

THE IMPACT OF THE FINANCIAL INCLUSION ACTION PLAN

PRESENTATION TO FIAP CEO'S BREAKFAST

SYDNEY – 25TH NOVEMBER 2016

Buffers and options

“One element of [the challenge of] securing prosperity is ... **managing risk** and **ensuring resilience**.

... Important to [Australia’s] prosperity is the fact that over the past quarter of a century, our economy has not been seriously derailed by economic shocks. After all, nothing undermines prosperity like a severe recession in which large numbers of people lose their jobs and see their wealth decline.

... We have been able to ride out these and other shocks without too much difficulty ... [partly] because when the shocks hit we have had **buffers** to absorb them. Because of these buffers, we had **options** that not all other countries have had.

... One area where it is particularly important to have adequate buffers is in the **financial sector**. The financial sector can either act as a **cushion** for adverse shocks or it can act as an **amplifier**.

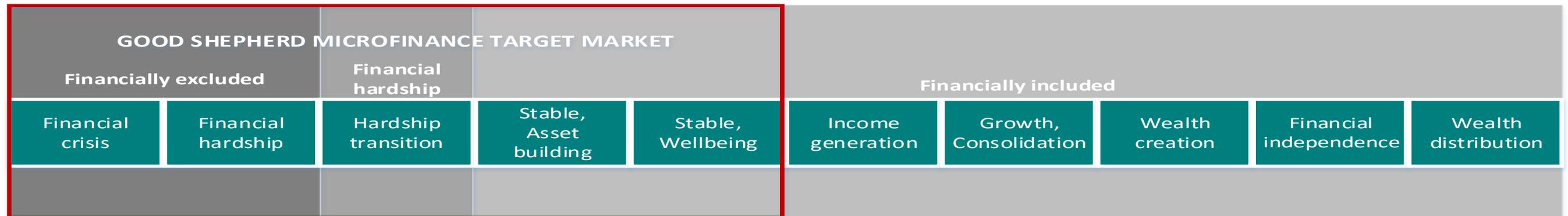
... [Another] set of buffers are those in **household balance sheets**. These buffers too are important as they influence how households respond to difficult economic times. Ideally, in such times, people are able to **draw on their savings a bit**, and perhaps even **access credit**, so that they don't have to cut their consumption sharply. Of course they can do this **only** if their balance sheets are in reasonable shape”.

— Dr Phil Lowe, ‘Buffers and Options’, Address to CEDA Annual Dinner, Melbourne, 15th November 2016

Financial exclusion is the absence of ‘buffers and options’

GOOD SHEPHERD MICROFINANCE FINANCIAL INCLUSION CONTINUUM

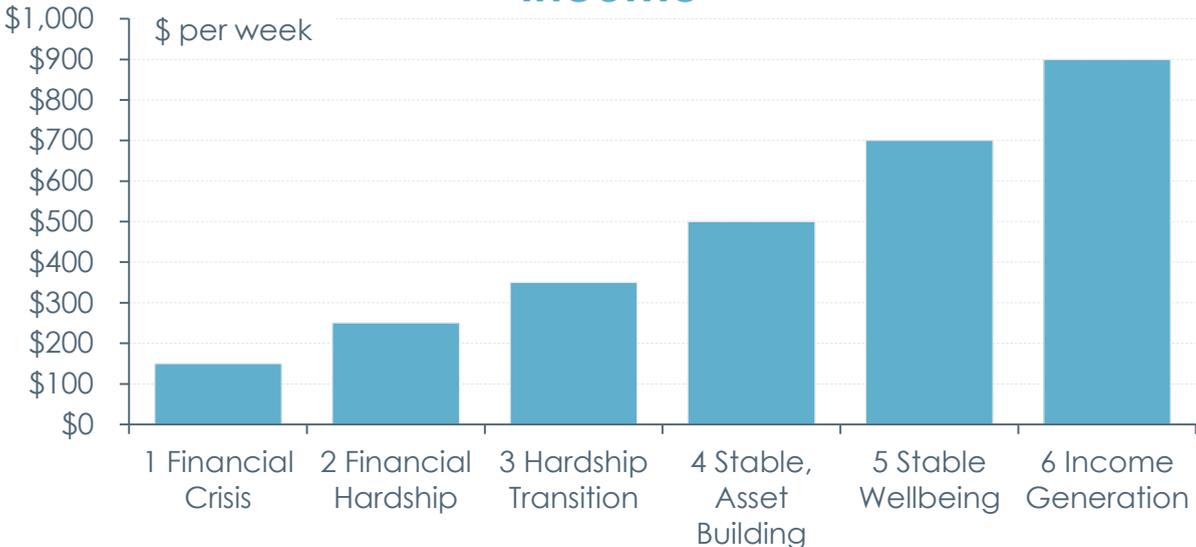
Economic mobility – movement along stages of the financial inclusion continuum



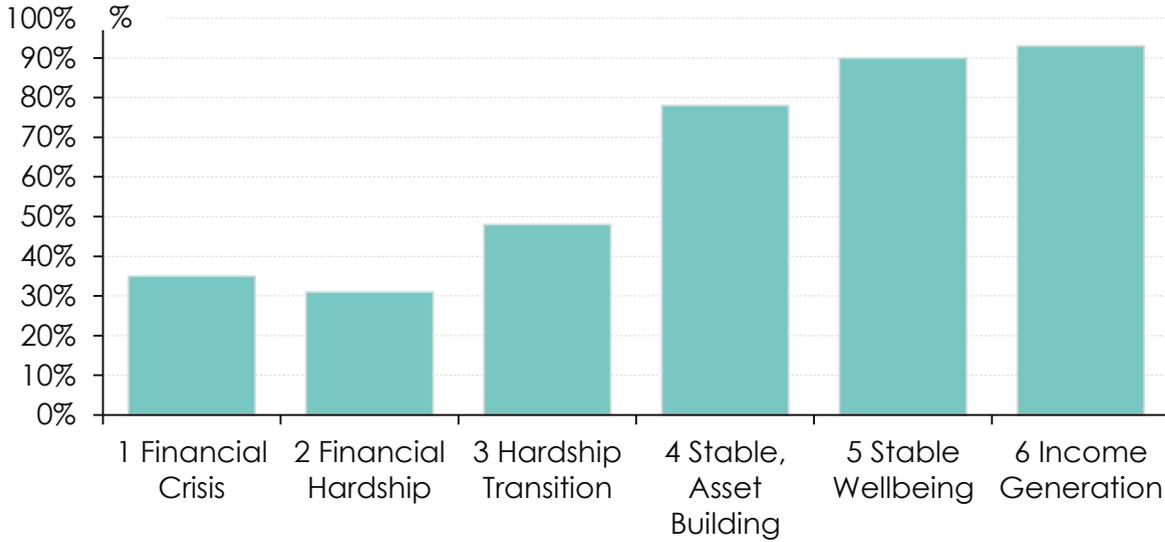
Financial crisis	Financial hardship	Hardship transition	Stable, Asset building	Stable, Wellbeing
<ul style="list-style-type: none"> 6% of adult population 72% unemployed or not in labour force Dominated by 20 to 24 year olds 26% do not speak English at home 	<ul style="list-style-type: none"> 12% of adult population 76% unemployed or not in labour force Significant representation of older Australians 47% are lone person households 	<ul style="list-style-type: none"> 12% of adult population 55% unemployed or not in labour force Significant representation of older Australians 50% own home outright 	<ul style="list-style-type: none"> 14% of adult population 71% employed full or part time Dominated by 20 to 24 year olds 52% are couples either with or without children 	<ul style="list-style-type: none"> 14% of adult population 85% employed full or part time 68% either own or are buying home 62% are couples either with or without children

Characteristics of households experiencing financial exclusion or financial hardship

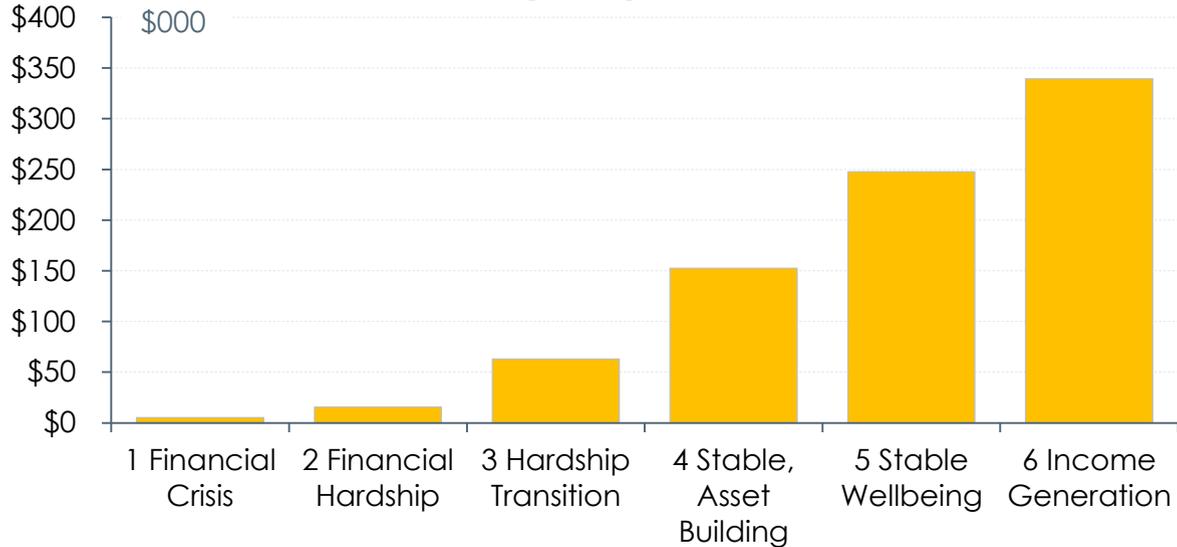
Income



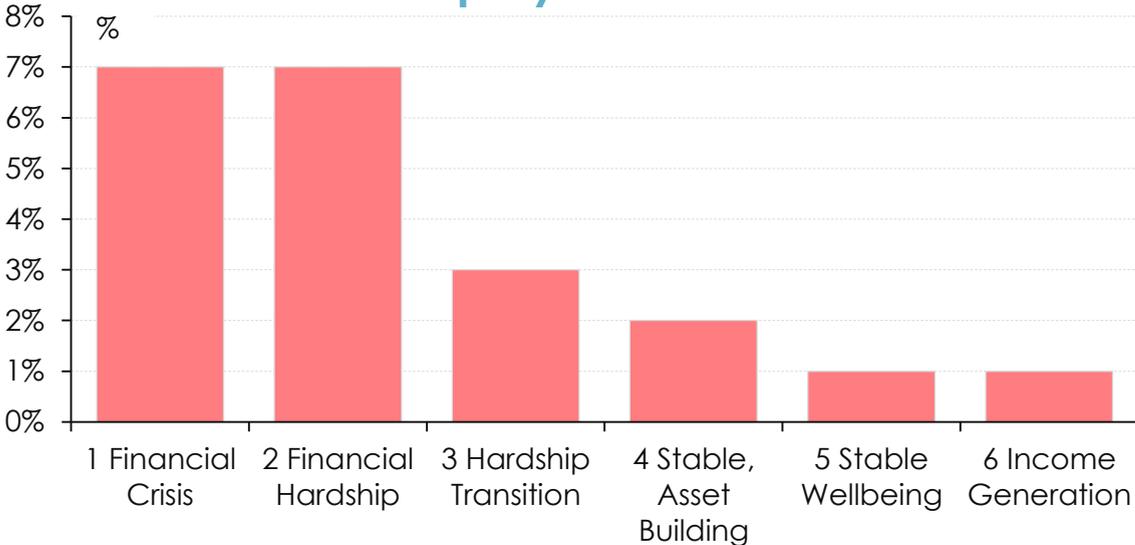
Labour force participation



Net worth



Unemployment rate



What if ...

- ❑ Some of the households in each of the six categories experiencing 'financial exclusion' or 'financial hardship' could be moved up by one category
 - and experience increases in their weekly income, net worth and labour force participation rates, and declines in their unemployment rates, consistent with the differences between the average for each category of households?
- ❑ Some households in each category above the lowest could be prevented from sliding down one category
 - and thus avoid experiencing declines in their weekly income, net worth and labour force participation rates, and increases in their unemployment rates, consistent with the differences between the average for each category of households?

Modelling undertaken by SPP seeks to estimate the impact on GDP of those possibilities – and of consequential savings to government

'Shifting the dial' on financial inclusion and resilience

COMMON BARRIERS:

- Low Income/Poverty
- Life stages / Life events
- Education, skills, capability,
- Under / Unemployment
- Poor Health
- Cultural, Linguistic & other Diversity
- Low Access (Physical/Digital)

FINANCIAL INCLUSION CONTINUUM



FIAP Strategies to 'Shift the Dial' for greater Financial Inclusion and Resilience

Economic Mobility

Employment Pathways

Access to Affordable Credit

Access to Affordable Housing

Building Superannuation, savings

Closing the Gender Gap

Economic Mobility & Preventative

Appropriate Products & Services

Efficient use of income

Capability Building

Preventative

Hardship Management & Preventative Programs

Less use of Expensive Credit

Appropriate resources and supports:

- *Emergency Relief*
- *Social Housing*
- *Mental Health Support*
- *Centrelink Pensions*
- *JobActive etc.*

Key steps in economic modelling

- ❑ **Aggregate household net worth increases as a result of assumed percentage of households 'moving up one category'**
 - eg 12% of households moving from 'financial hardship' to 'hardship transition' categories results in increase in aggregate household net worth of \$229mn
- ❑ **Increase in aggregate household net worth results in increased annual GDP**
 - derived using existing ratio of GDP to household net worth (just under 0.25)
- ❑ **Savings to governments resulting from**
 - reductions in eligibility for various categories of allowances and benefits
 - improvements in health status (and hence reductions in health expenditures)
 - reductions in crime rates

Potential economic benefits over a ten-year period

