



Commonwealth Bank Foundation

Improving financial literacy: benefits for all Australians

CommonwealthBank
Foundation



Contents



CEO's introduction	2
A commitment to financial literacy	4
Key findings	5
At a glance – the financial literacy of a nation	6
Methodology	7
Understanding the financial literacy of Australians	8
Conclusion	13
Our research partners	14

CEO's introduction

Financial literacy is vital and the Commonwealth Bank Foundation's 2010 survey of Australia's financial literacy provides timely insights for us all to build from.

Sensible and well informed money management is an important life skill. It brings control and certainty to our lives, and allows us to make plans for the future. These skills, more formally termed 'financial literacy', provide a foundation for informed decisions about investments and other financial products, and allow Australians to enjoy life and work towards their goals with a reduced risk of financial hardship. This alone makes improving financial literacy a goal worth aiming for.

For nearly 80 years, the Commonwealth Bank has demonstrated its support for financial literacy through ongoing education programs. This commitment was reaffirmed in 2003 with the establishment of the Commonwealth Bank Foundation, which develops financial literacy among young Australians through the delivery of innovative and engaging school-based programs.

In 2004 the Commonwealth Bank Foundation in partnership with Monash University's Centre for Policy Studies and Eureka Strategic Research (now the Ipsos-Eureka Strategic Research Institute), undertook ground breaking research to

measure the financial literacy of the Australian people. The results confirmed the need for ongoing education in financial literacy, while quantifying the benefits these programs will provide.

Today, we revisit this survey, and find once again that certain groups of Australians, our young people in particular, continue to require special attention.

I invite you to take a look through our findings on financial literacy in Australia. The results are insightful and reaffirm the valuable role that initiatives such as those offered by the Commonwealth Bank Foundation continue to play in enhancing financial literacy. Moreover our research highlights the ongoing need for community-wide collaboration between governments, schools and parents in continuing to improve the financial literacy of our Australian community.



Ralph Norris
CEO, Commonwealth Bank of Australia
Chairman, Commonwealth Bank Foundation



A commitment to financial literacy

The Commonwealth Bank received the 2009 Australian Business Award for Community Contribution for its commitment to developing financial literacy skills. The Foundation was awarded the 2010 Australian Business Award for Innovation in recognition of the development of the StartSmart Primary program.





The Commonwealth Bank Foundation is committed to building the financial literacy of young Australians.

Our research into financial literacy plays a vital role in this commitment, providing a means for the Foundation to assess the appropriate focus of our current financial literacy programs, while also highlighting areas where further advances need to be made.

It is with the aid of this research that the Foundation's initiatives remain relevant, focused and effective in developing financial literacy skills.

The Commonwealth Bank – a proud history of financial education

For nearly 80 years the Commonwealth Bank has been supporting financial education through a variety of programs and initiatives catering for Australians of all ages.

In November 2009 the Bank, in conjunction with the Commonwealth Bank Foundation, made a \$40 million commitment to improve the financial literacy of no less than one million Australian children by 2015. Through the platform **onemillionkids.com.au** the Bank's full range of financial literacy initiatives have been brought together.

Commonwealth Bank Foundation

The Commonwealth Bank Foundation was established in 2003 with a \$70 million contribution from the Commonwealth Bank. With a mandate to improve the financial literacy of Australians, the Foundation's programs are developed in close consultation with education experts around the country, to create a truly engaging learning experience.

In 2007 the Foundation commenced its highly successful StartSmart programs. In the three years since its inception, over 150,000 secondary students across Australia have participated in StartSmart making it the largest school-based financial literacy program of its kind. In 2010, we extended our StartSmart program to primary schools.

Key findings

Financial literacy matters. It improves lives and provides measurable benefits for our economy as a whole.

Economic benefits worth \$6.2 billion annually

Improvements in financial literacy can deliver significant benefits to the broader economy and the nation as a whole. Increasing the financial literacy of the lowest quartile of the population to the level of the top of the lowest quartile is estimated to lift the annual income of Australia's financially least literate by 10%, create 15,000 jobs and increase Australia's gross domestic product by \$6.2 billion annually over the long term.¹

This makes financial literacy a matter of economic significance leading to improved decision making, greater productivity and more efficient use of capital.

Profound benefits for individuals

Improvements in financial literacy also offer noteworthy benefits for individuals and their families.

Our survey results indicate that the least financially literate members of our community suffered the worst effects of the Global Financial Crisis in terms of job losses and reductions in working hours. Yet these people are also the least equipped to weather such financial stress, with limited savings to assist with an emergency or change in circumstances.

Less than one in four (22%) of participants in the bottom quartile would be able to raise 10% of their annual household income within one week, compared to 52% of the rest of our sample. By contrast, among the top quartile of participants, 70% were confident they could access this sort of money in just seven days.

Poor financial literacy goes hand in hand with difficulty in meeting regular commitments such as phone or power bills. It flags a greater chance of being unemployed, earning a lower income or experiencing the rigours of bankruptcy.

Our young people are most vulnerable

A number of personal characteristics are shared by Australians with low levels of financial literacy. The least financially literate members of our community tend to be:

- **Young people** – 16-25 year olds comprised 42% of the bottom quartile.
- **Unemployed or studying** – Unemployed workers and students are likely to have a lower level of financial literacy.
- **Low income earners** – The lowest levels of financial literacy were among participants earning less than \$30,000.
- **Poorly educated** – 49% of the bottom quartile indicated that 'any high school' was their highest level of education.
- **Non-English speakers** – 12% of the bottom quartile indicated that English was not their main language spoken at home.

Why measure a nation's financial literacy?

Today's financial world is complex. Financial literacy helps us navigate a course through this complexity, to make effective decisions about earning, spending, borrowing and saving.

These money management skills have the potential to improve the financial and personal outcomes of individuals and their families, as well as the economic and social outcomes of a nation.

¹ Based on modelling undertaken with the MONASH dynamic computable general equilibrium (CGE) model of the Australian economy.



At a glance

The financial literacy of a nation

Demographics	Bottom Quartile	Top Quartile
Age		
16 - 20 years	29%	1%
21 - 25 years	13%	3%
Occupation		
Full-time employment	28%	50%
Self-employed	10%	17%
Unemployed	15%	5%
Student	29%	11%
Ever worked in financial services industry	7%	24%
Household		
English NOT main language spoken	12%	2%
Education – Highest level of education attempted (those not currently studying)		
Any high school	49%	16%
Undergraduate degree	18%	39%
Postgraduate degree	10%	30%
Education – Currently studying		
Year 10 or below	9%	0%
Year 11	16%	2%
Year 12	21%	0%
Personal Income		
Less than \$30,000	49%	19%
\$100,000+	3%	20%
Household Income		
Under \$30,000	31%	5%
\$100,000 or more	17%	47%



Methodology

Our first study measuring the financial literacy of Australians was conducted in 2004 by the Commonwealth Bank Foundation working in partnership with Monash University and Eureka Strategic Research (now the Ipsos-Eureka Social Research Institute).

The same three experienced partners combined again to conduct the 2010 research.

Measuring financial literacy at an individual level

The Ipsos-Eureka Social Research Institute surveyed 3,000 Australians aged 16 to 65 years old, by telephone, in March 2010 using a sample that is representative of the demographic and geographic spread of the population.

The survey focused on three goals:

- Measure levels of financial literacy in the Australian population to identify the least financially literate;
- Examine relationships between financial literacy and demographics, with a particular focus on those with the lowest levels of financial literacy; and
- Examine relationships between financial literacy and individuals' financial and personal outcomes.

Survey participants answered a series of 20 scenario-based questions about financial products and financial decisions.

Themes that were covered included asset protection, minimising debt, risk and return principles, credit history and savings plans, among others. A number of demographic, behavioural and attitudinal questions were also asked to determine how financial literacy may vary across different segments of the population.

These questions addressed issues such as:

- Personal financial stress
- Attitudes to financial management
- Personal history
- Sources of financial knowledge.

Measuring the macroeconomic impact of improvements in financial literacy

The next phase of our research was completed in conjunction with Monash University. It involved using the MONASH model to simulate the economy-wide effects of an improvement in financial literacy levels. This model simulates the effect of raising the financial literacy of people in the lowest quartile in terms of their financial literacy score, to the top of the lowest quartile.

Understanding the financial literacy of Australians

In 2004, we posed a series of questions regarding money management to a representative sample of Australians. Six years later, the same approach was used, and indeed, 16 of the survey questions remained consistent with those asked in 2004.

Looking solely at those 16 questions, in 2004 our participants scored an average correct mark of 11.9. In 2010, that average was 11.8.

Our 2010 participants performed better than their 2004 counterparts when it came to questions about tax, savings plans, liquidity, and long term saving. They also performed well in the areas of minimising debt, minimising credit card interest and credit history.

However, in 2010 we have seen deterioration in results for questions about the risk/reward timeframes of investments, goal setting, capital preservation and compound interest.

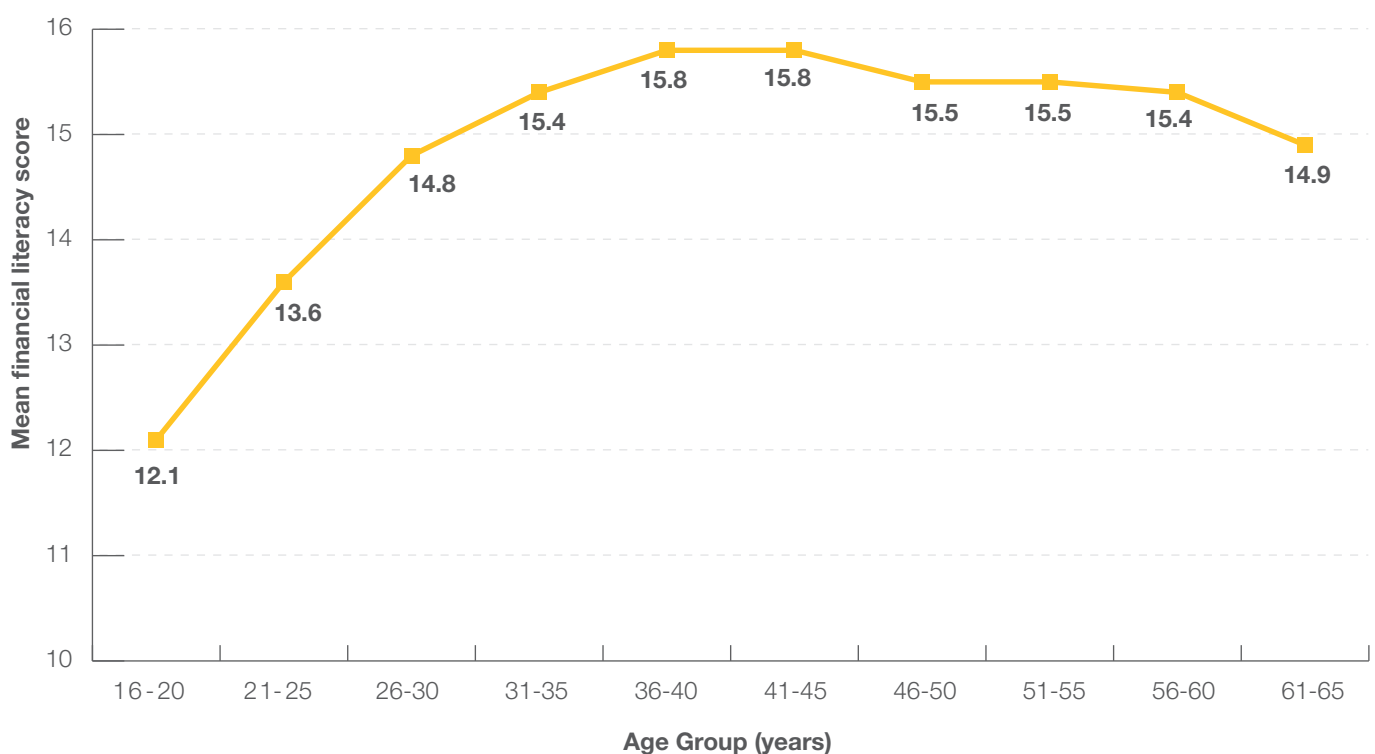
Age and education – key factors

In our 2010 survey, participants were given a score out of 20 in response to the survey questions. From there we have determined those groups that have the poorest, and highest, levels of financial literacy and developed a clear picture of what differentiates them.

Gender is a not an important indicator of financial literacy. Men had an average score of 15.0 compared to 14.8 for women. This result is consistent with 2004. The overall mean of these attributes was 14.9.

Age continues to be one of the key determinants of financial literacy. As can be seen by the accompanying graph, financial literacy increases steadily with age until a plateau around 40 years old. Among those in their late 50s and 60s we see a slight decline.

Financial Literacy by Age Group 2010



Understanding the financial literacy of Australians

Higher education levels lead to greater financial literacy

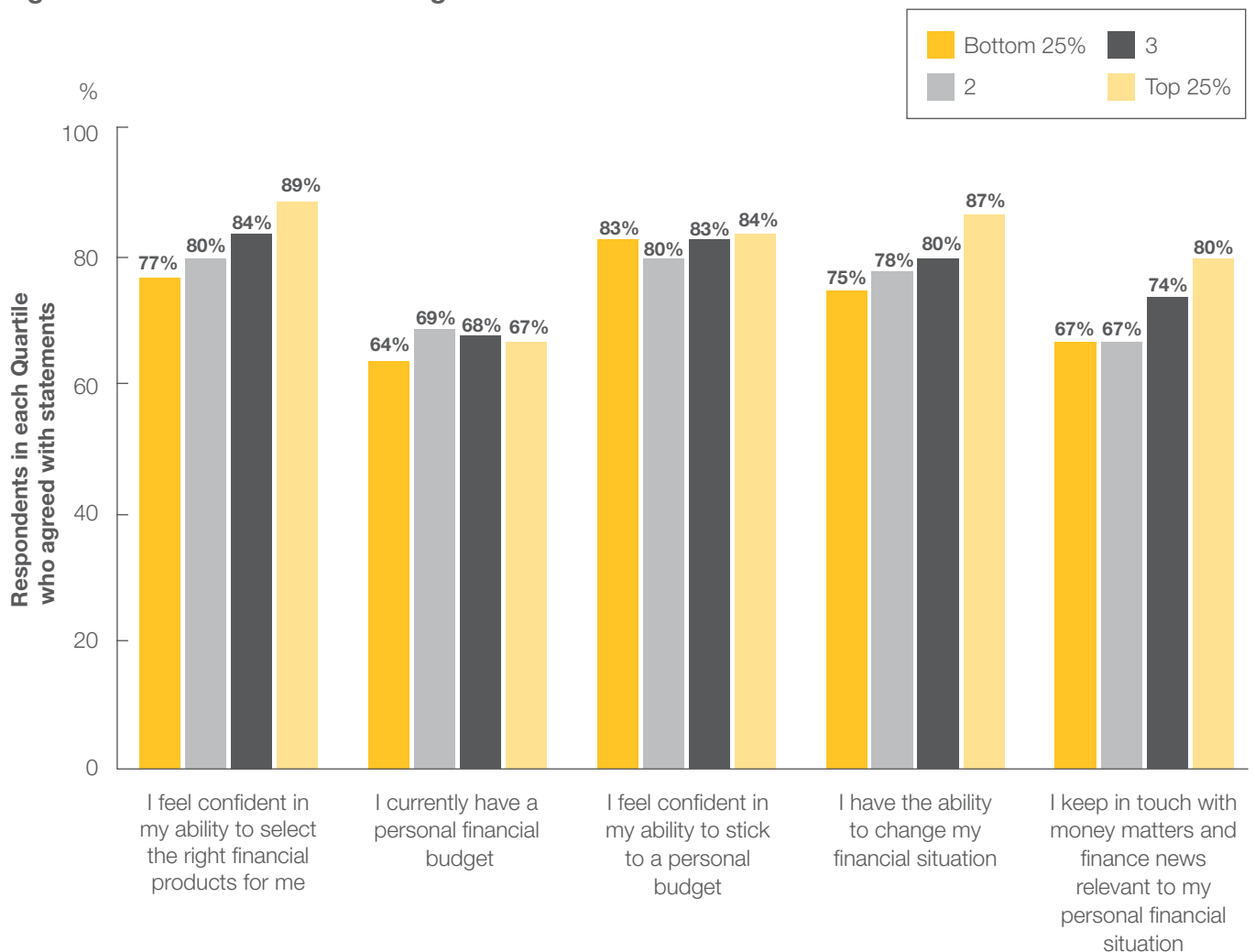
Personal education levels are another powerful indicator of financial literacy. Average survey scores rose steadily in line with education levels, reaching its highest among graduates (16.0) and participants with post-graduate qualifications (16.5). These scores were significantly higher than for participants with other post-school (TAFE or college) qualifications (14.9).

Higher incomes among financially literate

Employment status is also linked to financial literacy levels. Full-time workers (15.6) and the self-employed (15.5) achieved the highest average scores, significantly above students (13.5) and unemployed participants (13.7).

As financial literacy rises, so too does personal income with 49% of participants in the lowest quartile earning personal incomes below \$30,000 compared to only 19% of the highest quartile.

Agreement with Financial Management Statements



Coping with tough times

Our survey uses participants' ability to raise 10% of annual household income within one week as a proxy for how well they would cope with financial stress. This is an area where the least financially literate are extremely vulnerable.

Only 22% of the bottom quartile felt they would 'definitely' be able to raise this sum, compared to 70% of the top quartile. Conversely, 25% of our least financially literate participants were certain they would be unable to raise this level of funds in an emergency compared to just 5% of the top quartile.

The risk of falling behind with regular bills, even the possibility of personal bankruptcy, is substantially higher when financial literacy is low. Among the bottom quartile of participants, 17% had been unable to pay a mobile phone bill in the last 10 years compared to 8% of the top quartile.

Cash control – fewer than one in two young people budget

Our propensity to budget is more closely linked to age than financial literacy. Less than half (49%) of our participants aged under-20 follow a personal budget. This figure rises to 71% by the time we reach our mid-20s, possibly reflecting key life changes like moving out of home or travelling, which call for financial constraint.

A second, though not as profound, increase in personal budgeting occurs between our mid-50s to mid-60s, by which time up to 78% of people plan their cash needs. It is reasonable to assume this reflects the need to manage limited resources prior to, and during, retirement.

Risk appetites fail to match literacy levels

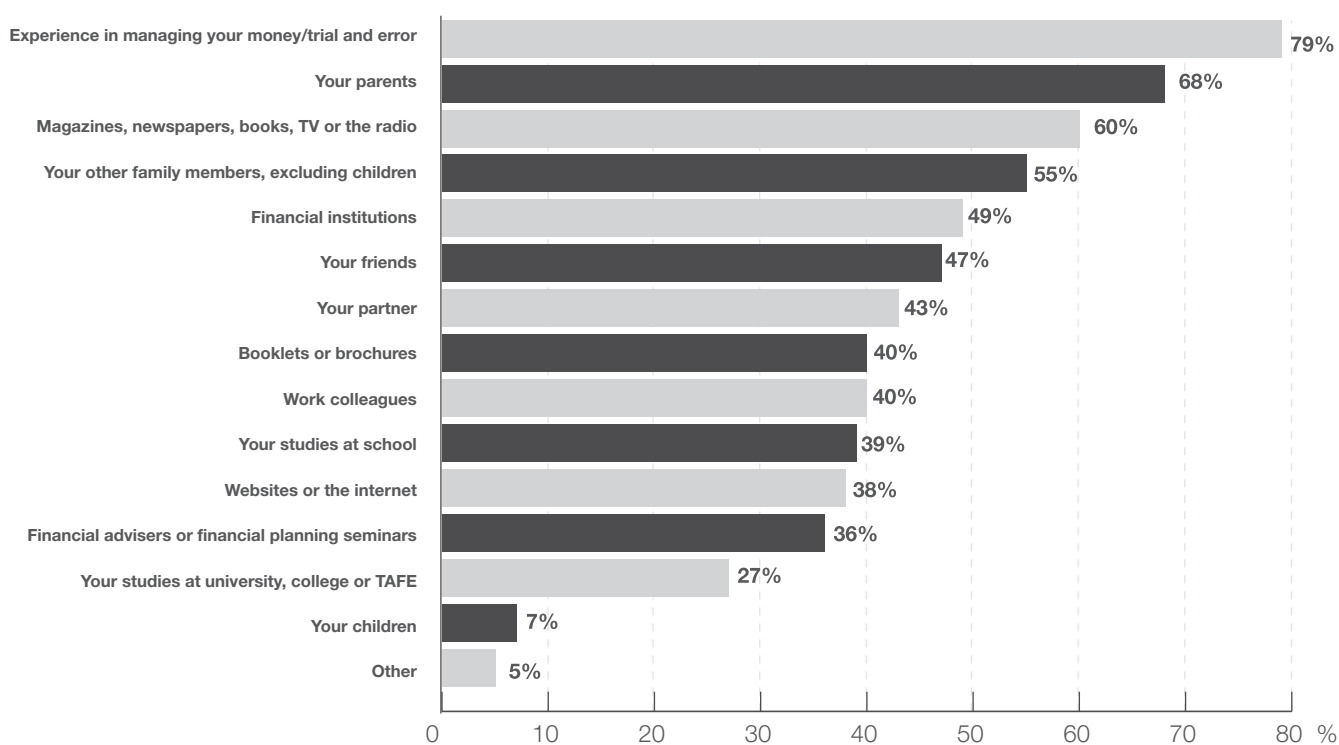
An important money management skill is the ability to assess the risks associated with different financial products. Not surprisingly, risk appetites were greater among participants with a higher financial literacy score, but so too is their perceived ability to assess risk.

The least financially literate feel less empowered to change their circumstances. Only 75% of the bottom quartile believe they can change their financial situation compared to 87% of the highest quartile.

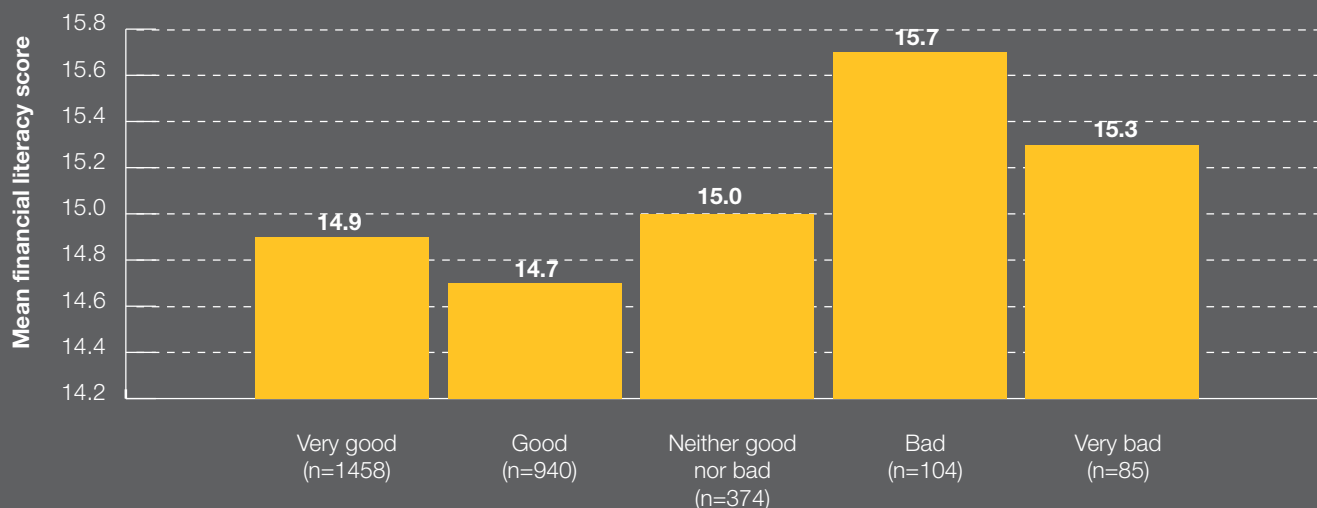


Understanding the financial literacy of Australians

Stated Sources of Financial Information



Rating of Parents' Financial Management



Trial and error – learning by the ‘school of hard knocks’

The majority (79%) of our participants use a ‘trial and error’ approach to managing their money, relying more on experience than quality information. This figure has fallen from 86% in 2004, however it remains the single most popular means of learning about money management.

Australians enjoy access to a wide variety of financial information however our more financially literate participants are more likely to cast their net wider than those with lower literacy scores.

Use of a broad variety of resources has improved since 2004. The media, including magazines, newspapers, books, TV and radio, plays a key role (60%) and increasingly we are likely to turn to financial institutions for information (49% in 2010 compared to 36% in 2004). Use of websites for information has risen from 16% in 2004 to 38% today. Information gained from a place of study like TAFE or university is also growing in importance, cited by 27% of current participants compared to 20% in 2004.

Since 2004, the use of school studies as a source of financial information has increased from 31% to 39%, reaffirming the value of school-based literacy programs. This is particularly important for participants with lower financial literacy scores. Almost half (48%) of our participants in the bottom quartile will consult studies at school.

The role of parents – surprise result

Participants who rated their parents as having poor money management skills had significantly higher financial literacy scores than those who felt their parents were good at managing money. This was a big surprise as received wisdom is that children learn their money management skills based on their parent’s behaviour.

Financial literacy scores were also higher among participants whose parents rarely spoke about financial matters while they were growing up. Among participants whose parents discussed finances ‘a lot’ or ‘a little’, the average literacy score was 14.8. Participants whose parents ‘rarely’ or ‘never’ discussed finances achieved a higher average financial literacy score of 15.2. Despite this, 68% of respondents claimed their parents were a source of information on money matters.



Conclusion

The findings of our study **Improving financial literacy: benefits for all Australians**, once again highlight the significant gaps in financial literacy that continue to affect members of the Australian community.

Substantial returns

Our survey results indicate that young Australians are increasingly relying on their schools as a key source of information on financial literacy. This underpins the Commonwealth Bank Foundation's commitment to the development and delivery of high quality school-based programs.

Investing in financial literacy offers a substantial return. Increasing the financial literacy of the 25% of our population with the lowest scores, to the top of the lowest quartile, would boost Australia's gross domestic product by an estimated \$6.2 billion annually over the long term.

As well as contributing to our economy, enhancing financial literacy has the power to change lives. Improved money management skills can provide a release from the ongoing cycle of reliance on debt and difficulty meeting financial commitments that afflicts some members of our community. Financial literacy opens the door to a new world of choice and the ability to take control of our financial future to enjoy greater economic security and a better quality of life.

Our commitment is ongoing

The Commonwealth Bank Foundation has an ongoing commitment to the development of financial literacy skills. At the helm of our initiatives is the Foundation's StartSmart program involving interactive school-based workshops. In 2010, this award winning program was extended to primary schools and has reached over 50,000 students in the first six months of delivery.

The Foundation will continue to reassess the efficacy of these programs and the impact they have on financial literacy. However, we recognise that financial literacy is a whole community issue, and so we continue to work with government, communities, schools and families.

Let's work together

Financial literacy will always be a valuable life skill, conferring profound benefits on both individuals and the broader economy. Higher levels of financial literacy are associated with higher incomes; enhanced ability to manage everyday money matters such as paying bills; and a greater propensity to cope with unexpected financial pressures.

The Commonwealth Bank Foundation believes that teaching financial literacy to Australian school students is the chief means by which we can progressively lift financial literacy levels across the community. All children should have access to quality programs that are developed with care – and taught well.

We invite the broader community to share our goal of improving financial literacy. A commitment by government coupled with the support and participation of teachers and parents are essential factors that ensure the ongoing success of the Foundation's efforts. Together, we can help all Australians enjoy improved financial literacy and reap the rewards of good money management.



Our research partners

The Commonwealth Bank Foundation's research project **Improving financial literacy: benefits for all Australians**, was achieved with the aid of two respected research partners.



MONASH University

Centre of Policy Studies, Monash University

The Centre of Policy Studies at Monash University is a respected research and economic modelling organisation. The Centre's team was responsible for the development of the MONASH dynamic computable general equilibrium model of the Australian economy and its application in the present study to the estimation of the economy wide effects of improved financial literacy. MONASH has been used to analyse many other economic policies, including changes in taxes, tariffs, environmental regulations and competition policy. Leading the project from the Monash team were the creators of the MONASH model – Professors Peter Dixon and Maureen Rimmer.



Ipsos-Eureka Social Research Institute

Eureka Strategic Research, one of Australia's leading boutique research firms, was established in 1995. Eureka became the Ipsos-Eureka Social Research Institute following Ipsos' acquisition of Eureka Strategic Research in 2007. It is one of Australia's most respected market and social research companies, conducting research on social issues, policy and communications development.

www.commbank.com.au/foundationresearch