Financial Hardship

An examination of debt and poverty amongst 1900+ users of a financial counselling service

better place AUSTRALIA

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Contents

About Better Place Australia

Better Place Australia is a not-for-profit agency in Australia that has been providing family dispute resolution support, relationship support, psychological services and financial counselling for over thirty years. Better Place Australia supports over 8000 Victorians every year across 28 locations. Many are experiencing family, relationship, financial issues and other related challenges.

Better Place Australia enjoys a strong relationship with organisations in the community, in the not-for-profit sector and maintains excellent state and federal Government ties. We have developed a reputation as a high performing and trusted partner providing family support services. Creative and innovative thinking is instilled in our culture; with a core focus on quality, performance and consumer-centric service delivery.

Better Place provides Financial Counselling and Capability Building ('FCC') services using an education and empowerment framework that assists clients to build financial literacy and self-efficacy in managing personal finances. Over 50% of our female clients are described by our financial counsellors as victims-survivors of family violence. Our financial counselling service is one part of our wrap-around client service response.

Our Suite of Services

- Relationship Counselling;
- Supporting Children through Counselling;
- Group Education for Parents;
- Relationship Education for Schools;
- Financial Counselling & Capability Building (FCC);
- Family Dispute Resolution;
- Mental Health Support Services;
- Family Mental Health Support;
- Elder Abuse Prevention and Support.

Executive Summary

A recent research paper exploring the cost of living in Victoria suggests that the biggest expenditure increase is the cost of housing (Dosen et al. 2018). It has increased so dramatically in the last ten years that Melbourne is currently ranked the **fifth most unaffordable** major housing market **in the world** (Dosen et al. 2018). **The Economic and Social Impact Survey** (2018) found that 74% of all households experienced food insecurity and that 61% of them regularly went without meals. In terms of utilities, 59% of them could not afford to pay their gas, electricity, or phone bills on time, and 34% could not afford to heat or cool their home.

According to the **Poverty in Australia** (Davidson et al. 2019) report, just over half of those living in poverty are households that rely on social security as their main source of income. However, 38% of those people rely on wages, that is, income that they generate through employment and not government benefits. This means that there is a section of the population that work but do not make enough money to cover the costs of living. Single parent families that rely on a sole income are more at risk of having children who are in poverty.

There seems to be widespread consensus that most poor people access problematic forms of credit – namely payday loans and credit cards – due to the real and perceived lack of more traditional forms of traditional credit (Wesley Mission 2015). Since the global financial crisis (GFC) of 2008 Ali et al. 2015, report that payday lending has grown considerably. They argue that the most common reason for these loans is to pay for everyday expenses (such as household bills, utilities, and food) that are not covered by a household's income or benefit payments.

Summary of the findings

This report describes the demographics and nature of debt for all clients who accessed our FCC services between July 2017 and June 2018. There was a total of 1983 clients seen during this period. The average number of sessions per client was 2.3, and the waiting time for their first appointment was 18 days. Most clients received the required assistance in a short period of time and their problems were resolved satisfactorily. Since the 2015 – 2016 financial year, the number of clients accessing the FCC service has more than doubled.

In terms of age, clients were older than initially expected. Just over a quarter of them were 46–55 years old and the second most common group presenting was 36–45 years old. More women were accessing the FCC services than were men (62% n=1244 vs 38% n=755). Most clients (67% n=1329) did not have concession cards; however, 25% (n=496) of them were on a pension and 8% (n=159) had low income healthcare cards. As far as their employment status, 40% (n=793) of the sample declared to be employed – including self-employed – and 41% (n=813) was not in the labour force – which includes stay-at-home parents and clients not actively looking for a job – which makes these results unexpected ones. Data and quotes in this report were de-identified.

Contrary to expectations, the clients for the relevant period disclosed higher than expected levels of educational attainment. Forty percent (n=793) disclosed that tertiary education was their highest level of education. Just over half the clients (53% n=1051) reported that they were single or never married, 17% (n=337) were married, and 6% (n=119) were in a de facto relationship. Thirteen percent were separated or divorced, and 23% of clients had a significant other or partner present in their lives. A quarter of clients (25% n=496) disclosed that they were a single person living alone, 22% (n=436) were a single parent household, 21% (416) were a group of related adults, and 13% (n=258) were a couple with dependants (children) household. A fifth of clients (20% n=397) that attended the FCC services were from a non-English speaking background.

FCC clients were asked if they had a disability, 25% of clients disclosed they had a disability, making this rate slightly higher than the general average of 1 in 5 people – or a fifth of the population – as per the ABS (2015) data on the prevalence of disability. The most common disability disclosed by the clients in this sample was a psychiatric disability, followed by a physical one.

To add depth, an online qualitative survey was conducted with FCC counsellors between March and April 2019. There was a total of seven (7) counsellors who answered. Overall, all counsellors surveyed believed that their clients would have used a payday lender in the preceding 12 months. The counsellors identified the three most common contributors to financial problems as, in order of importance: mental illness, unemployment, and low income. The counsellors indicated that over 70% of people accessing financial counselling had a mental illness such as depression or anxiety and between 10% to 30% of all clients had expressed some form of suicidal ideation.

Commonly related support services used were in first place, legal advice (71%). Mental health counselling, housing services, employment services and Centrelink, and emergency relief all came in second place with 43% of responses each. Referrals to non-legal support services are fundamental in the work that financial counsellors do.

Given the high percentage of clients reporting mental health issues it is problematic that there is no clear way for two systems to connect (i.e. the mental health system and the debt crisis response system). These services are rarely co-located, have different Government funding streams and from a systems perspective are mutually exclusive.
Consideration should be given to embedding financial counselling services within a multi-disciplinary team. However, different Government funding streams (Federal, State & Local) do not foster this approach.

The business model of payday lenders relies on vulnerable people borrowing money at high interest rates.

The current regulation of such businesses and their lending practices is clearly inadequate, consideration by the Government should be given to measures to prevent predatory practices.

Overall, the clients that came through the FCC service were varied and required different forms of assistance. The diversity of referrals clearly indicates that financial crises are far more complex than just a legal matter. Clients who accessed financial counselling services had been experiencing financial stress for extended periods of time, more than 6 months, and were for the most part unaware of the assistance they could access. New laws have made banks more willing to provide reasonable payment plans for people. Payday lenders and utility companies are however perceived to be less flexible with these arrangements highlighting the need for a legal framework that protects those who need financial aid and assistance. Women, and single parent female-led households, remain the most vulnerable group and require specialised forms of assistance.

The Debt Landscape

The state of Victoria is the second most populous in Australia. According to the latest ABS QuickStats generated from the 2016 Census, there are almost six million people living in Victoria, of which 50.9% are women. The median age of all Victorians is 37 years of age. Aboriginal Victorians made up 0.8 percent of the total population. In Victoria, there are over 1.5 million families with an average number of 1.8 children for families with children. The median weekly household income is A$1,419 and the median monthly mortgage repayment is A$1,728.

The cost of living

Arguably, the cost of living is inextricably linked to how individuals manage their money. A recent research paper exploring the cost of living in Victoria suggests that the biggest expenditure increase is the cost of housing which has decoupled from most indicators and left no alternatives for affordable housing (Dosen et al. 2018). The cost of housing has increased so dramatically in the last ten years – this has led Melbourne to rank as the **fifth most unaffordable** major housing market **in the world** (Dosen et al. 2018.

Dosen et al. also found that the largest increases in household expenditure, for the period between 2009-10 to 2015-16, were in education (55.8%), insurance and financial services (32.7%), health (19.3%), and housing (18.2%). Those on government payments and low-income households have experienced the largest increases in the cost of living. According to the breakdown in the report, in 2017, households that receive most of their income from government transfers are spending more on housing and furnishings but less on food and health. They are spending less on recreation and culture but more on alcohol and tobacco, and more on education but less on transport (Dosen et al. 2018).

To provide a more detailed idea, **The Salvation Army Economic and Social Impact Report** (2018) found that 74% of all households experienced food insecurity and that 61% of them went regularly without meals.

In terms of utilities, 59% of them could not afford to pay their gas, electricity, or phone bills on time and 34% could not afford to heat or cool their home. To add to this, a staggering 95% of households in their sample were under the poverty line. While their results may seem extreme, they are in line with other social welfare organisation reports.

The **Cost of Living** report found that for individuals on a Newstart allowance only 0.3 percent of properties in Melbourne were affordable housing options. The percentage rose to 1.9 percent for single parents with one child however, this remains a painfully small percentage of the properties available given single parents with a child make up more than 1.9 percent of the population in Victoria. The report notes that, according to the DHHS data they reviewed, housing stress and housing affordability are major concerns in Victoria. Those most disadvantaged are single people and those on Newstart Allowances (Dosen et al. 2018).

Similarly, The Salvation Army (2018) found that housing and rental affordability was at crisis point, with 11% of respondents considered homeless or in insecure accommodation. Respondents to their economic and social impact survey had, on average, A$21 to live on per day. This went down to A$17 if they were a Newstart Allowance recipient (The Salvation Army 2018).

Australians below the poverty line

It seems unthinkable that in a prosperous country, any section of the population should live below the poverty line. Yet, various studies have consistently shown that this is a reality for many Australians. The poverty line is defined as 50% of median household disposable income, that is, income after housing costs have been paid for (Davidson et al. 2018). **The Poverty in Australia** report found that more than one in eight people live below the poverty line. This figure translates into just over three million people, and includes 739,000 children, living in poverty.

Just over half of those living in poverty are households that rely on social security as their main source of income. However, 38% of those people rely on wages, that is, income that they generate through employment and not government benefits. This means that there is a section of the population that work but do not make enough money to cover the costs of living. Single parent families that rely on a sole income are more at risk of having children who are in poverty. The majority of poor people (52%) live in rental housing, but a further 15% live in homes without a mortgage.

The report identified several risk factors that increase financial vulnerability for people. Some of the most common ones were:

- Unemployment or underemployment
- Social security as main source of income
- Public housing tenants
- Being a woman
- Sole parent households
- People with a disability
- Adults born in a non-English speaking country

Davidson et al. (2018) note that people with a disability, especially those with core activity limitations, face the risk of poverty well above average. They found that 17% of all people living in poverty had a disability and that this rate went up to 19% when it came to those who had a core activity limitation.

The Brotherhood of Saint Laurence report Australian Households and Financial Insecurity (2018) identified the drivers of economic insecurity as: precarious employment, low and erratic wages, escalating living costs, and inadequate welfare payments. Conversely, the strategies for coping with insecurity were juggling expenses, doing without food or heating, and regular borrowing and lending to make payments. Such conditions are not conducive to financial stability or resilience and further entrench poverty-stricken households deeper into social disadvantage.

Financial resilience

While it is essential to focus on financial vulnerability and stress, it would seem equally important to measure how resilient the population is in financial terms. According to a report on financial resilience published by NAB and the University of New South Wales (Muir et al. 2016), 64.3% of Australian adults are facing some level of financial vulnerability and there are two million people experiencing severe or high financial stress. They also note that one in every ten Australians has 'no understanding' of financial products and services. Muir et al. (2016) note that more than 18% of people reported they had minimal social connections, making their social capital small, and a further 4% reported that they were isolated or alone most of the time.

According to the findings in Muir et al., over half of the respondents in that study disclosed that they had basic or no understanding of financial products and services. This is notable as their study had a sample of 1,496 participants who were weighted to be representative of the entire Australian population. For their study Muir et al. define financial resilience as the "ability to access and draw on internal capabilities and appropriate, acceptable and accessible external resources and supports in times of financial adversity" (Muir et al. 2016, p.13).

People who are unemployed or underemployed were found to have the lowest levels of resilience, suggesting that having a job is not always a protective factor for financial stress (Muir et al. 2016). Interestingly, the Muir et al. report links people's employment status and the likelihood of them accessing financial services to their self-perception around the suitability of the products available to them and their own capacity to manage their financial products and services. That is to say, people who are underemployed or unemployed see themselves as not provided for in the financial landscape around them.

The borrowing trap

There seems to be widespread consensus that most poor people access problematic forms of credit – namely payday loans and credit cards – due to the real and perceived lack of more traditional forms of credit (Wesley Mission 2015). Since the global financial crisis of 2008, Ali et al. (2015), report that payday lending has grown considerably. They argue that the most common reason for these loans is to pay for everyday expenses (such as household bills, utilities, and food) that are not covered by a household's income or benefit payments.

In Australia, a typical payday loan ranges from $100-A$300 and a term of 16 days to one month (Ali et al. 2015). The repayments are timed to coincide with the payment of welfare benefits thus further reducing the limited spending power that low-income households already experience. The Salvation Army (2018) report noted that respondents spent A$48 per week repaying creditors. Prior studies on payday lending have shown that most of the borrowers who use this system are on low incomes, and up to a quarter of them live below the povertyline. These same studies have also shown that payday borrowers were more likely to have grown up in poverty and suffer from physical disabilities and mental illness (Ali et al. 2015).

One notable feature of the Ali et al. study is their analysis of the physical locations of payday lending stores. Ali et al. identified 123 payday lending stores in Victoria and using the standardised measurements of socio-economic characteristics (SEIFA) provided by the ABS, they determined that payday lending stores are overrepresented in areas that display greater relative socioeconomic disadvantage. Further to this, in areas where these stores were clustered in groups of three or more, they tended to be in areas that were actually socioeconomically disadvantaged. Ali et al.'s findings confirm the claims of numerous Australian welfare organisations that had noted that payday lenders strategically position their physical stores in areas with greater poverty.

Disability

According to the ABS (2015) data on the prevalence of disability, almost one in five Australians report living with a disability. The ABS note that this prevalence has remained somewhat stable over time. The ABS data also states that the most commonly reported long-term disability was a physical condition. Just over a fifth of people with a disability disclosed their disability was a mental or behavioural disorder. In terms of employment, 53.4% of those with a disability between 15 to 64 years old participated in the labour force.

Reports on financial stress and hardship consistently state there is a link between mental health issues and financial stress. The Salvation Army economic and social impact report (2018) revealed that 59% of their respondents found managing their mental health and emotional wellbeing as their greatest challenge on a daily basis.

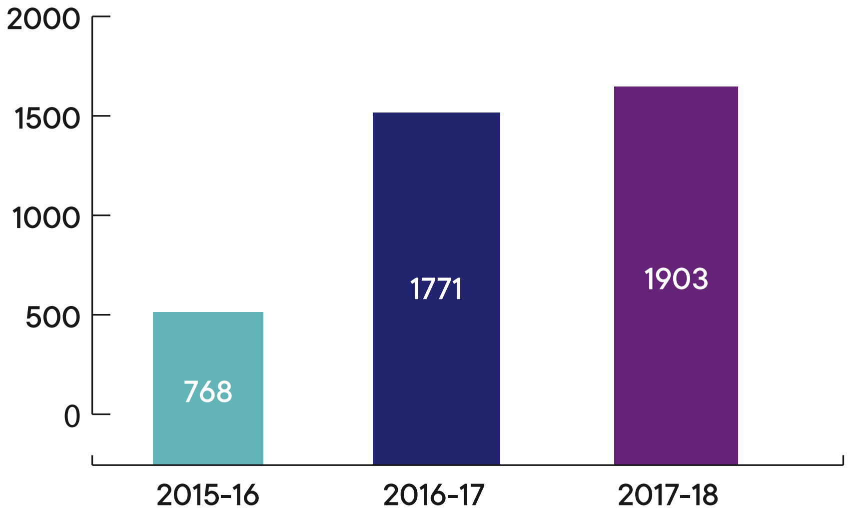
Further to this 54% were unable to seek support from a friend or a family member and 43% had very limited social connections and reported feeling isolated most of the time.

Disability does not simply impact the individual's ability to look for, or maintain, employment or manage their everyday life, it also has flow on financial effects. The unexpected costs that medical and psychiatric conditions involve are not accounted for in the disability pension scheme provided for by government, so when people with disabilities are faced with high unexpected costs, they struggle to gather the required resources. The Brotherhood found this was the case: people who are on disability support pensions consistently struggle to make payments and support themselves (Bowman & Banks 2018).

Examining Financial Counselling Client Data

This section is based on the results from all the referrals (clients) that the Better Place Australia FCC service saw during the financial year between July 2017 and June 2018. There was a total of 1983 clients seen during this period. The average number of sessions per client was 2.3, and the waiting time for their first appointment was 18 days. Most clients received the required assistance in a short period of time, and their problems resolved satisfactorily. It is important to note that since the 2015 – 2016 financial year, the number of clients accessing the FCC service has more than doubled.

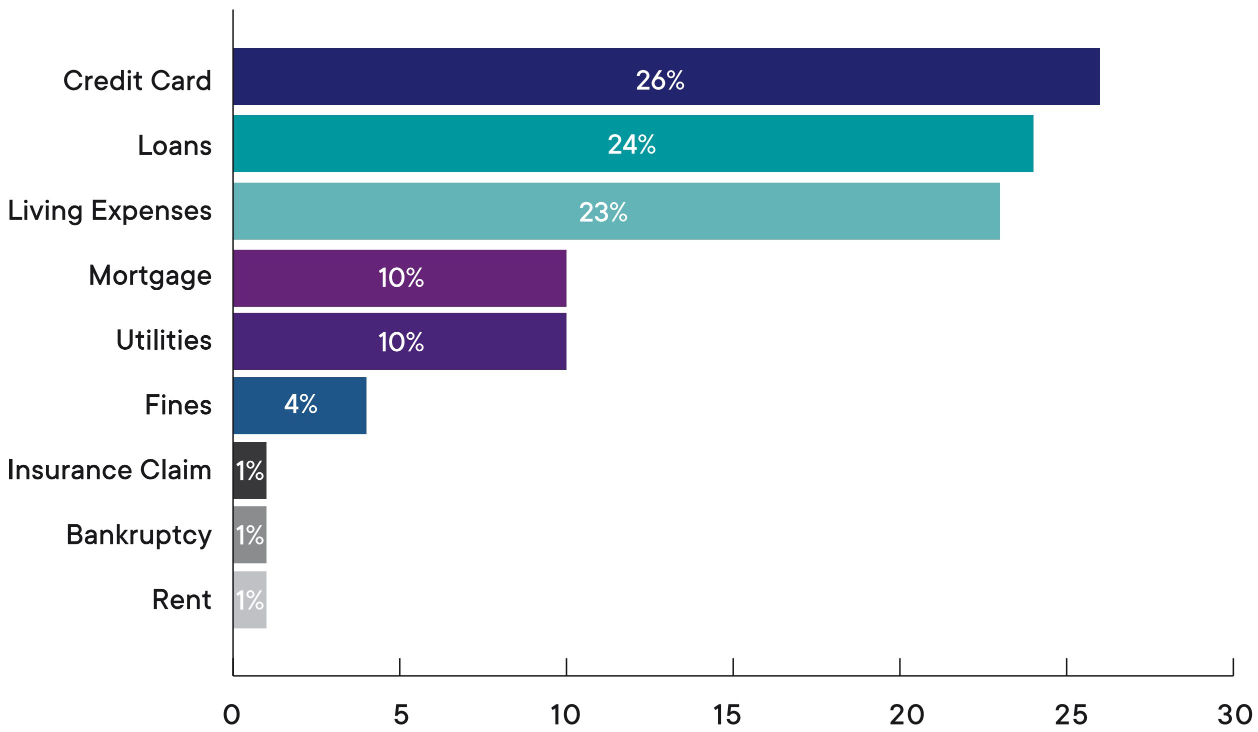
FCC Clients - Comparison 3 Years



Type of debt

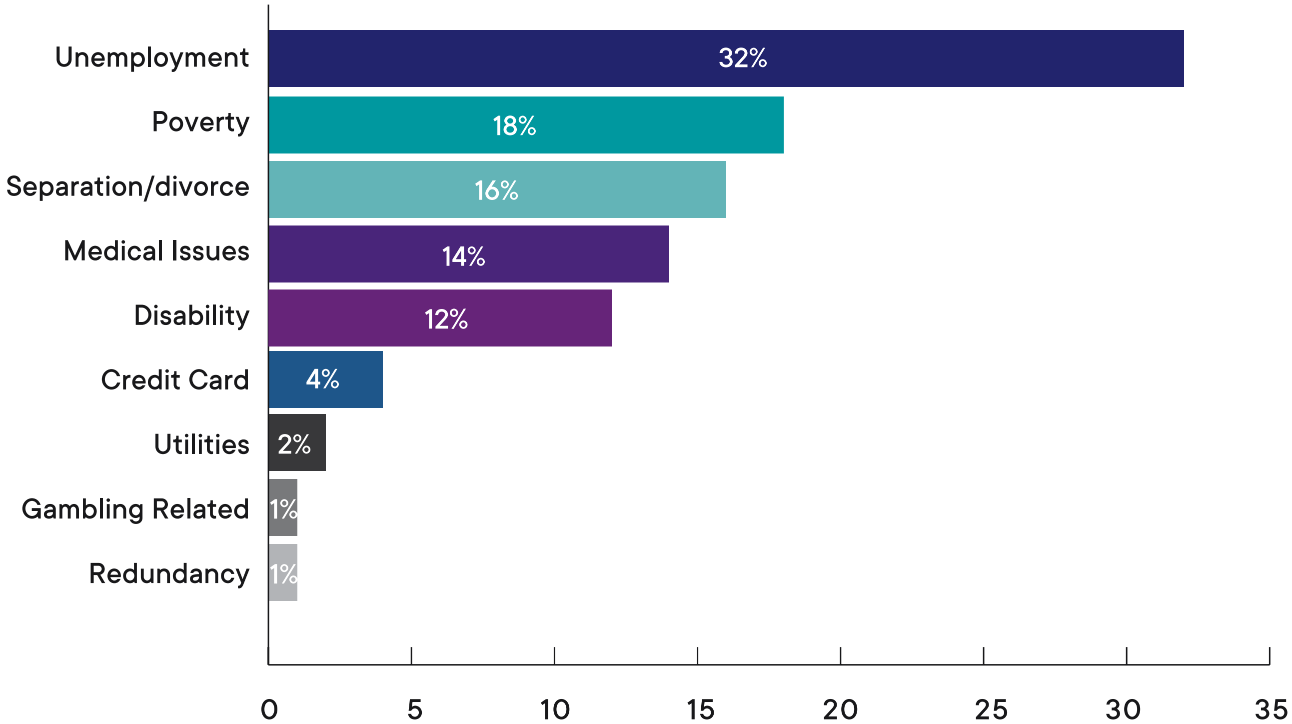
The main debt identified by clients was credit card debt (26% n=516) closely followed by loans (24% n=476) and living expenses (23% n=456). Clients who experience higher levels of poverty, and who might think of themselves as not being able to access more traditional forms of credit, are known to turn to credit cards and short-term lenders to cover their everyday household costs. In this sample payday loans were not specifically identified by any clients in that period (as they were not asked to identify this item separately). However, the use of these loans might be masked by the fact that the money they borrow is used to pay off credit cards or general living expenses, therefore misidentifying the type of debt.

Type of client debt (%)



This overlapping network of debt and repayment can be seen in the data that identifies the reason for debt. When one form of debt is used to cover another, it can be hard to clearly identify the root cause of the financial strain. Clients are also unlikely to access financial counselling services at the initial point of crisis and by the time they access the FCC service, the original reason might be covered up or entirely forgotten as one debt might be overriding the other. Regardless of this potential for confusion, clients were asked to identify the reasons they were enduring financial strain. The most commonly reported reasons are listed in the graph below as:

Reason for client debt (%)



Issues with employment, underemployment, and unexpected termination of employment are all well-known factors that contribute to financial strain. This fact is reflected in the high levels of unemployment present in the sample and the small, but not unimportant, presence of redundancy as a cause for debt. It is important to emphasise that clients often present with multiple co-occurring issues that negatively impact one another in complex ways. Anecdotal evidence from the service shows that the most common trifecta of issues is lack of financial literacy, mental health or psychiatric issues, and unemployment, whether chronic or unexpected.

Most clients report that their debt is long term, 9% disclose they have had their debt between 12 to 18 months, 13% (n=258) state that it has been between 18 and 24 months, and 52% (n=1031) report that their debt has lasted more than 24 months. That is a total of 74% of clients with a debt 12 months and longer.

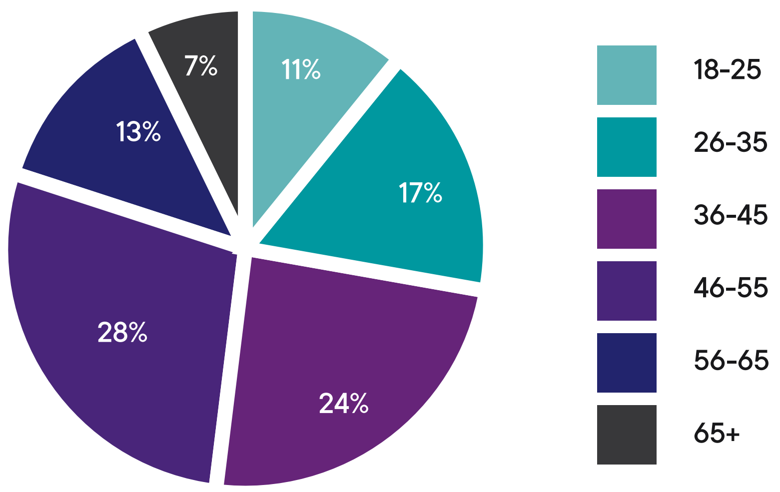
We know from previous research that people suffering from financial strain are also the long-term poor who have become entrenched in a cycle of overborrowing and low income or income insecurity. The high percentage of clients with longer term debt would seem to reinforce this.

The median weekly income for an individual in Victoria is A$644 (ABS QuickStats), making the estimated median yearly income around A$33,000 which is well below the debt reported by most FCC clients. This estimation does not consider the total income that people on government benefits receive and it is well known that these allowances place certain people in situations of poverty. Sixty-four per cent of clients disclose that their debt is up to A$50,000. There was a further 6% that reported a total debt ranging between A$50,000 and A$100,000. This means that most clients face debts they could not pay without some form of financial counselling and assistance.

Demographics

In terms of age, clients were older than initially expected. Just over a quarter of them were 46–55 years old, with the second most common group presenting being 36–45 years old. This goes against the popular wisdom that the young or unemployed, people are unable to manage their money and access FCC services. It might also be symptomatic of the increased pressure that self-employed individuals face in the current economy where uncertain workflows are making it harder to keep up with the increased cost of living in Victoria.

FCC Clients - Age in Years



One noteworthy feature of this sample was the fact that 3% of clients identified as Aboriginal, making this cohort an overrepresented one given that only 0.8% of the Victorian population identify as Aboriginal or Torres Strait Islander people (ABS QuickStats). While there are no further findings that are specific to this cohort, this is an area that requires further research and development.

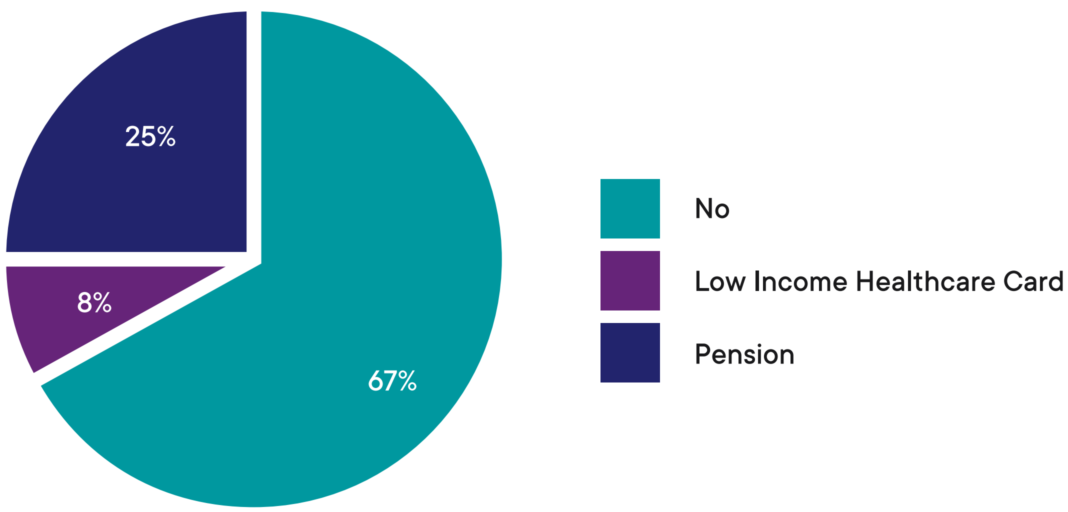
Gender

More women accessed the FCC services than men (62% n=1244 vs 38% n=755). This trend was reflected in all outlets where FCC services were provided. The financial resilience report (Muir et al. 2016) noted that while men and women have similar levels of overall financial resilience, women have higher levels of social capital, but have lower levels of economic resources than men. In other words, women are more socially connected and have access to different forms of social capital, yet they continue to be disadvantaged in terms of economic capital. This is linked to their continued over-representation as full-time household carers for children and other family members who cannot care for themselves. The presence of almost twice as many women in this sample would suggest this is a continuing problem for women.

Income and Employment

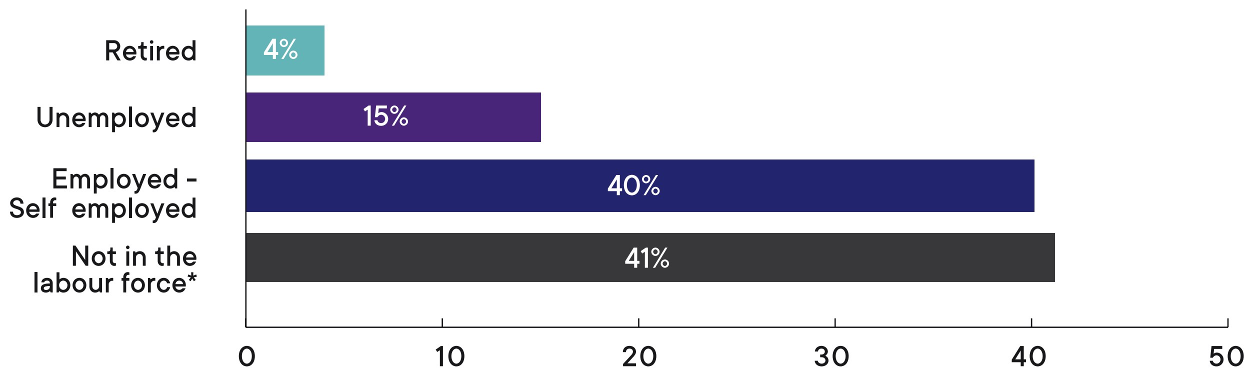
Most clients (67% n=1329) did not have concession cards, 25% (n=496) of them were on a pension, and 8% (n=159) had low income healthcare cards..

Presence of Concession Cards (%)



As far as their employment status, 40% (n=793) of the sample declared themselves to be employed – including self-employed, and 41% (n=813) were not in the labour force, including stay-at-home parents and clients not actively looking for a job – making these results unexpected. However, it is important to recognise that being self-employed is not the same as being externally employed when it comes to financial stress. The safety net of a regular wage is not provided by unstable work flows typical of self-employed individuals who manage ever-changing flows of work.

Employment status of clients (%)

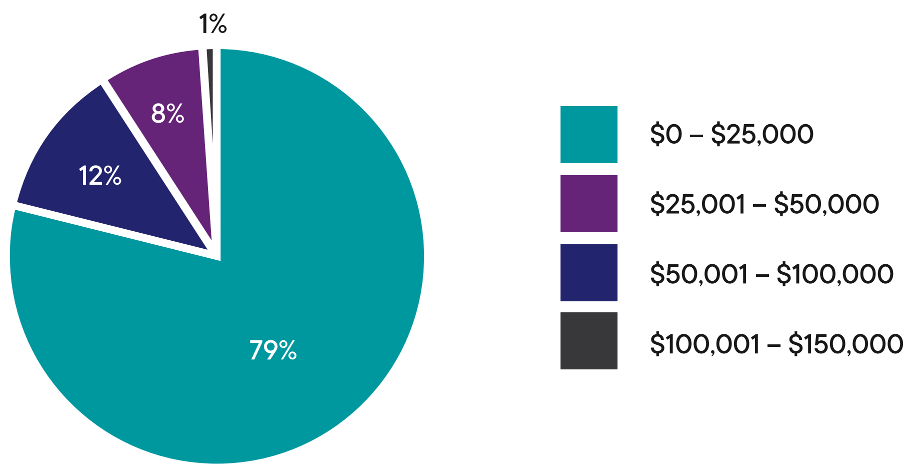


*Not in the labour force includes stay at home parents, volunteers, and those not looking for a job.

The high percentage of clients who are not in the labour force (41%) most likely speaks to single parent households who rely on government benefits. This assumption is based on the fact that, in Victoria, 15.3% of all families are a single-parent family where most of those families are led by a woman (82.2%) according to ABS data. Prior studies that have looked at the correlation between poverty and disability also note that carers, and the family members they care for, are more likely to be poor and rely on government benefits.

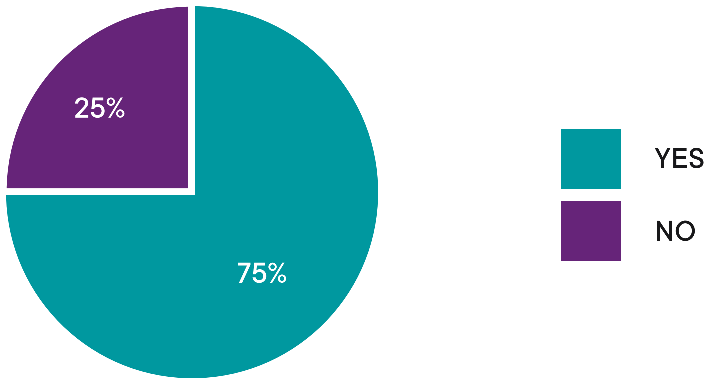
When asked about their income, more than two thirds (79% n=1567) of clients disclosed that their current income was as follows in the graph below:

Current income of clients (%)



Another noteworthy finding is the percentage of clients who receive Centrelink payments. Three quarters disclosed they received Centrelink payments (75% n=1487) while only 25% disclosed they did not (n=496). Given that 40% of clients disclosed they were employed or self-employed and 75% disclosed they receive Centrelink payments, the overlap between these two groups would suggest that a sizeable part of the sample is both receiving benefits and (under)employed in some capacity. This is contrary to the popular narrative that people who experience financial stress do so because they are unemployed or solely living off benefits.

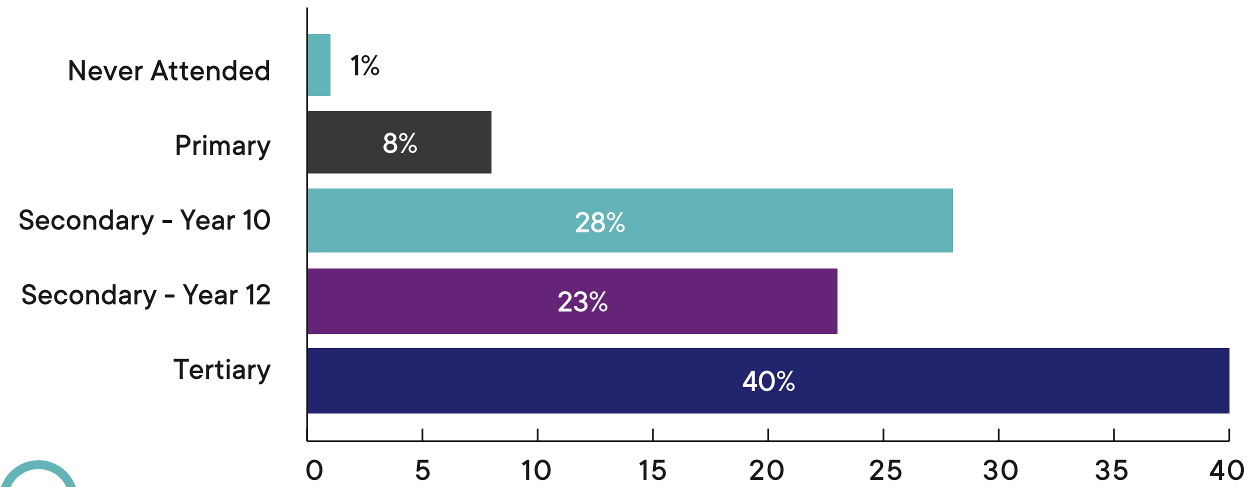
Centrelink payments - Yes/No (%)



Income and Employment

Contrary to the idea that the individuals who access financial counselling are less educated than the general population, the clients for the relevant period disclosed higher than expected levels of education. Forty per cent (n=793) disclosed that tertiary education was their highest level of education. According to publicly available ABS data, in Victoria 47.9% of the population has completed a tertiary degree (certificate level III through to graduate education).

Highest level of education (%)



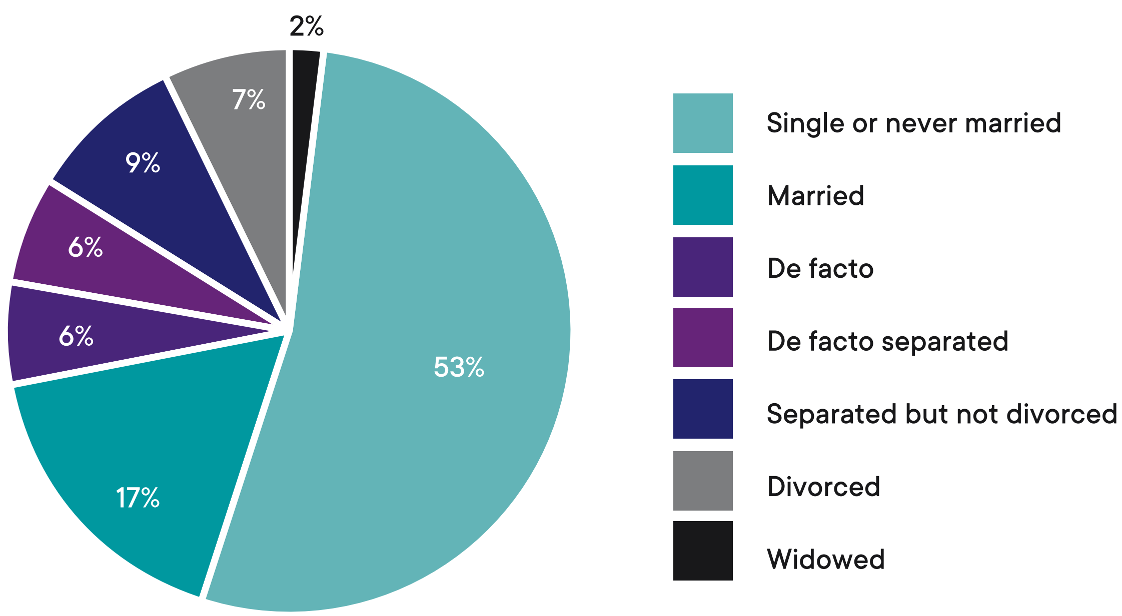
These higher than expected levels of education would also support the idea that there are households that are suffering financial stress even though they have educated members who may be receiving a combination of employment and government benefits.

These findings also seem to contradict the findings in the Muir et al. (2016) report that argue that education is a protective factor for financial security. However, these results must be used with care as they are not representative.

Households and family composition

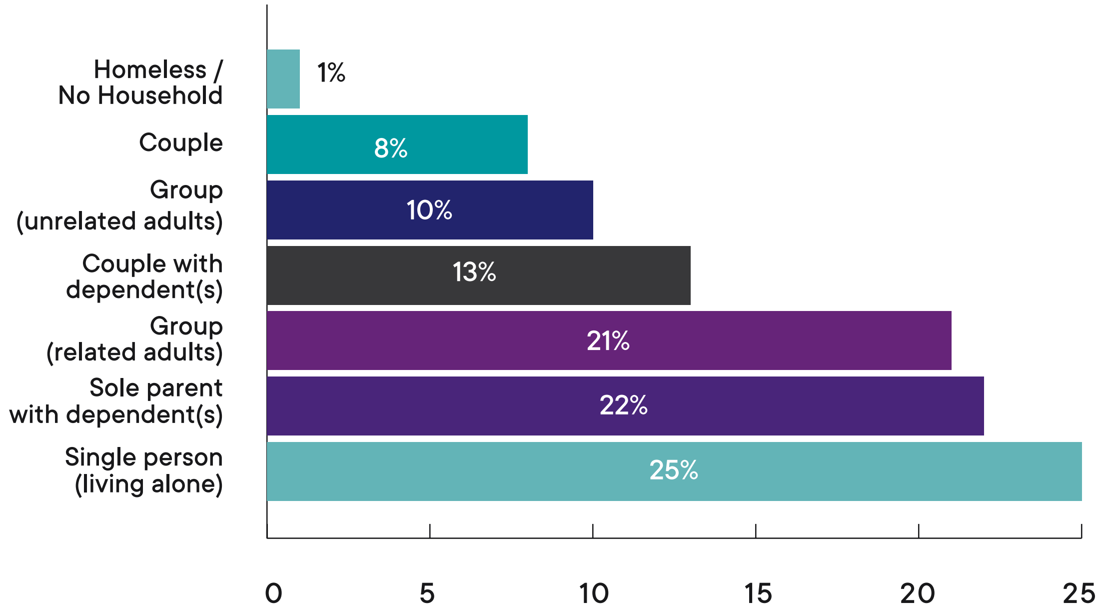
Just over half the clients (53% n=1051) reported they were single or never married, 17% (n=337) were married, and 6% (n=119) were in a de facto relationship. Thirteen per cent were separated or divorced and 23% of clients have a significant other or partner present in their lives. According to the ABS data for the 2016 Census, 48.4% of Victorians are married, 3% are separated, 7.9% are divorced, and 35.5% are never married. The clients in this sample are therefore different to the broader Victorian population. Single people are overrepresented in this sample and 22% declare their relationship has ended in some way exposing the financial vulnerability that can be brought about by relationship breakdown.

Marital status (%)



The picture becomes even more complex when we look at household composition. A quarter of clients (25% n=496) disclose that they are a single person living alone, 22% (n=436) are a single parent household, 21% (n=416) are a group of related adults, and 13% (n=258) are a couple with dependants (children) household. As mentioned earlier in Victoria, 15.3% of all families are a single parent family where most of those families are led by a woman (82.2%) according to ABS data.

Household composition (%)



Compared to the general population single-parent households are overrepresented in the client sample. Single person households are in line with the general population and couples with dependents are underrepresented. According to Muir et al. (2016), housing remains a clear indicator for potential financial resilience, making the 1% homeless in this sample an especially vulnerable group that requires further attention.

Cultural diversity

A fifth of clients (20% n=397) that attended the FCC services were from a non-English speaking background. The countries represented in that period were: Italy, Vietnam, China, India, Iran, Iraq, Malaysia, Philippines, Poland, Sri Lanka, and Turkey. 5% of clients required an interpreter. As per the literature on financial hardship, belonging to a group that does not have English as their first language places you at an increased risk of financial stress.

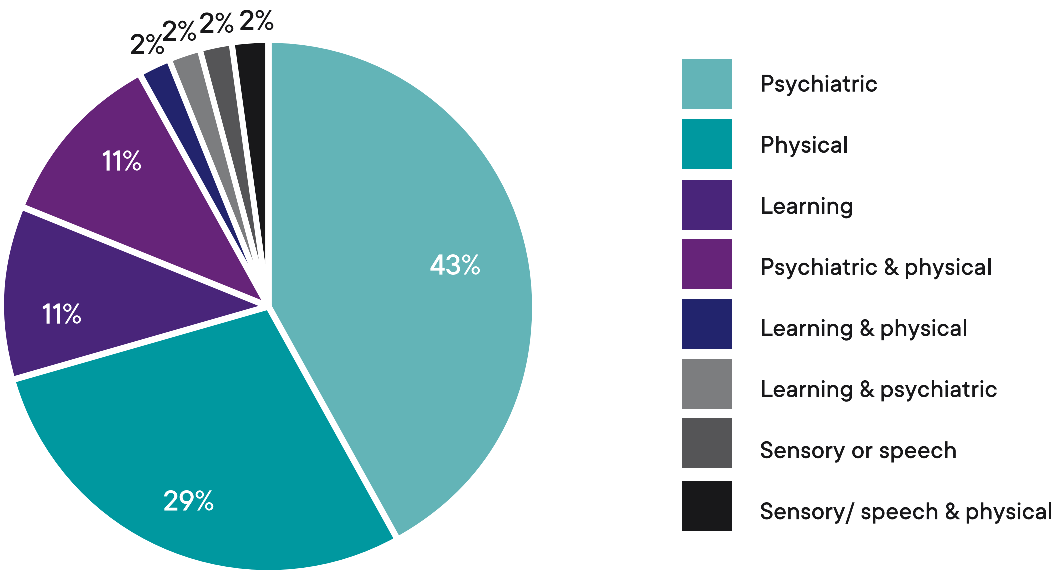
Disability

FCC clients were asked if they had a disability; 25% of clients disclosed they had a disability making this rate slightly higher than the general average of 1 in 5 people – or a fifth of the population – as per the ABS (2015) data on the prevalence of disability. The most common disability disclosed by the clients in this sample was a psychiatric disability, followed by a physical one. This distribution is also different to the overall population given that most people who report a disability disclose that their main disability is a physical condition (78.5%), with the remaining 21.5% reporting a mental or behavioural disorder. The literature clearly states that mental health issues are linked to financial stress. Whether this relationship is one where the financial stress induces mental health issues or mental health issues precipitate financial vulnerability is impossible to pinpoint for sure, however, the link is certainly there.

There is consensus across the literature that people with mental health issues fare consistently worse than their healthier peers (see for example Muir et al. 2016). The client sample for this period would suggest that psychiatric conditions are a very prevalent risk factor for people.

The episodic and unexpected nature of a psychiatric breakdown might be a contributor to financial stress in ways that have not necessarily been explored before. Psychiatric conditions are linked to other forms of vulnerability, making this particular risk factor one that should be explored in greater depth.

Types of disability (%)



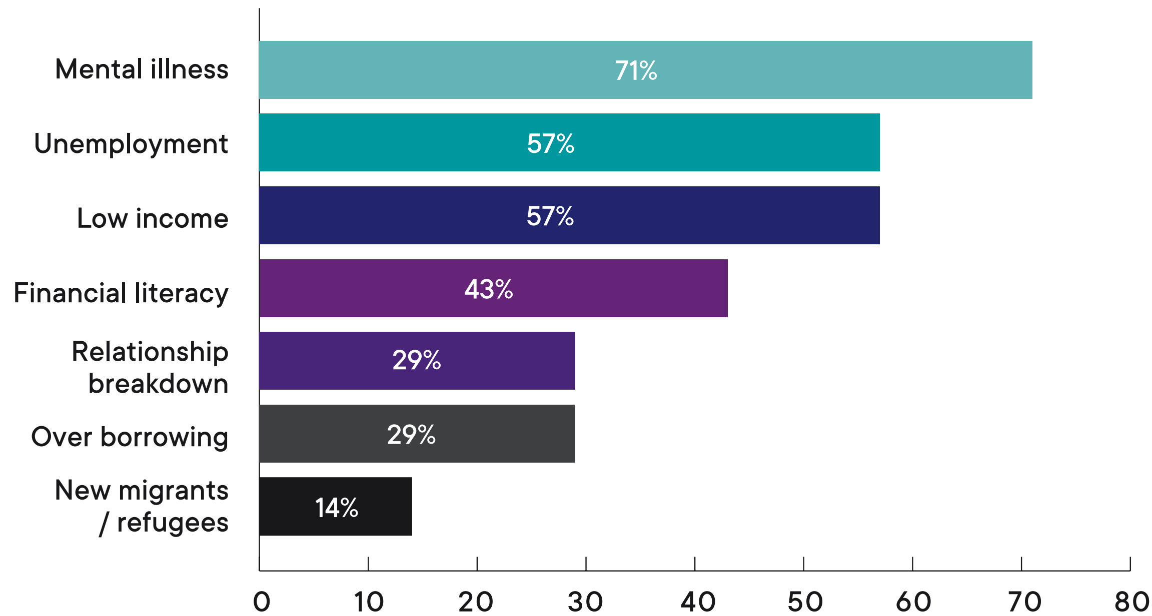
The View from the Front Line

A qualitative survey was conducted with FCC counsellors between March and April 2019. The survey aimed to provide a more in-depth view of FCC services from a 'front line' point of view. A total of seven (7) counsellors answered the survey. Counsellors were spread throughout the geographic locations where Better Place offers FCC services.

Common contributors to financial stress

The questions were designed to provide some insight into what counsellors see in terms of trends, anecdotal information, general understanding of the issues of financial stress, and access to and use of financial counselling services. To this effect, the survey began by asking counsellors what they thought the three most common contributors to their client's financial problems were. The counsellors identified the three most common contributors to financial problems as, in order of importance: mental illness, unemployment, and low income. While these might have been the top three, lack of financial literacy came in at a close fourth place indicating that there are both individual and structural issues at play when people are facing financial hardship. Interestingly, none of the counsellors identified issues with gambling, drugs, or alcohol abuse as major contributing factors to financial strain, suggesting that, in accordance with the literature, it is vulnerable people who are at higher risk.

Three most common contributors to clients financial problems (%)

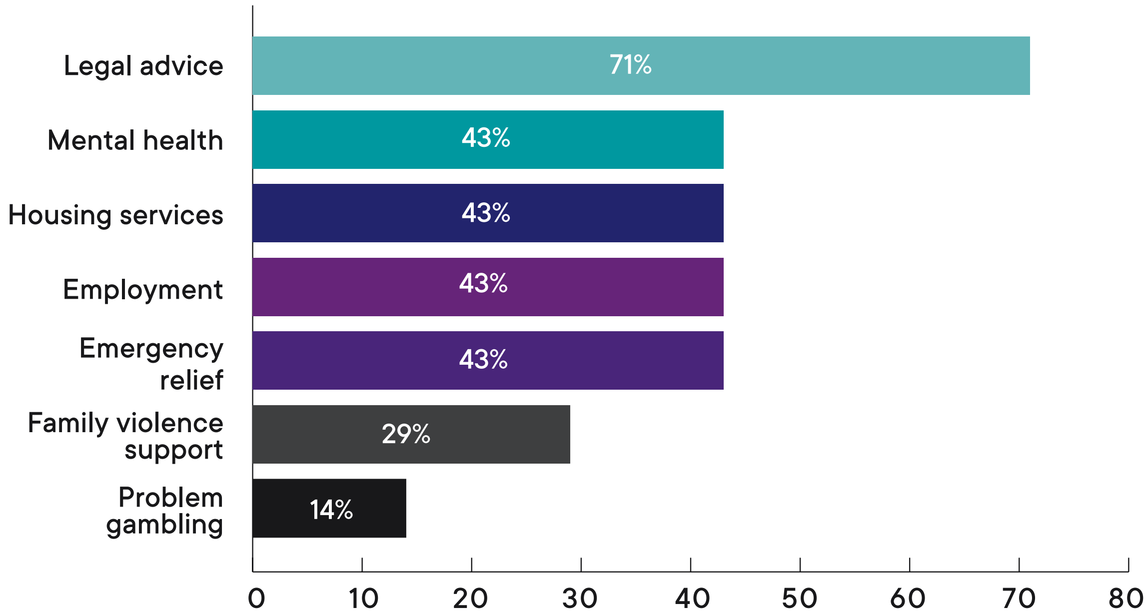


Counsellors were asked if their clients used payday lenders. Half of the counsellors noted that between 40 to 60 per cent of their clients would have used a payday lender in the previous 12 months.

Related support services

In thinking about financial stress issues, the conversation has, arguably, focused on the legal aspects of financial stress. However, it would be remiss to ignore the research done by other organisations pointing to the fact that financial stress is a structural problem with flow on effects. With this consideration, a qualitative survey of Better Place Australia's financial counsellors asked them to identify the most commonly used related support services. In first place came legal advice with a considerable percentage of responses (71%). However, mental health counselling, housing services, employment services and Centrelink, and emergency relief all came in second place with 43% of responses each. This result means that referrals to non-legal support services are fundamental in the work that financial counsellors do. Family violence support services were in third place at 29%. This combination of services clearly denotes that financial hardship issues are part of a multisystemic problem affecting people with co-occurring needs.

Three most common related support services that you would refer clients to (%)



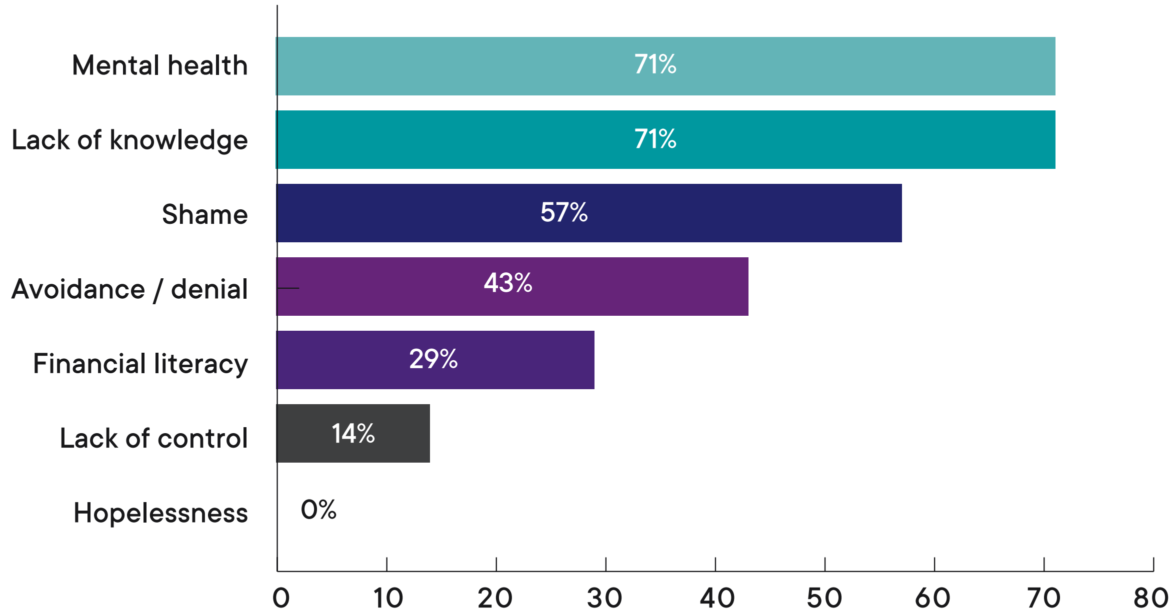
Financial counsellors understand that an important part of their job is to inform clients of what their rights are and what they can request. When asked about the willingness to negotiate suitable payment plans for clients, counsellors noted that banks are, for the most part, willing to negotiate a payment plan for clients. Utility providers were also deemed to be mostly willing to arrange payment plans, however, this was not the case with other creditors such as payday lenders, Telcos, and debt collectors.

Mental health of clients

The strain that financial hardship places on mental health is reflected in the considerable prevalence of suicidal ideation expressed by clients and noted by counsellors. Financial counsellors were asked to estimate what percentage of their clients had expressed suicidal ideation. All counsellors identified that their clients had, at some point, expressed signs of suicidal ideation. Half of the counsellors believe that up to 10% of their clients expressed suicidal ideation and just over a fifth think between 20 to 30 per cent of their clients expressed suicidal ideation. Overall, all counsellors identified clients who had, at some point, disclosed such thoughts.

Financial counsellors may, better than anyone, understand why their clients fall prey to inaction. When asked, counsellors identified the three most common reasons for delayed action, on the part of clients, were mental health issues, lack of knowledge around assistance, stigma and shame. Issues such as avoidance and lack of financial literacy were also frequent reasons for inaction.

Three most common reasons clients delay asking for help (%)



As for the impact financial hardship has on children, counsellors' responses centred around exclusion from normal childhood activities, social isolation, and added anxiety compared to their peers. Overall, the picture painted by the counsellors is one of individuals who are unaware of their rights and the services they have access to, as well as individuals who are already experiencing hardship in their lives further compounded by financial hardship. It is important to note that clients disclosed that, had they known about their rights, they would have accessed help sooner, making the issue of entrenched financial hardship one of a lack of awareness rather than one of lack of responsibility.

What have we learned?

Overall the clients that came through the FCC service were varied and required different forms of assistance. The diversity of referrals clearly indicates that financial crises are far more complex than just a legal matter. Clients who accessed financial counselling services had been experiencing financial stress for extended periods of time, more than 6 months, and were for the most part unaware of the assistance they could access. New laws have made banks more willing to provide reasonable payment plans for people, however, payday lenders and telco companies are perceived to be less flexible with these arrangements, highlighting the need for a legal framework that protects those who need financial aid and assistance. Women, and single parent female-led households, remain the most vulnerable group, requiring specialised forms of assistance.

Mental health

The literature on financial stress consistently reports that there is a link between mental health issues and financial vulnerability. Some reports cite up to 50% of respondents having to manage mental health issues and financial crises daily. The clients from this sample were no different - mental health and psychiatric issues were prevalent and affected over half of those who disclosed they had a disability. Long-term mental health issues and psychiatric conditions are difficult to manage given the episodic nature of these disorders. There are also concerns around how well welfare systems incorporate these into their disability pension schemes. Within this context it is not unreasonable to suppose that pre-existing concerns such as unemployment, long term poverty, and insecure housing all collide when psychiatric problems manifest themselves. This assumption would be further corroborated by the FCC counsellors who disclosed suicidal ideation amongst their clients. All counsellors believe that some percentage of their clients had thought about suicide when faced with a financial crisis. While the percentages might vary between counsellors there is not a single one that stated that they had never had a client disclose suicidal ideation. All this amounts to a harsh reality where individuals who experience either mental health issues or psychiatric conditions do not have the required resources to cover expenses that are regular or otherwise, and who are made even more vulnerable by the fact that they struggle to manage daily life.

“The thing that I most valued from my experience was that a thorough assessment was conducted that not only involved my financial situation, but other aspects like my mental and physical health; and management plan was designed for me, and it has been able to address my needs. I feel that the financial counsellor genuinely cared about my financial situation, and had the motivation to help me.”

“My debts are crippling me, & there is no way to address the problem. I am too mentally ill to work, but not mentally ill enough to receive a pension. NewStart only barely covers my rent & leaves me $80/fortnight for EVERYTHING else.”

“I was informed about ways to access ways to pay my bills. I was also informed I'm not to worry till my next appointment about a problem, as the biller can't touch me while we are working out a plan to understand the payment of the bill. I appreciated the help and support, I never knew in all my other years I that I was on disability payments that I could be supported by Better Place Australia , I didn't even know they existed till another disability person mentioned that we can have this help supplied. So thanks.”

Consideration

Given the high percentage of clients reporting mental health issues it is problematic that there is no clear way for two systems to connect (i.e. the mental health system and the debt crisis response system). These services are rarely co-located, have different Government funding streams and from a systems perspective are mutually exclusive.

Consideration should be given to embedding financial counselling services within a multi-disciplinary team. However, different Government funding streams (Federal, State & Local do not foster this approach. Typically, financial counsellors are physically located in community settings that are not conducive to mental health counselling. Some crisis services such as Drug and Alcohol services (AOD) do offer a multi-service approach however this is generally not the case.

The business model of payday lenders relies on vulnerable people borrowing money at high interest rates. The current regulation of such businesses and their lending practices is clearly inadequate; consideration by the Government should be given to measures to prevent predatory practices upon vulnerable people with mental health issues.

Many people who access payday lenders experience some form of mental illness or impairment, leaving them in an extremely vulnerable situation that impacts on their decision-making. **Payday lenders pay little regard to people's vulnerability when providing loans with their extremely high interest rates.** Whilst banks and utilities have become more willing to negotiate suitable payment plans for clients the financial counsellors reported that payday lenders, telcos and debt collectors were often uncooperative in negotiating reasonable payment plans.

Gender and the feminisation of poverty

It is well known that being a woman is, now more than ever before, a risk factor for poverty. The ABS data on gender and single parent households indicates that over 80% of them are led by a woman. We know that women are disproportionally affected as victims of family violence, and that they are further disadvantaged by the years they were out of the work force caring for children. In some cases, being a woman with a child is an almost foolproof recipe for poverty. In this sample there were more women accessing the FCC services than there were men (62%; n=1244 vs 38% n=755). This is almost twice as many women accessing the service during that financial year.

From the data we know that most clients (67% n=1329) did not have concession cards. 25% (n=496) of them were on a pension and 8% (n=159) had low income healthcare cards. We also know that 40% (n=793) of the sample declared themselves to be employed – including self-employed – and 41% (n=813) was not in the labour force, and includes stay at home parents and clients not actively looking for a job.

Single parent families

In this sample 22% of clients reported being a single parent household, that is a total of 436 clients. If we agree with the ABS and suppose that the sample would have a similar gender divide, then this means that the majority of those single parent household clients are women. We also know that in our sample 75% of clients receive Centrelink payments making these potential female-led households likely to be welfare recipients. Counsellors described the impact for children centred around exclusion from normal childhood activities, social isolation, and added anxiety compared to their peers. Female-led single parent households are financially stressed making it almost impossible to pay for normal childhood activities, parenting care stress and furthering the isolating effect that chronic poverty has on individuals.

Family violence and financial crisis

We also know that in this sample there was a high rate of family violence service referrals. Counsellors identified that family violence services were the third most common service referred to. When female clients come into the service to access financial counselling, by virtue of the referral process, they are often disclosing family violence at home which will most likely be making their financial situation worse.

While this sample was not specifically asked about the presence of family violence, the literature establishes a clear link between the two. Therefore, it is possible to assume that even when clients were not referred on to family violence services there is still the possibility of violence in many of the FCC clients.

> “The help I received has been instrumental in keeping me positive and calm about my debt, as a solo mother with a child with health concerns, this service has given me hope and kindness.”

Consideration

The current model of financial counselling is to resolve or renegotiate debt issues and, in the process, to raise the client's level of financial literacy. For women the issue is not only financial literacy but the depravation of capacity to weather financial shocks. It is one of poverty. The provision of timely financial literacy education intervention may assist through avoiding high interest debt traps but the circumstances of a single parent household means there is inevitably no resilience to financial shocks and no capacity to advance.

Increasingly for victims of family violence there is integration of financial counselling services into the crisis services response to the crisis. Whilst this is encouraging, Better Place Australia observes that there is an evident shortfall between the resourcing for the service and the scale of the issue.

Consideration could be given to providing more specialist financial counselling services in the same location as specialised family violence services (such as the Orange Doors in Victoria).

Recurrent debt

Having a wage has traditionally been considered a protective factor against financial vulnerability. However, in the current climate where the Gig economy has become more prevalent and self-employment has become more unstable the increased impact of underemployment is beginning to filter into the clients that access financial counselling services. Two thirds of the clients in this sample report receiving Centrelink payments while 40% report being employed or self-employed. This means that there is a clear overlap between those who are receiving benefits and those who are working or are self-employed. To frame it more clearly, there are households that have people who are working and receiving benefits, yet they still cannot afford to pay their usual household expenses.

> "I am so glad you were there (within 2 days I got first appt.) when I felt I couldn't go on...this was a life intervention at that time and things are so different now although financial struggle due to unemployment. I now have a PT job (2 months and I am 62 yrs old) and while I need more work to live better...being back in the workforce, connecting, contributing, having fun...just the wonder of it all...oh...just brilliant..."

Consideration

The issue of underemployment and short periodic employment is becoming evident in clients presenting to Better Place Australia. For this cohort, the baseline of living expenses does not change with their employment status. **While in between working and waiting on support, such as Newstart, they are forced into applying for short term loans to tide them over.** Newstart has clear rules on assets and termination payments but these controls are not effectively meeting the needs identified by this worker cohort.

At a policy level, consideration should be given to providing stronger incentives and benefits for people underemployed as the current benefits thresholds are not enough to meet even basic living expenses.

Cultural diversity and cultural debt

During the financial year of 2017-18, a fifth of the clients that accessed the financial counselling services provided by Better Place were from non-English speaking countries. Research on the impact of cultural diversity on financial stress does show a link between being born in a non-English speaking country and financial vulnerability. The complexities of a banking system in another language are already hard to navigate added to the fact that banking and lending systems are culturally bound. These problems might become even more difficult to navigate when a crisis moment arises. Lack of English proficiency can become intermingled with feelings of shame and fear around the results and penalties for such infractions. People who are not proficient in English might feel further isolated by their lack of knowledge and social pressures around money problems.

Consideration

Providing financial counselling and support in a culturally and linguistically appropriate way is challenging and complex.

Consideration should be given to building greater financial counselling capacity within local culturally diverse community services organisations that are best placed to meet the various cultural challenges.

Poverty and lending practices

The FCC counsellors were mostly in agreement when they noted that, given the new legislation, banks were the most agreeable to making payment plans for clients experiencing financial distress. Utility providers were also deemed to be mostly willing to arrange payment plans, however, this was not the case with other creditors such as payday lenders, Telcos, and debt collectors. This difference emphasises the need for a legal framework that protects vulnerable populations from potential exploitation from unscrupulous lenders. The literature also shows that most people who experience financial vulnerability use credit cards and payday lenders to cover their housing, utility, and food bills rather than any other expenses. The imminent need to pay for rent and food drives people who are chronically poor and more likely to be on benefits to sign on to loans that have exorbitant interest rates. Research has also shown that this may be linked to the perception of unsuitability for other more traditional, and less exploitative, forms of credit. Ultimately, the ever-increasing cost of living and the inability to cover these rising costs is driving vulnerable individuals to payday lenders and credit card companies.

“Budgeting is a problem. I pay bills but often have to rob Peter to pay Paul. Basic living expenses are covered but I worry about the future and we live pay to pay. I am being made redundant and I am the breadwinner in the family...”

“They made me realise that I had to cut up my credit cards which was getting me into financial problems and I bit the bullet and they helped me with my financial plans and assisted me to work out with my credit cards and I am now on the road to financial recovery thanks to Better Place and the counsellor I dealt with. Thank you for helping me to face my demons and assisting me with my credit card banks to sort out a payment system.”

Consideration

The evidence is clear that the payday lenders business model is largely centred around making money off the poor. This is reflected in their lending practices and concentration in lower socioeconomic communities.

The business model relies on vulnerable people borrowing money at high interest rates, which perpetuates further debt. Current regulation of these businesses is clearly insufficient and continues to place people at risk of financial hardship. A thorough review of the regulatory framework and major reforms are needed to provide stronger protections.

The Role of Financial Counselling Services

Kenneth Hayne's report from the Royal Commission into Misconduct in the financial services sector commented that financial counselling was a "necessity to the community" because of the "asymmetry of knowledge and power between consumers and financial services entities". His comments reflect the major systemic problems that serve to embed financial hardships within vulnerable communities. Financial counselling services have become an essential and critical service to support such communities.

All the considerations detailed in this report suggest that it is time to evolve financial counselling services to better reflect the current social, economic and regulatory landscape. Dedicated not-for-profit organisations delivering these services have now established unique capabilities, strong community presence, and well-worn referral pathways that have improved access and awareness. Such organisations are uniquely positioned to assist governments in co-designing a new financial counselling system that better meets the needs of vulnerable communities.

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