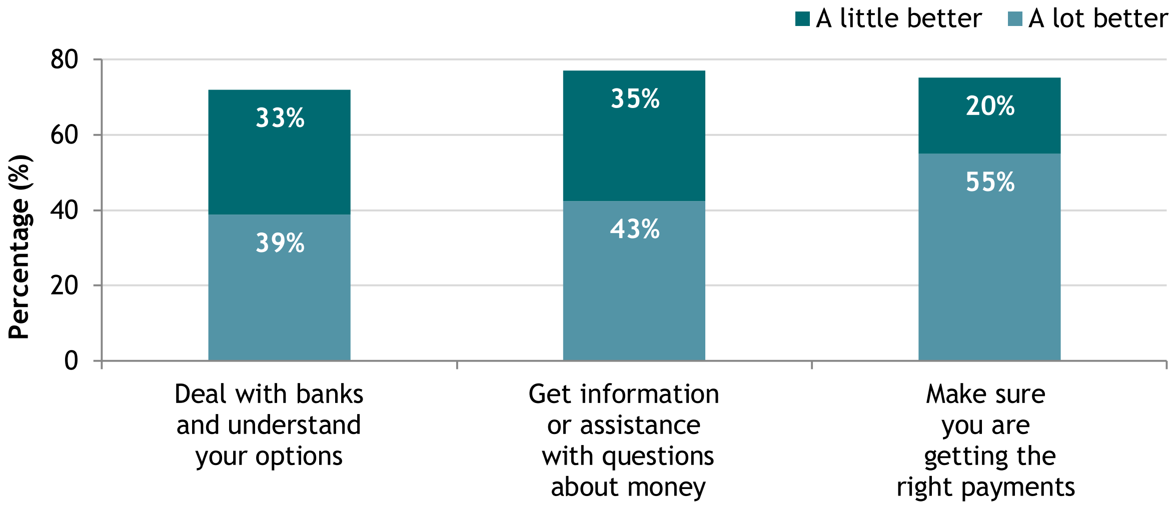


Engagement with microfinance and participating in a *financial conversation* appears to have an equivalent impact regardless of the outcome of a loan application, in terms of how much practice a respondent feels they possess.

Post-conversation

The *financial conversation* undoubtedly generates optimism and positive enthusiasm for respondents. Immediately after the *financial conversation*, respondents were usually very positive about the potential for improvement in their financial knowledge, with the highest overall response for getting help and assistance with questions about money.

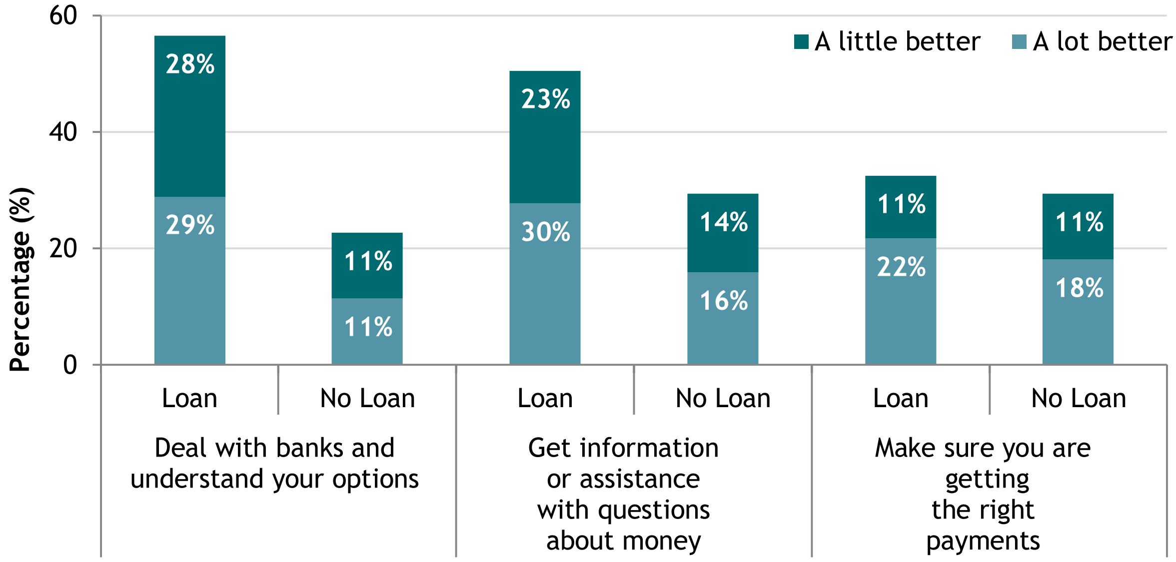
Figure 15: Knowledge - Post-conversation: "How much change will there be….?"



Three months later

Three months after their *financial conversation* and loan application many respondents felt there had been positive change in aspects of their financial knowledge, particularly for successful loan applicants who were required to engage directly with National Australia Bank to set up their microfinance loan.

Figure 16: Knowledge- 3 mth f/up response: "How much change will there be…?



While enthusiasm and optimism often waned following an unsuccessful loan application or making the decision not to continue with an application, there were numerous respondents who felt that their abilities had improved or improved "a lot" following the process. Despite not receiving a loan, the statement below from a respondent demonstrates that the knowledge learned had been retained.

> *"It was good, it actually really helped. I didn't know about my credit history, they taught me about how borrowing money works and how much I would have to pay back monthly and how much is left over for me." (Female, 24 years old, did not receive loan)*

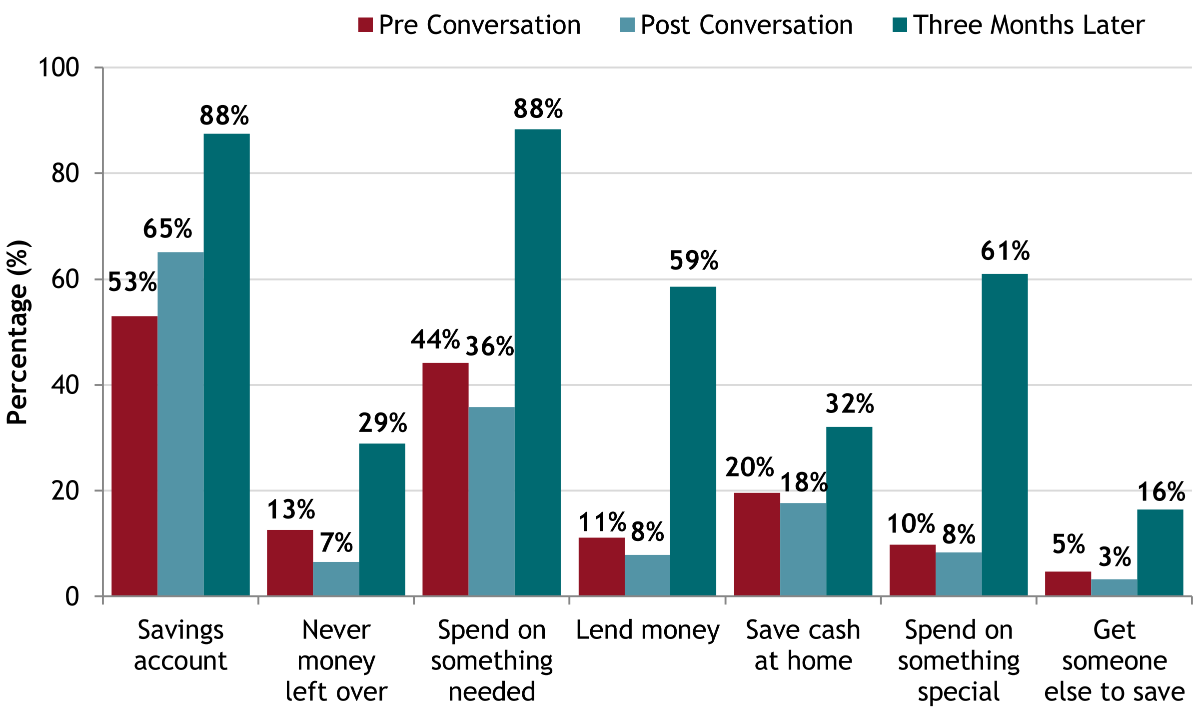
Financial Behaviour

- Respondents were increasingly likely to leave leftover money in a savings account after each stage of the loan application process, with 88 per cent of people indicating they would use this strategy three months after their *financial conversation*.
- Three months after their *financial conversation* respondents were far more likely to use a number of strategies when faced with a lack of money, with a proportion of this increase likely attributable to the knowledge and confidence gained through the *financial conversation*.

3.1 Strategies for leftover money

Respondents were more likely to apply all of the potential strategies for leftover money, with particularly large increases in a number of cases, notably spending leftover cash on both "needs" and "wants". To some extent this can be attributed to inherently different ways people respond to questionnaires; however it is reasonable to draw a relationship between these significantly large increases and participation in the microfinance application process and *financial conversation*.

Figure 17: Behaviour - Strategies for leftover money



Respondents were increasingly likely to leave leftover money in a savings account after each stage of the loan application process, with a substantial immediate increase of 12 per cent in responses to this question following the *financial conversation* and a substantial increase three months later. The use of savings accounts is discussed in the *financial conversation*, including avoiding withdrawal fees, accessing online banking and using multiple accounts to manage bills and savings.

> *"Until recently I always had a bit of money left over for just in case, but now I have opened up an e-saver which earns interest and I'm using that secondary account to save up for a car. For the first three months I get an introductory offer of 4% interest, which is a good deal. I went into my own bank and asked them about a secondary account."*
> *(Male, 24 years old, did not receive loan)*

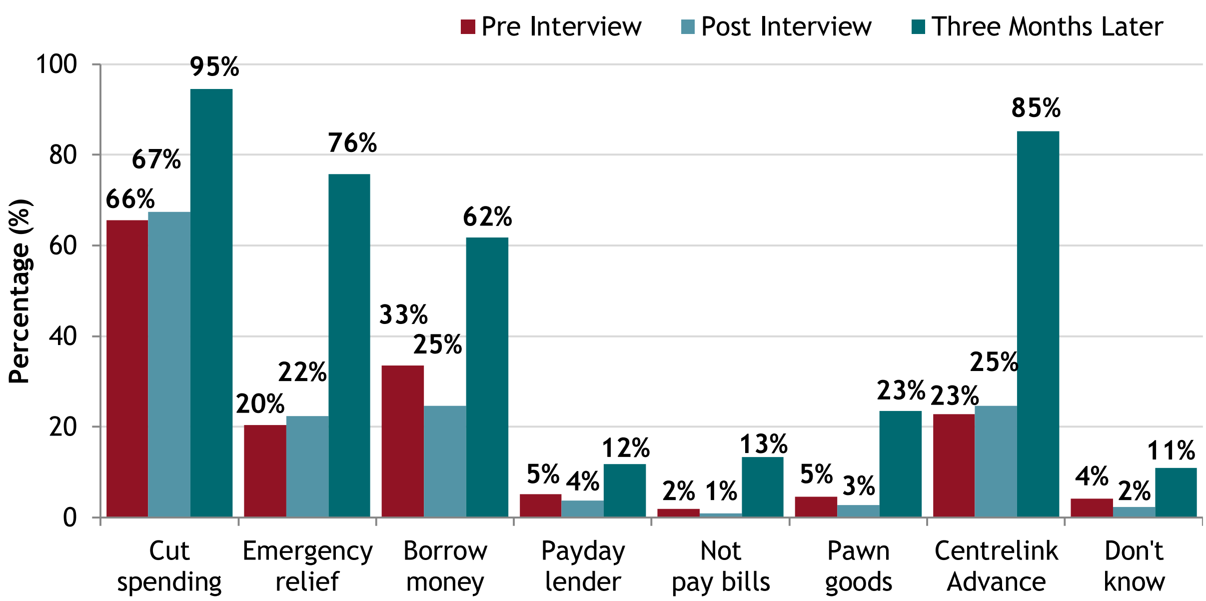
Interestingly, despite the financial pressure experienced by a typical microfinance client, few respondents indicated that they had no money leftover in their budget. While this appears to contradict the previous discussion about scarcity of income for saving, comments around this question reinforce the stoic capacity of respondents to face tough financial situations with strength and resilience.

3.2 Strategies for money shortfall

Three months after their *financial conversation* respondents were far more likely to use a number of strategies when faced with a lack of money, with a proportion of this increase likely attributable to the knowledge and confidence gained through the *financial conversation*.

Three months after their *financial conversation* almost all respondents indicated that if they ran out of money they would cut spending or do without something, with many commenting that this is a strategy that is regularly used as a first response when a financial situation worsens. Emergency relief was also a common potential strategy, with respondents usually commenting that it would only be considered as a last resort.

Figure 18: Behaviour - Strategies for money shortfall



A majority also indicated they would access a Centrelink Advance Payment, with many commenting that this strategy is already an integral part of their annual financial plan. These payments are usually available once per year to Centrelink clients and respondents typically rely on them to pay their annual car registration and insurance. This rules out the possibility of using the service if another emergency arises.

It is important to emphasise that while most microfinance clients do receive the majority of their income through Centrelink payments there are some who do not, and do not therefore have the opportunity to apply for a Centrelink Advance Payment.

Additionally, there are many people working in Australia who earn low incomes and cannot access the microfinance loans offered through Good Shepherd Microfinance or Centrelink. These people have even fewer strategy options available when they run out of money or face a financial emergency.

In the situation of a shortfall of cash, following the *financial conversation*, respondents were slightly more likely to cut spending, access emergency relief and a Centrelink Advance Payment, indicating a small immediate impact attributable to the *financial conversation*.

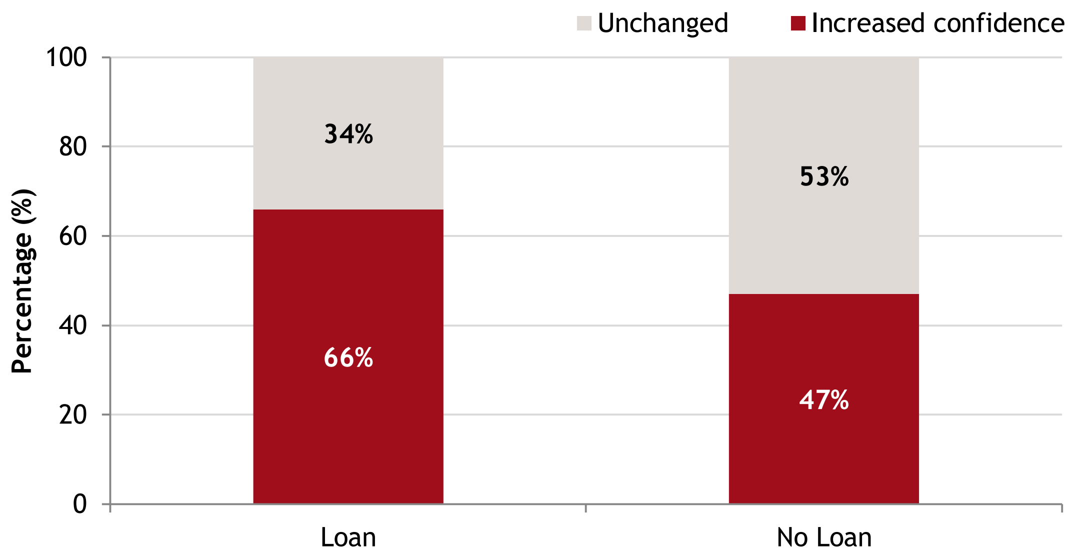
Respondents were also less likely to borrow money from family or friends post conversation, with the *financial conversation* possibly sharing knowledge and building confidence of other strategies possible in this situation.

Confidence

Three months after the *financial conversation* respondents were asked to what extent they felt that their confidence to deal with money had changed. A large proportion of respondents felt that their confidence had improved in that period; with the question eliciting responses that demonstrated the multitude of ways the process can boost financial skills, knowledge and self-esteem.

Many times respondents felt that their confidence to deal with money had increased, but were unsure about how to articulate this and or pinpoint any particular reason.

Figure 19: Behaviour - Changes in confidence by loan application status



The positive impact of a successful microfinance loan application on self-confidence is well documented in previous research, and is reflected in the findings of this research. Many aspects of the process boost successful loan recipients, including the fact that “someone has taken a leap of faith” in them and that they will be viewed more favourably in future loan applications.

Almost half of the respondents (47 per cent) who did not receive a loan reported an increase in their confidence to deal with money, a result that can be largely attributed to the *financial conversation* they experienced as part of their microfinance loan interview and application process.

Without a successful loan application, the process improved awareness of spending, budgeting skills and how to pay bills, resulting in changed behaviour and improved financial situation through cuts in unnecessary spending.

Respondents also indicated that they were more confident because they were now aware of more options, with a number indicating they were keen to re-apply once they were in a position to do so.

> *“I’m more confident in that if you really need something you can get finance you just have to get things organised. Because once you start getting your paperwork together you realise. Doing the budget gives you confidence and you realise you are wasting money and you become a lot more sensible about money.” (Male, 60 years old, did not receive loan)*

Increased confidence to deal with money was more prominent in younger respondents, with participants aged 25-34 having the highest proportion of increased confidence. This was particularly the case for successful loan recipients. This makes sense as younger people have less experience and are more likely to positively encounter new information; however it is important to emphasise that many respondents of all ages experienced an increase in confidence through this process.

> *“I feel like I have a lot more confidence. I think it's my money and I'm not about to let anyone take it from me. I'm very confident in my abilities now, I feel like I do extremely well. I write down and account for every cent of it.” (Female, 53 years old, loan recipient)*

Respondents who said that their confidence was unchanged usually expressed that they already possessed confidence to deal with their own money.

This included some respondents who had previously held employment that required quite high levels of financial literacy, including a number of respondents’ who were previously financial industry professionals.

A number of respondents were previous microfinance clients, which had a bearing on the impact of the *financial conversation* and their rankings to some questions.

Recommendations for future research

The second aim of this research project was to use and validate the research instrument, the series of questionnaires that were developed by Good Shepherd Youth and Family Service in 2012. The instrument was easily comprehended and understood and generally fit the spectrum of financial capability and situations of respondents.

The below suggestions for additional variables to be added to future questionnaires are based on recurrent comments from respondents and were discussed with respondents qualitatively when they appeared.

Including the following quantifiable variables would allow for a deeper understanding of how the financial conversation impacts financial capability:

- Identifying financial resilience
- Identifying previous experience with microfinance
- Identifying crisis level along the financial capability continuum
- Identifying whether respondents who have not successfully received a loan intend on reapplying
- Identifying changes in spending habits

Also, while this research has identified a clear relationship between the *financial conversation* and improved financial capability, including positive impacts on confidence, it is not possible to separate the impact of obtaining a loan from the *financial conversation* and engagement with a microfinance institution.

To fully understand the impact of the *financial conversation* we consider it will be necessary to further investigate the impact on the following groups:

- Clients who have obtained a microfinance loan **without** a *financial conversation*. This could be possible with successful online applicants in the future, or alternatively with Centrelink Advance Payment recipients.
- Further investigation on the impact of engagement with a microfinance institution that does not result in a successful loan outcome.

Conclusion

The first goal of this research was to investigate and measure the impact of the financial conversation on the financial capability and resilience of StepUP applicants, developing rigorous findings that would complement previous qualitative research.

This research was able to identify a baseline for applicants before they undertook a *financial conversation*, immediately after and at a later stage usually after an application outcome.

The *financial conversation* led to a large immediate impact on the optimism of clients in many aspects of their financial capability. This enthusiasm is important in building confidence, a crucial step to improving of financial literacy and capability.

Financial skills, knowledge and behaviour improved in many aspects in the three months following a *financial conversation*, though to a greater extent for microfinance loan recipients.

This research provides robust evidence to substantiate anecdotal and qualitative findings that the financial conversation undertaken with microfinance clients has a lasting impact, and not just for those who continued with a loan application.

The specific aspects of financial capability, and the extent to which this occurs, have been explored and discussed. Further research could examine in more depth the long-term impact on clients who do not go on to obtain a loan.

Microfinance applicants are often intimidated by traditional financial institutions and struggling to cope with extremely low incomes. The support and information provided by the microfinance worker contributes to improved confidence and financial skills for loan applicants, as well as a sense of inclusion, all key elements of boosting financial capability.

The *financial conversation* is an appropriate and effective platform for communicating financial literacy information and consequently making effective progress towards boosting the financial capability of the most financially excluded

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