



The Changing Nature of Financial Wellbeing

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Outline

1. What is *finance*, what is its purpose?
2. What is *financial wellbeing*?
3. Where are we?
4. Where do we need to get to?



Role of Finance

Role of Finance - What is its Purpose?



Role of Finance

What is the role of finance? Prof. Niall Ferguson states that:

- *'Without the foundation of borrowing and lending, the economic history of our world would have scarcely got off the ground.'*
- *'[F]inancial innovation has been an indispensable factor in man's advance' and that 'the evolution of credit and debt was as important as any technical innovation in the rise of civilization'.*

Prof. John Kay in his important book, 'Other Peoples' Money', highlights that:

- *Finance can contribute to society and the economy in four principal ways. First, the payments systems is the means by which we receive wages and salaries, and buy the goods and services we need; the same payments system enables business to contribute to these purposes. Second, finance matches lenders with borrowers, helping to direct their savings to their most effective uses. Third, finance enables us to manage our personal finances across our lifetimes and between generations. Four, finance helps both individuals and businesses manage the risks inevitably associated with everyday life and economic activity.*



Role of Finance

Prof. John Kay's functions of finance

- Payment system
- **Capital allocation: Matching those who need capital with those with excess capital.**
- **Intra generational transfers of wealth.**
- Hedging & insuring risks.

At the heart of finance is **trust**. We trust

- the payment system
- the EFPTOS machines
- the security of banks
- the payment system etc.
- in the business of credit and loans we rely on a belief, a trust, that the money will be repaid
- Ferguson says "*Money is not metal. It is trust inscribed.*"

It is no surprise therefore that the English word "credit" is derived from the Latin word "credo", which means "I believe".



Role of Finance

- Globally, roughly two-fifths of the world's population is effectively outside the financial system – no access to bank accounts, much less credit (Ferguson). This is the *financial inclusion* challenge.
 - Access to finance and its benefits is still an issue globally & domestically.
- Microfinance, including NPLs, is seen globally as one of the key initiatives to financially include.
- Importantly (and interestingly), the development of microfinance globally has identified that women are often a better credit risk than men (Ferguson).
 - This wasn't historically the case.



Financial Wellbeing

What is *financial wellbeing*?



What is *financial wellbeing*?

- **A well being!**
 - “Well’ means ‘*in a good or satisfactory way*’
- **There’s a number of definitions out there. The key components are:**
 - Knowledge – about your financial situation
 - Skills – to deal with your financial situation
 - Attitudes & psychological factors (state of mind) – control, confidence, optimism, judgement, future orientation
 - Behaviours – acting accordingly
 - Socio-economic factors (50%) – the prevailing environment



What is *financial wellbeing*?

- The state of mind, particularly *confidence* and *optimism*, is crucial. Some example definitions:
 - **The Government's vision:** *For Australians to have the knowledge, skills, **attitudes** and confidence to engage in positive financial behaviours and make financial decisions appropriate to their individual circumstances throughout their lives.*
 - *Financial capability [wellbeing] refers not only to the knowledge needed to make sound financial decisions, but to a combination of financial knowledge, skills, attitudes, and **confidence** that leads to positive financial behaviours and money management decisions that fit the circumstances of one's life.*
 - **ANZ:** *Financial wellbeing is a measure of your confidence with money and financial literacy.*
 - **CBA:** *Financial wellbeing is different to financial wealth. While wealth might be about bank balances and net worth, wellbeing is about how the way you manage money affects your life on the whole. It's about being able to meet your financial obligations, be financially prepared for an unexpected event, able to save for future goals including retirement and having the financial freedom to make choices that **allow you to enjoy life** – now, in the future and under adverse circumstances.*



What is *financial wellbeing*?

This means *financial wellbeing* is:

- Being able to meet day to day expenses
- Being able to cope with unexpected expenses
- Feeling secure about the future
- Being comfortable to be able to make choices to enjoy life



Where are we?

Where are we?



Where are we?

Not yet where we want to be!

- Not a financially *confident* society (cf *economic confidence*).
- Not a financially *optimistic* society.

Recent joint Beyond Blue and ASIC study highlighted that financial stress leads to considerable mental stress, diagnosable mental health conditions and suicidal thoughts.

- In turn this can create a vicious cycle with mental health issues causing financial stress and hardship.
- The study identified “*the reciprocal relationship between financial wellbeing and mental health, the spiralling nature of their downward and upward effects on each other, and the cumulative impacts of challenges in both areas.*”

Put another way, financial stress is the polar-opposite of *financial wellbeing*.

- This study, along with many others, highlight the societal, economic and (above all) **human** importance of financial wellbeing.



Where are we?

- **Alarming statistics also show that most Australians find navigating financial matters difficult.**
 - Australians find superannuation complex & understanding the true risk of many financial products difficult.
 - One in four working Australians are showing signs of being ‘newly vulnerable’ in their financial situations. (Roy Morgan).
 - That’s a quarter of Australia’s workforce!
 - These figures are even more alarming when it comes to women.
 - As economic headwinds grow, particularly growing inflation & cost of living pressures, these figures & their human costs will likely worsen.



Where are we?

- Little coordination or centralization of wellbeing initiatives across the economy (and society).
 - At least three Commonwealth agencies appear to be ‘leading’ efforts, with a number of other state and federal agencies ‘implementing’ (without sufficient coordination between all).
 - Funding is disparate, ad hoc and insufficient.
 - Multiple (worthy) private sector initiatives exist, but a ‘North Star’, a ‘common aim’ is missing.
- Particularly, no single principal Government ‘lead’ body.



Where do we need to get to?

Where do we need to get to?



Where do we need to get to?

- We need an audacious North Star goal!
 - Create ***a society where citizens are confident, empowered, skilled and optimistic about their financial lives.***
- Australians need to be able to have the opportunity to acquire and use the knowledge and tools, along with adequate income, to strive for financial *wellbeing*.
 - Whilst this is, in part, an economic challenge it is not just a matter of increasing the levels of GDP or real wages.
 - It is a societal challenge as well.
- To do this:
 - ***Financial wellbeing needs to be a core part of economic and social development in Australia (and thus a core part of applicable policy settings).***



Where do we need to get to?

This requires:

1. A whole-of-economy, whole-of-business and whole-of-government recognition of the societal and economic importance and benefits of financial wellbeing.
2. Recognition that financial wellbeing's benefits are multidimensional (including both economic and societal). These include:
 - a. Helping the financially vulnerable avoid financial hardship
 - b. Allowing Australians to be more in control of their financial lives and future. Put simply, financial wellbeing allows each dollar earned to be optimised; and
 - c. Mental and physical health benefits.



Where do we need to get to?

3. An established and uniform definition, and nomenclature, around *financial wellbeing* that recognizes that it includes, but goes further than: *financial literacy*, *financial inclusion* and *financial capability*.
4. Ultimately, an audacious rethink and redesign of the current *financial inclusion-literacy-capability* architecture is needed. This will require:
 - a. leadership and better coordination by Government,
 - b. real commitment from business, employers, employees and civil society, and
 - c. identification (and eradication) of barriers to financial inclusion, participation, knowledge and confidence.