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Dollars and sense

Compare the Market's Financial Consciousness Index Edition 2

Deloitte Access Economics

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Foreword

As a society, there's an inherent attitude that exists where an individual's personal finances is often a taboo topic, something that's avoided rather than faced head-on. This contributes towards a massive barrier between consumers and their ability to make a change. To look at this theory further, especially when it comes to a lack of control with money matters, Compare the Market engaged Deloitte Access Economics to investigate and understand how we can better help consumers with their everyday household finances.

The Financial Consciousness Index (FCI) measures the extent to which a person is not just financially literate, but also whether they are conscious of their ability to affect their own financial outcomes, all the way to their willingness to act, and the extent to which they are able to participate in sophisticated financial matters.

By focusing on Australians' financial consciousness, we can test and analyse how the relationship between financial wellness and sentiment can potentially influence or erode one's overall financial ranking.

This year is the first time we get to see the Index at play. The beauty of an index is that it captures a specific snapshot of a nationally representative cohort of Australians at an exact point in time, which then allows us to track, dissect and understand patterns of financial behaviour and themes that could shift with each new release of the report.

Are Australians more or less motivated in their financial decision making? Do Australians still believe that changes in interest rates affect their financial position? Comparing these results year on year paints an important picture of the inner thoughts and workings of the average Australian.

As a nation, our average FCI score has gone backwards from 51 to 48 out of 100. To understand how or why we experienced a drop, we need to look at the economic and social factors in action. The cost of living, inequality among demographics, low wage growth, unemployment flat-lining, and our own political uncertainties will always influence and play on the mind of the average Australian. The cohort were surveyed prior to the 2019 federal election, with consumers potentially concerned over anticipated and unforeseen changes in the future.

Whilst the score looks like a fail on paper, it still puts the average Australian in the 'Financially Conscious' category. Interestingly though, the largest proportion of Australians now sit in this group.

By commissioning this report, we are demonstrating our commitment to helping consumers take a tighter rein on their finances, and drive further conversations around the work that needs to be done to better empower, educate and de-stigmatise how people talk about money.

This is a pulse check into how Australians are feeling – looking at how we bring the financial consciousness of all Australians to a stable, healthier rate comes next.

Rod Attrill
General Manager – Banking
Compare the Market

Executive summary

A lot has happened over the past year. Globally, we have seen falls in economic growth; the results of ongoing concerns around global trade wars and tariff retaliations (think China and the US), and political uncertainties (think Brexit). These all contribute to uncertainty, and uncertainty feeds into slowing the growth of the economy.

The same can be said for the Australian economy; it's slowing down. Falling house prices have weighed on consumer spending and on housing construction, while the effects of the drought have also dragged down growth. Indicators like inflation and wage growth are likely going to continue to disappoint in the near-term.

The Reserve Bank of Australia (RBA) was yet to officially drop the cash rate when undertaking this year's analysis, but unofficially, the media and industry had spread speculation of cuts for some time. The RBA has now joined the ranks of other global Central Banks in tightening monetary policy; reducing interest rates and sending signals to coax extra inflation out of their economies and boost employment.

The 2019 analysis was also undertaken before the Coalition was re-elected in mid-May, but Australians would have felt the ups and downs of the election cycle in the weeks beforehand, influencing their ideas on the future and playing on confidence.

Let's also not forget about the release of the findings of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, released February this year.

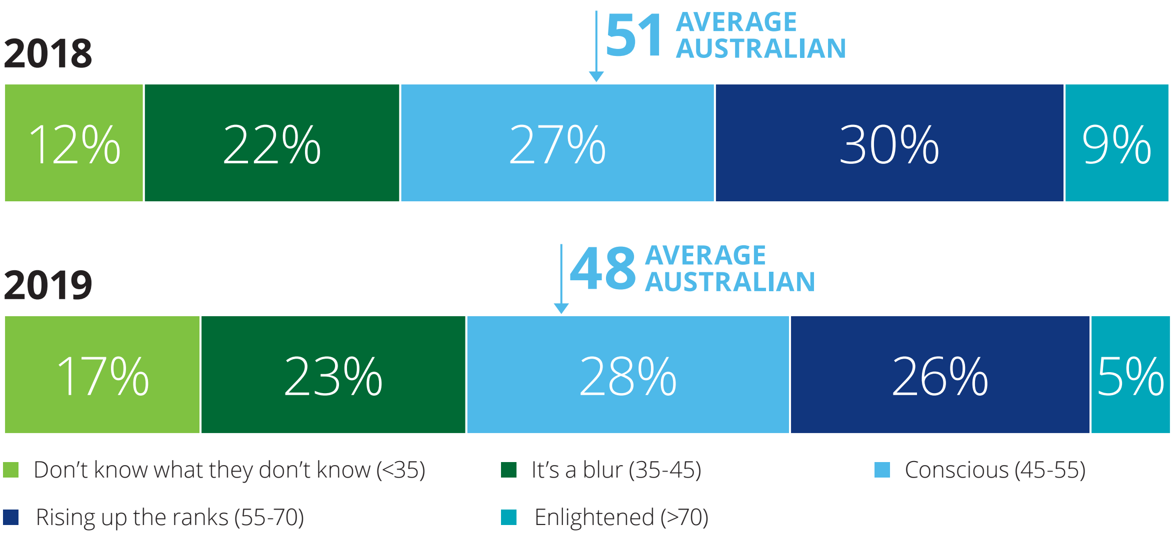
So what does this all have to do with the 2019 Financial Consciousness Index (FCI)? In short… everything.

Like last year, the FCI measures the extent to which a person is not just financially literate, but whether they are conscious of their ability to affect their own financial outcomes, all the way to their willingness to act, and the extent to which they are able to participate in sophisticated financial matters.

So with this in mind, what changes have we seen over the past year?

The average Australian's 2019 FCI score is 48 out of 100, a fall from last year's score of 51, placing them just shy of the middle of the index. We would still call the average Australian **financially conscious**… just a *little less conscious*.

A little less conscious



Breaking it down across the index itself, 28% (an increase of 1pp from last year) meet the threshold of basic financial **consciousness** (FCI score between 45-55). Now only 5% of Australians are **enlightened** enough to be at the peak of financial consciousness (FCI score over 70), this is down from 9% last year. Those Australians who simply **don't know what they don't know** have increased to 17%, up from 12%.

Last year we saw that certain demographic characteristics are key; for example income and education. This year, for Australians with higher income levels and higher educational attainment, we still see a higher FCI, but the gap is narrowing between these Australians and those with lower incomes and lower levels of education attainment.

This year, we again explore the average Australian's level of **financial wellness** and **confidence**, and the relationship with financial consciousness.

We can see that a decline in financial wellness is accompanied by an increase in financial pressures, and a decrease in financial resilience. 42% (up from 36%) now concede that they struggle to pay bills at some point; and 14% of Australians are struggling most or all of the time. Not only are Australians increasingly struggling to pay their bills, the number one 'plan B' for Australians, in times of financial emergencies, is now to rely on government support (37%, compared to 33% in 2018).

Changes within the global and Australian economies breeds uncertainty; and uncertainty influences financial consciousness. Whether it's uncertainty in your future income or stability of employment, uncertainty in your ability to pay your bills, uncertainty around the financial products you hold, or uncertainty in the future value of your house; uncertainty can cause you to question your own perceived understanding of your financial position and influence over financial outcomes.

Australians are feeling less confident this year, particularly when it comes to their perceived change in the value of their homes. Last year, 43% of Australians felt that the value of their home had increased over the past 12 months, this number fell to only 27% this year.

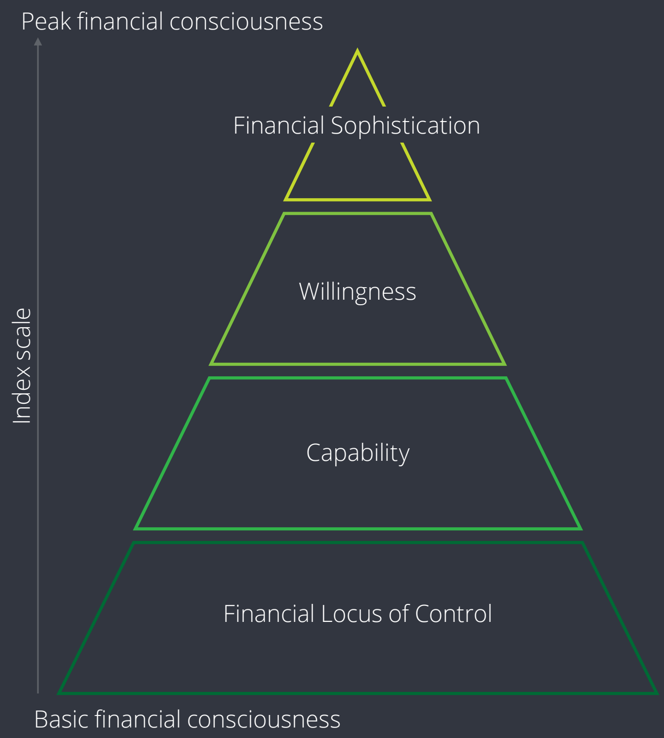
In good news, the future is looking brighter. Things are looking up for Australians, with personal income tax cuts set to inject $8 billion back into the pickets of consumers; the RBA's back-to-back interest rate cuts will hopefully help to stimulate wages and inflation; and the reduced restrictions on lending may aid in Australians getting access to more funds.

Deloitte Access Economics

Australians score

on average on the Financial Consciousness Index

48/100



In 2018, Australians were bang in the middle of the Index. Now in **2019**, the average Australian's financial consciousness has fallen, but not by much. Locus of control remains relatively high, with people believing their own actions mostly determine their financial outcomes.

There has been a marginal drop across financial capability and willingness; however the average Australian remains reasonably capable in basic financial literacy and pretty motivated with their finances.

When it comes to being financially sophisticated, the average Australian has fallen further in 2019.

2019 — 48/100

Degree of financial sophistication	11/40
Degree of financial willingness	14/25
Degree of financial capability	13/20
Locus of control	10/15

2018 — 51/100

Degree of financial sophistication	12/40
Degree of financial willingness	15/25
Degree of financial capability	14/20
Locus of control	10/15

1 Financial Consciousness Index Score

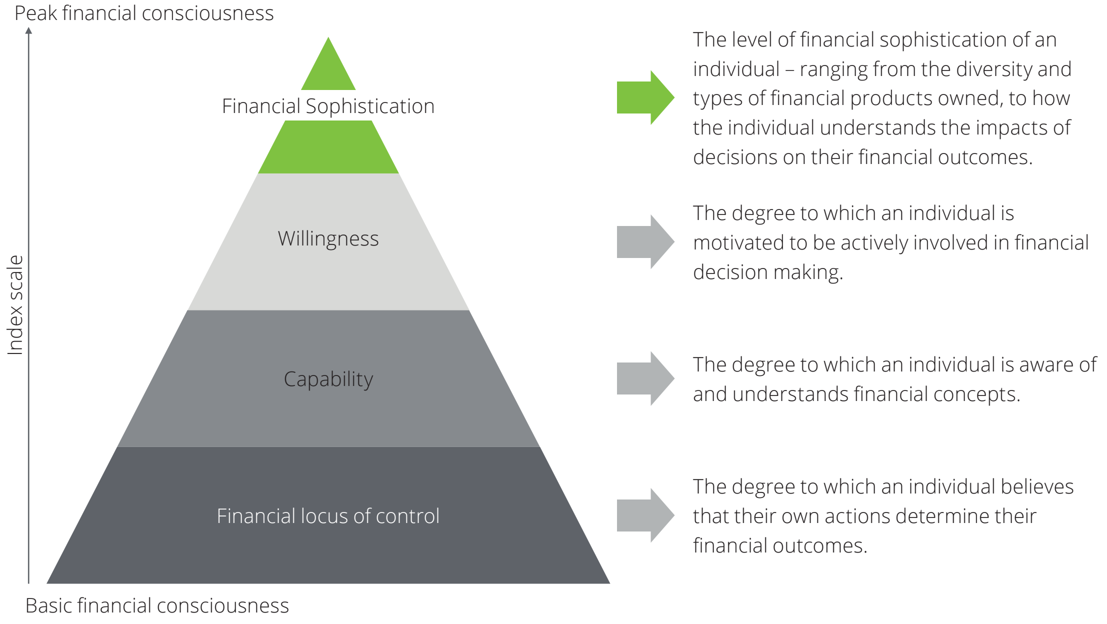
Change is a constant – and a lot can happen in a year. Whether that is in your personal life, or change in an economy; or about your view of the future. The 2019 Financial Consciousness Index is showing signs of change for Australians.

1.1 A recap of the Index

The Financial Consciousness Index (FCI or 'the Index') measures the extent to which a person is not just financially literate, but also whether they are conscious of their ability to affect their own financial outcomes, all the way to their willingness to act, and the extent to which they are able to participate in sophisticated financial matters.

The FCI tells us where Australians sit across the spectrum of elements that make up an overall individual's score (see Appendix A for the method on each building block of the Index). Like last year, the Index can be broken down into five groups, according to their degree of financial (Figure 1.2).

Figure 1.1 Financial consciousness building blocks



Source: Deloitte Access Economics

Figure 1.2 Degrees of financial consciousness

1. Don't know what they don't know—score less than 35
2. It's a blur—score between 35-45
3. Conscious—score between 45-55
4. Rising up the ranks—score between 55-70
5. Enlightened—score over 70

Source: Deloitte Access Economics

To measure the Index, a survey was fielded to approximately 3,000 individuals that paint a picture of Australia – across demographics such as age, gender, income and employment status, where they live, and more. The 2018 survey was fielded at the same time last year, with the same questions, to the same demographic cohorts. It is worth noting that in 2019, we capture a slightly larger proportion of younger Australians and unemployed persons compared to last year. Additional testing using regression analysis techniques, however, confirm that these differences had no impact on our measure of FCI over time at an acceptable level of statistical significance.

Last year the research approach was designed to elicit truthful answers from the respondent's own financial experiences and their understanding of various financial topics. This year, we get to see what has changed.

Are Australians feeling like they have control over their finances compared to 2018?

Are Australians more or less motivated in their financial decision making?

Do Australians think changes in interest rates affect their financial position?

1.2 So what's changed?

On average, **Australians score 48 out of 100** in 2019, placing them just shy of the middle of the Index. While this score is lower than the average Australian's score of 51 in 2018, on average **Australians are still considered to be financially conscious.**

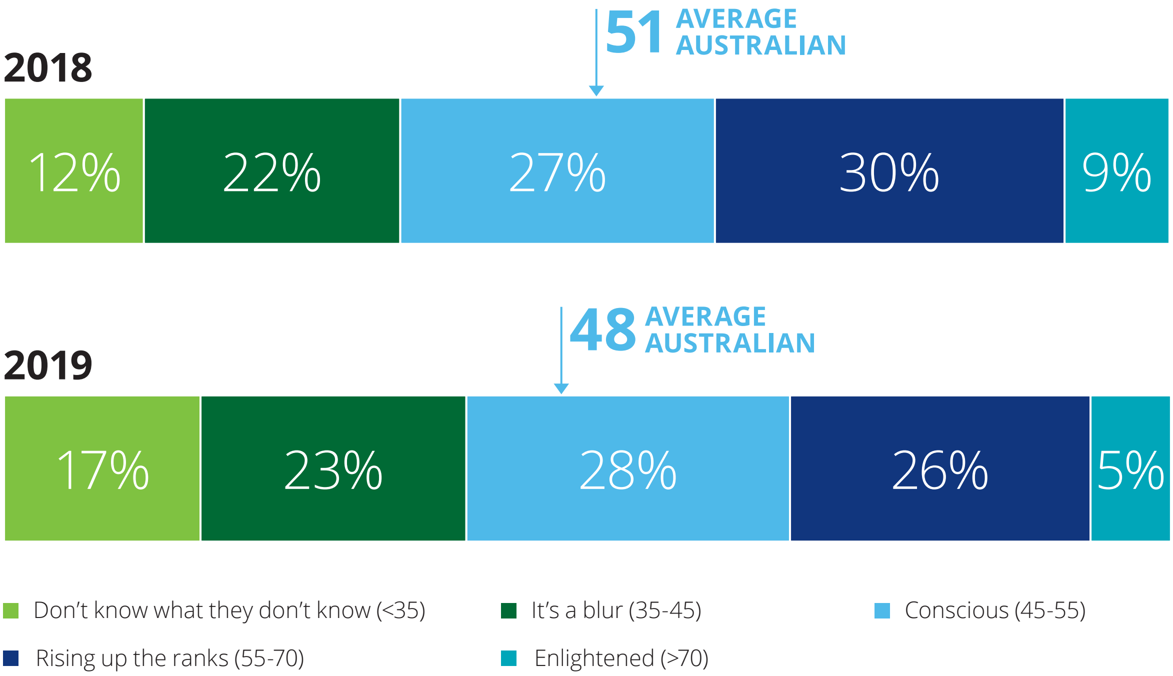
Those Australians who simply **don't know what they don't know** about financial matters and behaviours to improve their financial outcomes have increased by 5 percentage points (pp).

Those sitting within the next two groupings – **It's a blur** and **Conscious** – have welcomed some more Australians into their fold, but only a few. Those Australians who meet the basic financial consciousness threshold has become the largest cohort, taking the title away from the Australians who were **rising up the ranks** in 2018.

This means the majority of Australians now meet the basic threshold of basic financial **consciousness**. They have decent financial capability, are willing to improve their financial position when it comes to key matters that impact their hip pocket and they know that they play a role in determining their financial outcomes.

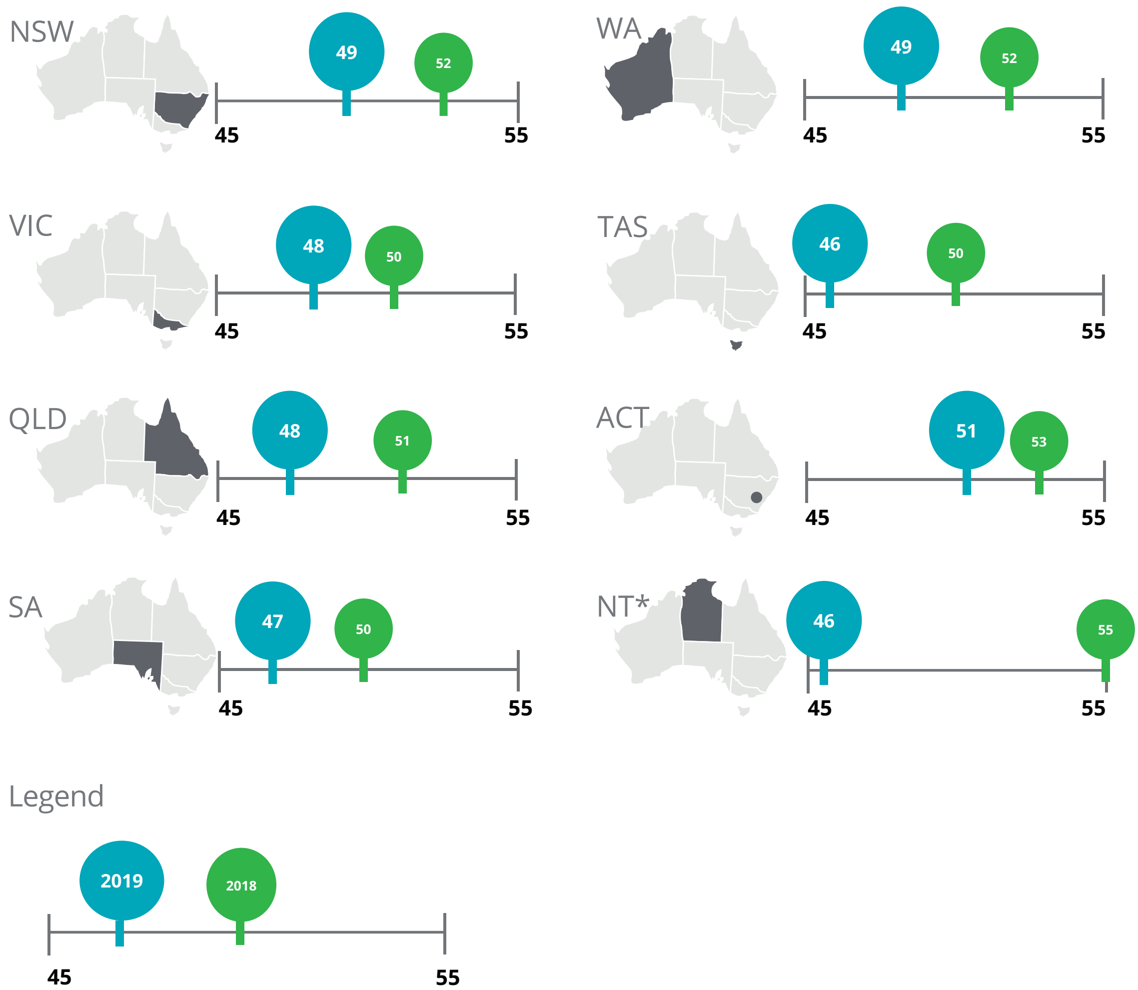
The cohorts which have declined are those who are **rising up the ranks** of financial consciousness and those who are **enlightened**. In 2019, the number of Australians enlightened enough to be at the peak of financial consciousness fell by 4 pp, to represent only 5% of Australians.

Chart 1.1 Where Australians sit across the index



Source: Deloitte Access Economics
Note: may not sum to 100% due to rounding.

Figure 1.3 State of origin



**NT is a small sample size and results should be interpreted with caution. See Appendix B.*

Source: Deloitte Access Economics

Note: Bubbles indicate the FCI score by state and territory, showing where each state and territory sits within the 2019 range of all Australian FCI scores.

1.3 What's driving the change?

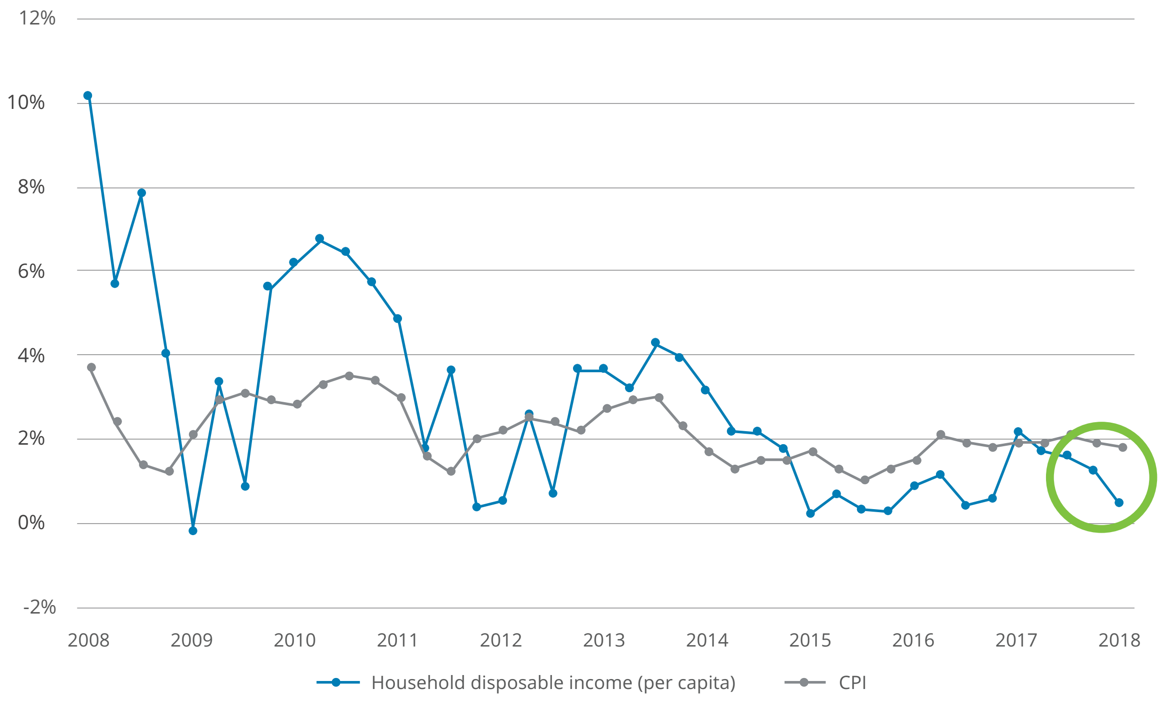
In an economy where macroeconomic conditions are a bit sluggish by some measures – and the continued public debate on the cost of living, inequality, low wages growth and unemployment can make people **more cautious** - these results of falling financial consciousness aren't necessarily surprising.

Inflation growth may be low, but growth in household income is even lower (Chart 1.2), and we can see that the gap continues to widen. This means that the income of Australians households is falling at a faster rate than the rate that prices are falling... people can afford less.

But what is specifically driving the change in FCI for the average Australian? Last year the Index confirmed that demographic characteristics are key. They drive an individual's understanding and behaviour when it comes to financial matters – for example; if your income is up, so is your financial consciousness; and education really does matter to your financial position.

This year, we start to gleam an insight into the strengths of the relationships between these demographic characteristics and financial consciousness.

Chart 1.2 A widening gap between prices and income



Source: ABS 5206, ABS 6401.

Income Up, Consciousness Up… but less than last year

The average Australian on an income of less than $10,000 a year has an FCI score of 42, compared to someone earning over $190,000 a year with an FCI score of 59. This is compared to their 2018 respective scores of 43 and 62.

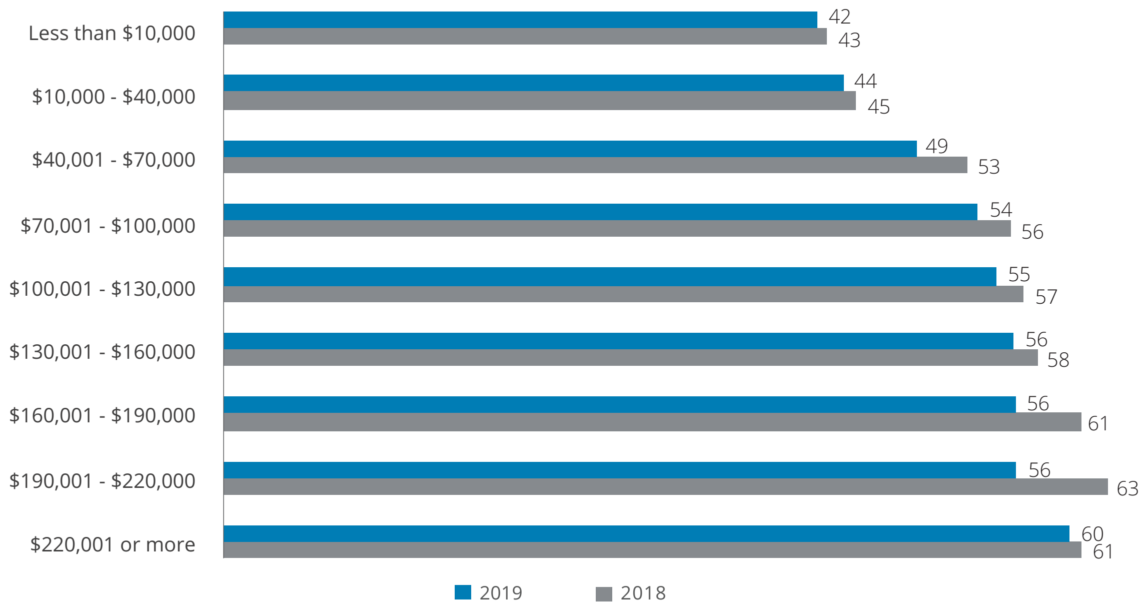
What does this tell us? Things have remained relatively the same for low income earners, who still sit just below the threshold of basic financial consciousness. They have shown improvement in their motivation to be more actively involved in their financial decisions, and acknowledgement that they are responsible for their financial outcomes; however, there remains a lack of financial sophistication which makes their journey to improve their financial position still a **bit of a blur**.

On the other side of the income scale, higher income earners are still associated with a higher level of financial consciousness, but their average FCI score has fallen. The gap between the FCI of low and high income earners is still large, **but it's narrowing**.

From an income level of $100,000 upwards, these Australians are still considered to be **rising up the ranks**, but their average FCI score has fallen, with the biggest driver being a falling level of financial sophistication. Financial sophistication looks at the range of diversity and types of financial products owned and how the individual understands the impacts of decisions on their financial outcomes.

The biggest fall in an FCI score has occurred for Australians with an income level between $190,000 and $220,000, driven by a fall in financial sophistication of 5 pp.

Chart 1.3 Income is Conscious, but how Conscious?



Source: Deloitte Access Economics

For those sitting in this income group, it's not a simple case of their financial understanding declining; in fact, those who subscribe to financial markets reports and analysis has actually increased by 18 pp.

The driver of their falling financial sophistication is within the number of financial products owned. Let's take insurance as an example, those covered by health insurance has fallen by 26 pp. This is not so surprising, considering the rate at which health insurance premiums are rising; well above the rate of wages and inflation.[1]

Those in this income bracket have also reduced their number of home loans, for both personal and investment properties (25 pp for both). It then follows that the frequency of monitoring the Reserve Bank of Australia's (RBA) cash rate has also fallen.

Higher education... maybe it isn't so high

In 2019, the importance of education in being financially conscious has narrowed for Australians. Last year's survey results showed that having a higher level of education and/or training means you are more likely to have a higher FCI score. This relationship holds in 2019. But, what has changed is that the **gap is narrowing**. The average score of those who have only completed primary school has increased to 39, compared to a fall in score for those with undergraduate degrees, declining to 52.

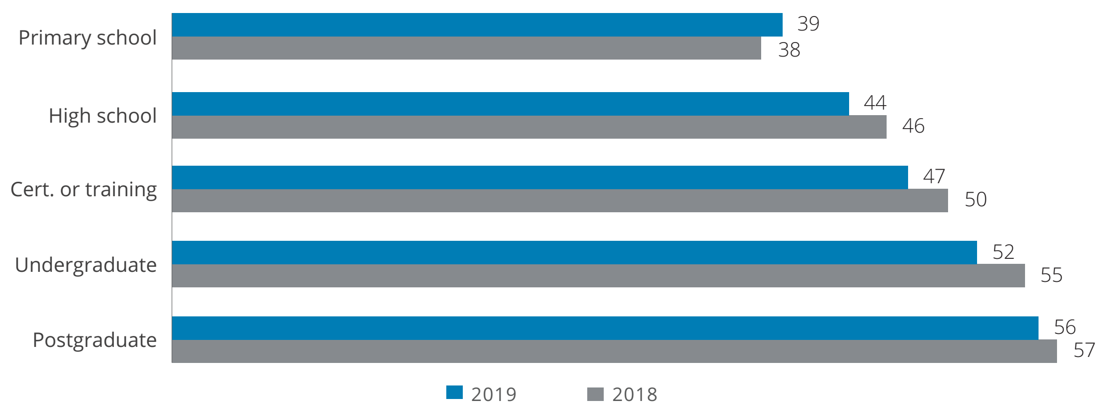
What we are seeing on this educational scale, are those who are less educated (and typically younger) are becoming **more financially savvy**, compared to last year.

It's possible that the more recent increased media spotlight upon financial issues, such as the Australian housing markets, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry ('the Banking Royal Commission'), tightening of lending requirements, and welfare issues; have driven these Australians to increase their general awareness of broader financial issues and their own financial circumstances.

It is also possible that with a slowing economy, these Australians are feeling pressure to increase their financial understanding and tighten their financial circumstances.

It could be a combination of a few reasons; but what we do know is that as times get tougher across the board, **these Australians are starting to pay more attention**.

Chart 1.4 Higher education



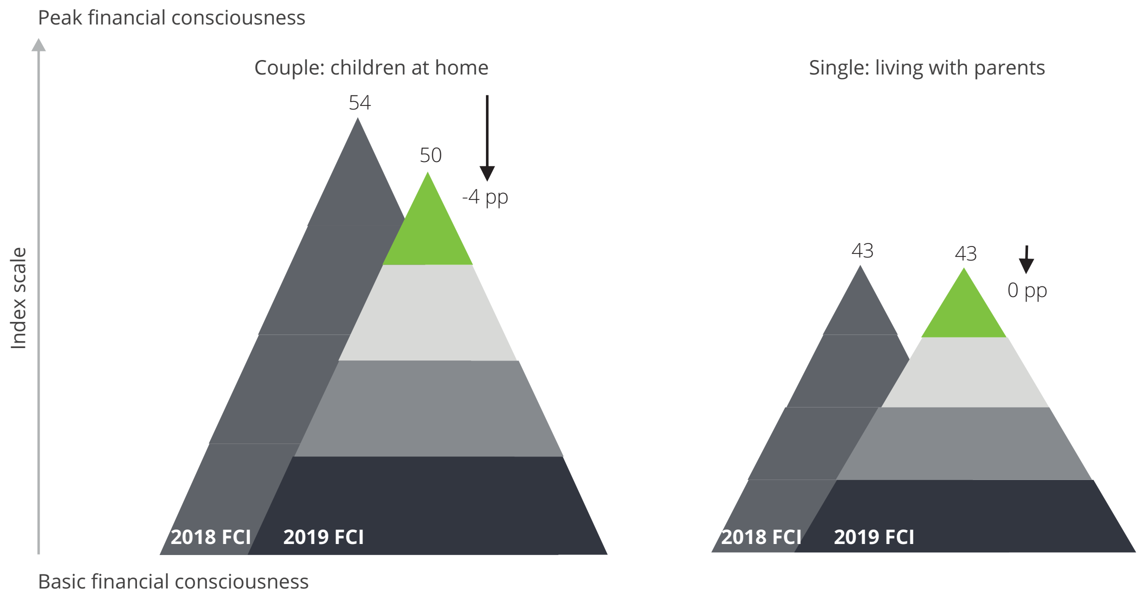
Source: Deloitte Access Economics.

1 Duckett, S. & Nemet, K., (2019), The history and purposes of private health insurance, The Grattan Institute, https://grattan.edu.au/report/the-history-of-private-health-insurance/

Who lives with you?
They say that two heads are better than one… but how much better? Life circumstances and the responsibilities which come with it still place Australians in relationships, Australians in relationships (with children), and single parents, all higher on the FCI scale than those who are single and living life with higher discretionary incomes.

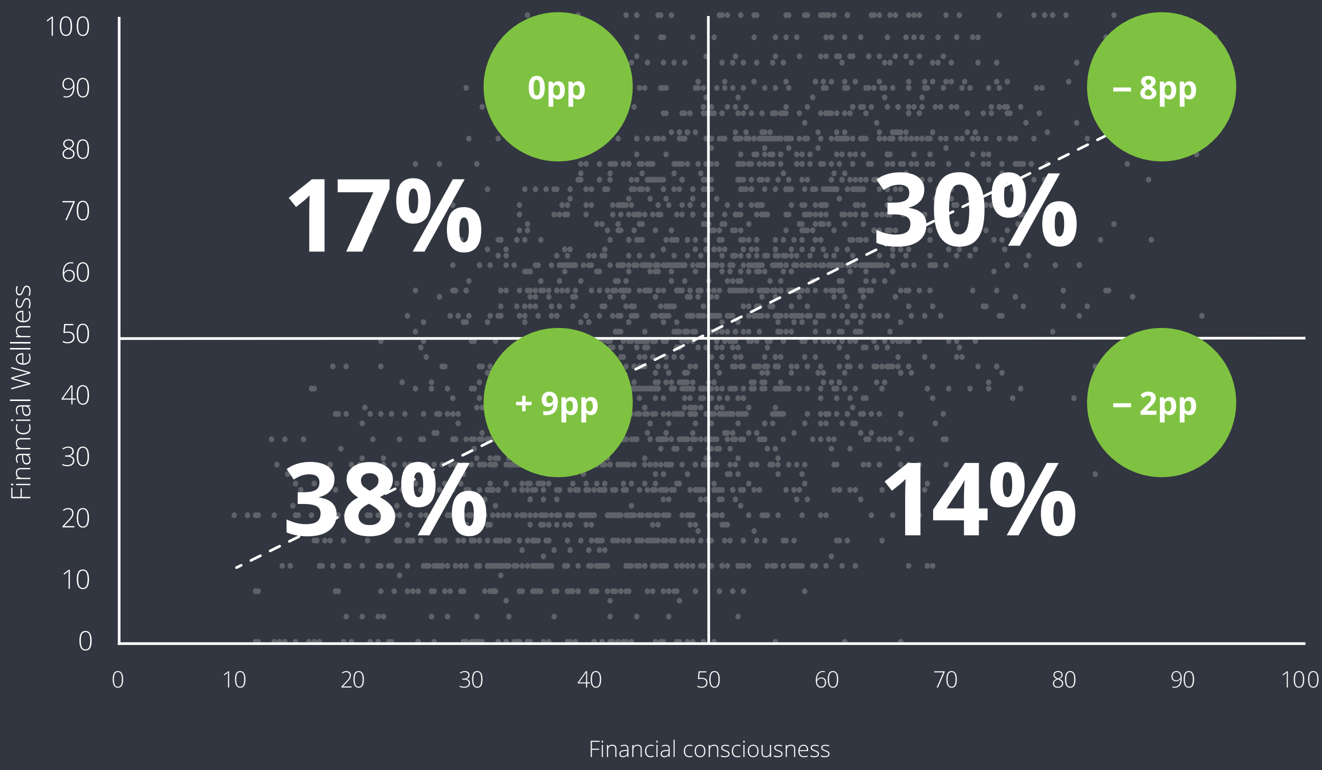
The difference comes from the average Australian with children at home and those in relationships (both with and without children) who have had a proportionally larger drop in FCI score than the average single Australian. For example, the FCI score of an Australian in a relationship (with children) has fallen by 4 pp (a fall in their FCI score, from 54 to 50), compared to the slightest fall of 0.03 pp for a single Australian (a fall in their FCI score, from 43.71 to 43.68), still living at home.

Chart 1.5 The gap is narrowing



Source: Deloitte Access Economics.

FCI and financial wellness



pp = percentage point

pp change, 2018 to 2019

Note: the shares may not sum to 100% and the pp changes may differ slightly from last years proportions due to rounding.

2 FCI and wellness

Financial Wellness ('Wellness' or FW score) seeks to establish the degree to which people feel they are able to meet expenses, have some money left over to save, and feel financially secure, both now and in the future.

Like last year, we capture financial wellness as a function of **savings, ability to pay for living expenses, financial security and contingencies, and job security**. And, again, we explore this relationship relative to financial consciousness as four distinct groups.

2.1 Financial wellness more broadly

It only takes one shift in an economic factor to influence how secure Australians feel financially – their own perceived level of financial wellness.

House price fluctuations can create a feeling of unease for homeowners, who perceive their wealth to be tied up in the value of their houses. Even if they don't have any intention of selling in the immediate future, it's difficult to shake that uneasy feeling.

News heard about a Royal Commission into banks can affect one's trust in institutions and feelings of financial security.

Changing interest rates, or indeed even expected changes in interest rates, can create uncertainties in one's ability to repay mortgages – or equally one's ability to save.

Flat-lining wages, job security (or lack thereof), and ever increasing costs of living induce uncertainties surrounding one's ability to pay bills and to generally continue to live life, as one would like to.

But how have these factors actually played out over the past year?

2.2 Loss of consciousness and feeling poorly

Last year we established a strong positive relationship between financial consciousness and wellness. The downside of this relationship, however, is that when financial consciousness falls, so does financial wellness. And, **as financial consciousness has fallen, so has Australians' feeling of financial wellness.**

Where 38% of Australians previously sat in the **conscious and comfortable** category, this has now declined to 30%. The inverse of this has been an almost equal increase in the share of Australians who **don't know what they don't know, and they're not doing so well** – increasing 9pp to 38%.

To put this increase into context, this translates to an additional nearly **2 million[2] Australians who feel less financially conscious and less financially well**. This implies that there are now some 7.5 million[3] Australians who, on average, regularly struggle to pay their bills, are not saving money regularly, do not feel like they have job security and would feel financial pressure if they were to fall out of work.

2 The increased portion of Australians (9 pp) who now *don't know what they don't know, and they're not doing so well*. Calculated as the difference between the estimated Australian resident population (over the age of 18, forecast in 2019 based on 'medium' growth settings (ABS cat. no. 3222.0)) who *don't know what they don't know, and they're not doing so well* in 2019 (38%) and the estimated Australian population (over the age of 18, as at June 2018 (ABS cat. no. 3101.0)) who *don't know what they don't know, and they're not doing so well* in 2018 (29%).

3 The estimated number of Australians who *don't know what they don't know, and they're not doing so well* in 2019. Calculated as the share of the estimated Australian population (over the age of 18, forecast in 2019 based on 'medium' growth settings (ABS cat. no. 3222.0)) who *don't know what they don't know, and they're not doing so well* in 2019 (38%).

Where are the cost pressures?
Australians appear to be shedding certain costs, ridding themselves of certain financial products; particularly when it comes to **insurance** and **credit cards**. We are also seeing the disposal of liquid assets such as **shares**.

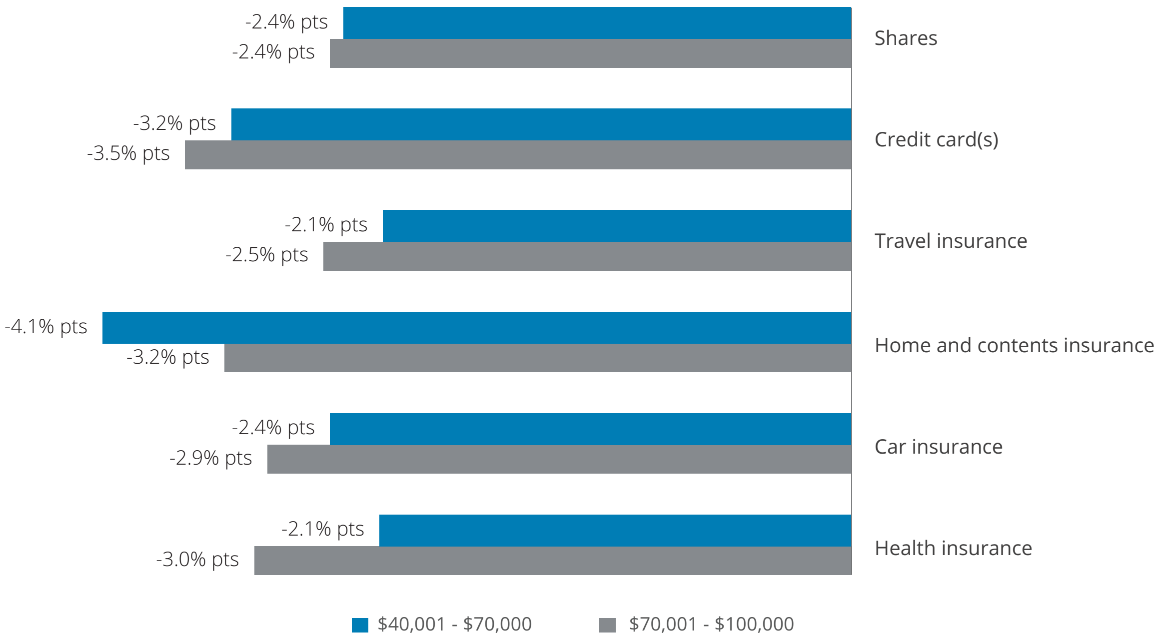
Insurance is an important part of life, but is often considered by consumers as a discretionary expense - that is, something nice to have when times are good, but difficult to justify as money becomes tight. Under these circumstances, it is understandable to observe insurance products - such as, health, home and contents, car, and travel insurance - be dropped. This is particularly the case for Australians in the income range between $40,000 and $100,000.

In terms of credit credits, it is possible that more applications are being rejected, or maybe these Australians are disposing of this expensive form of financing.

If Australians are feeling constrained or nervous about their financial position, they are likely to prioritise mortgage repayments and a roof over their head, in lieu of other expenses such as paying for insurance premiums.

So what's driving these cost pressures? It could be a multitude of factors… rising electricity costs, falling house prices, increasing uncertainty and a faltering level of confidence. Take your pick. Whatever it may be, Australians are signaling that they are cost constrained and under financial pressure.

Chart 2.1 There's a fall in financial products, between 2018 and 2019



Source: Deloitte Access Economics.

Note: This chart shows the percentage point declines of holding financial products, between 2018 and 2019, for income levels of $40,0001 - $70,000 and $70,0001 - $100,000.

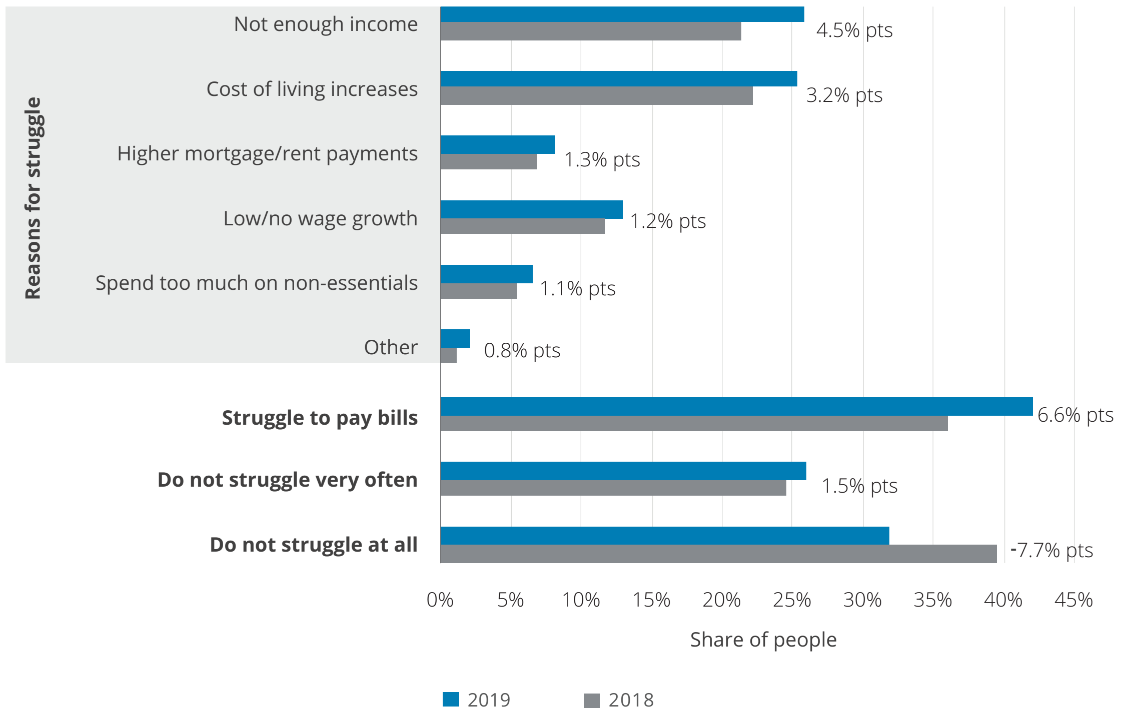
2.3 Struggling to make ends meet

Unsurprisingly, the decline in financial wellness has been accompanied by an increase in financial pressures. While the share of income that Australians allocate to spending on everyday 'essentials' (e.g. food and bills) remains relatively stable in comparison to last year (approximately 49%, on average), **the ability of Australians to meet their financial obligations has declined**.

Where 36% of Australians previously indicated having difficulties meeting their financial obligations, **42% of Australians now concede that they struggle to pay the bills at some point** – including essentials such as utilities, rent or mortgage payments, with 14% struggling most or all of the time.[4]

The reasons for this increase in struggle are largely attributable to increases in the cost of living, low or no wage growth, and simply not earning enough to begin with. These same reasons were identified in 2018, but have since become more acute.

Chart 2.2 The struggle is real



Source: Deloitte Access Economics.

Notes: The 'struggle to pay bills' category include those who struggled sometimes, most of the time, or all of the time. The reasons for struggle are only answered by those who struggle to pay bills. Respondents could identify more than one reason for struggle.

4 Respondents who had difficulty 'meeting their financial obligations' are those who indicated in Question B.30 they *struggled to pay bills* either 'all of the time', 'most of the time', or 'sometimes'.

2.4 Declining financial resilience

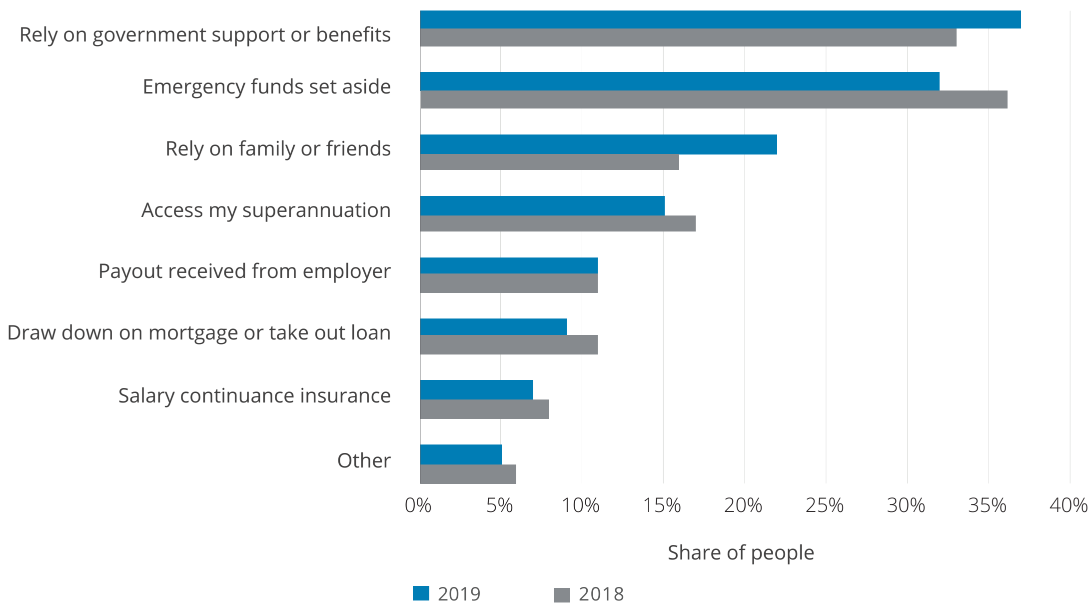
Uncertainty is a fact of life, and it is human nature to consider and prepare for unforeseen events. It is also fair to say that an expected change in a financial situation due to unexpected unemployment, for example, is an event that people will have worried about at some time or another. The extent to which this is a concern for people and how they plan to respond can tell us a lot about the prevailing financial health of Australians.

While the share of Australians who consider themselves to be either reasonably or very secure in their employment (64%) has not changed since last year, peoples' sentiment about their ability to withstand an unexpected financial blow due to the loss of their job and income has taken a turn for the worse.

Where 36% of Australians previously indicated emergency funds they had set aside as the number one contingency, this slipped into second place in 2019 declining to 32%.

By contrast, **the number one 'plan B' for Australians is now to rely on government support or benefits** (37%, up from 33% in 2018) – a worrying signal for Australia's governments[5] An increasing share of Australians (22%) also now concede they would need to rely on family and friends in the event of a financial emergency, compared to 16% last year.

Chart 2.3 Pull here in case of financial emergency



Source: Deloitte Access Economics.

Notes: Survey respondents could identify more than one answer. As a result, the shares do not sum to 100%.

5 The increased representativeness of unemployed respondents in this year's survey, relative to 2018, is found to have no additional effect on how this question was answered. Additional statistical testing using regression analysis techniques reveals no difference between the effects of unemployment on how respondents answered this year and last year at an acceptable level of statistical significance.

Just as the self-sufficiency of Australians to withstand a financial blow has declined, so has peoples' ability to survive for an extended period of time.

Fewer Australians now believe they have the finances to last beyond a year, and a corresponding increase in the share of those who believe they could only survive up to one month (Chart 2.4).

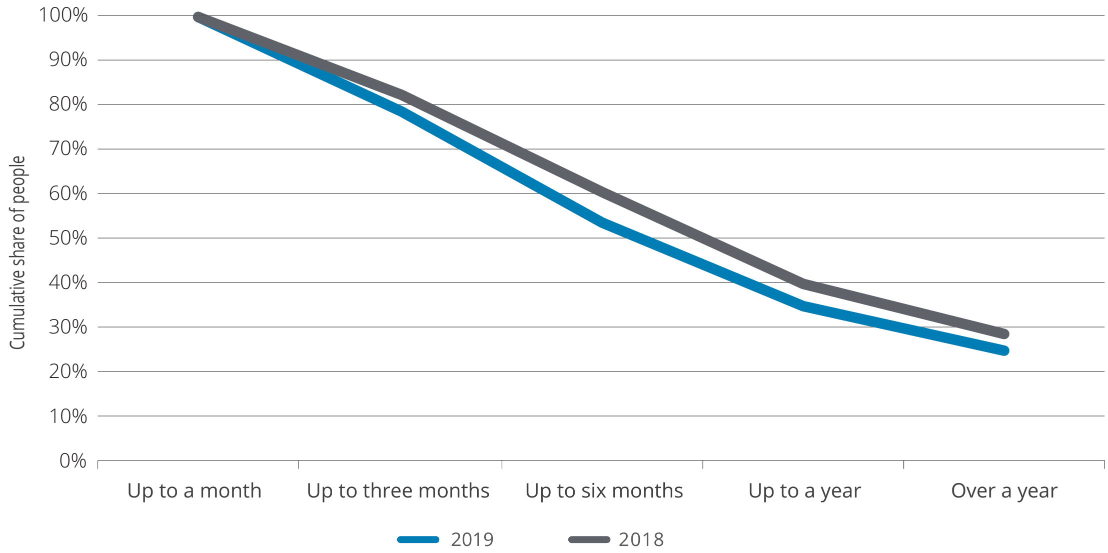
35% of Australians have no plan for how they would survive given a sudden and unexpected loss of income or for how long they could survive.[6] This is up from 32% in 2018.

Declining rate of survival

Chart 2.4 shows that the shares of Australians who believe they could survive an unexpected loss of income gradually declines as the length of time they could survive given their financial resources increases - this is known as a declining survival rate. Cumulatively, 100% of Australians in 2019 who indicated that they had a survival plan also believed that they could survive 'up to a month'. Beyond this, however, only 78% of Australians believed that they could survive 'more than three months' - 22% could not survive beyond a month. At the extreme, only 24% of Australians in 2019 believe they had the financial resources to survive more than one year - conversely, 76% could not.

Chart 2.4 also shows that the rate of survival has worsened over time. Where 28% of Australians in 2018 indicated an ability to survive for longer than a year, this has since declined to 24%. The shares of Australians who could survive longer has decreased, or, put another way, the length of time Australians could survive a financial loss has shortened.

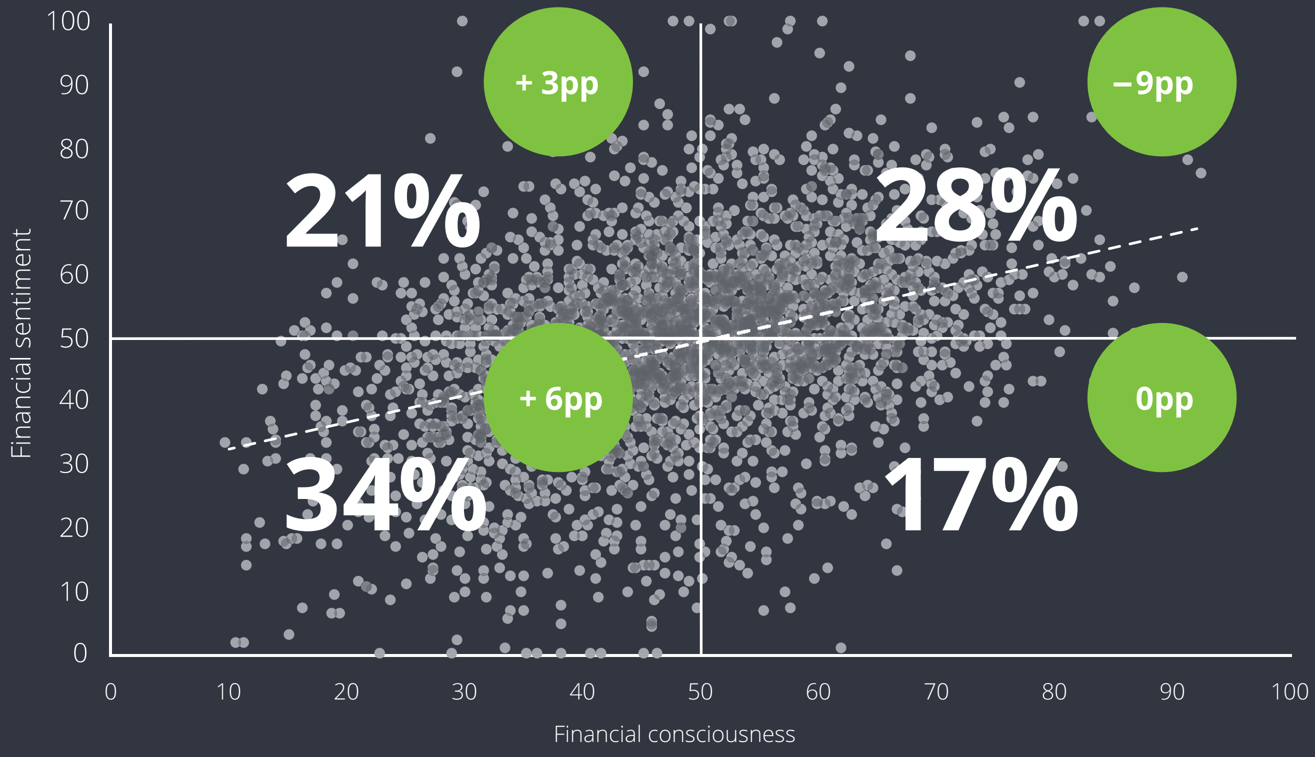
Chart 2.4 Declining rate of survival



Source: Deloitte Access Economics.

6 Respondents who *have no plan for how they would survive* are those who either responded in question B.31.1 as 'not sure' or responded in question B.31 as 'not sure'.

FCI and financial sentiment



pp = percentage point

pp change, 2018 to 2019

Note: the shares may not sum to 100% and the pp changes may differ slightly from last years proportions due to rounding.

3 FCI and sentiment

Financial sentiment ('Sentiment' or FS score) measures an individual's feelings about their personal financial position, as well as broader economic conditions.

Financial and economic sentiment is a widely understood and readily measured topic. In line with last year, sentiment is measured as a function of:

- Confidence about personal finances
- Confidence in the domestic and global economy
- Attitudes about politics – both at home and abroad
- State of trust in financial institutions

The key for measuring sentiment is how it relates to an individual's level of financial consciousness – ultimately testing for how an individual's degree of financial consciousness can influence their confidence, and vice versa. Just as last year, exploring this relationship also gives us four distinct cohorts of Australians.

3.1 Financial sentiment more broadly

A lot has happened over the past year to shake the confidence of Australians. Globally, we have seen falls in economic growth, ongoing concerns around global trade wars (think China and the US), and political uncertainties (think Brexit). In fact, IMF Managing Director Christine Lagarde said the world economy was facing a "delicate moment",[7] which doesn't scream confidence.

Back on Australian soil, we have seen falling house prices across the country, some sluggish macroeconomic indicators, like flat-lining wage growth, and our own political uncertainties. While the survey was fielded before the Coalition was re-elected in mid-May, the ups and downs of the election in the weeks beforehand would have played on Australians' confidence – and ideas on the future.

The RBA was yet to officially drop the cash rate when the survey was fielded, but unofficially, the media and industry spread speculation of drops, month on month. For those who care about the cash rate, this could have also swayed confidence.

In February this year, the findings of the Banking Royal Commission were released. Of course, Australians had been hearing about the Banking Royal Commission through various media stories since it was established in December 2017, so it is likely that overall trust of financial institutions had already been hit, and hit hard.

3.2 Consciousness and a lack of confidence

The statistically positive relationship between financial consciousness and confidence continues to hold true – with a reduction in financial consciousness being accompanied by a fall in confidence. These findings are also consistent with other longitudinal measures of consumer confidence, including the ANZ-Roy Morgan Australian Consumer Confidence Index and the Westpac-Melbourne Institute Consumer Sentiment Index.

Specifically, more than half (51%) of Australians are lacking confidence in some form – up from 46% last year. This implies that some 10 million[8] Australians are lacking confidence, whether it be about their personal finances, domestic and global economic conditions, the state of politics (both at home and abroad) or trust in financial institutions.

Of this 51%, **34% don't know what they don't know, and are not feeling confident**; while **17% are rising up the ranks of financial consciousness, but are still not feeling very confident.**

But what does this lack of confidence mean, and what factors are contributing to this?

7 Mayeda, A (2019), IMF Cuts Global Growth Outlook to Lowest Pace Since Crisis, Bloomberg, 9 April 2019, https://www.bloomberg.com/news/articles/2019-04-09/imf-cuts-global-growth-outlook-to-lowest-since-financial-crisis

8 The estimated number of Australians who lack confidence in 2019. Calculated as the share of the estimated Australian population (over the age of 18, forecast in 2019 based on 'medium' growth settings (ABS cat. no. 3222.0)) who lack confidence in 2019 (51%).

3.3 A glass half empty

People are relatively less confident compared to last year – both in the short term and longer term.

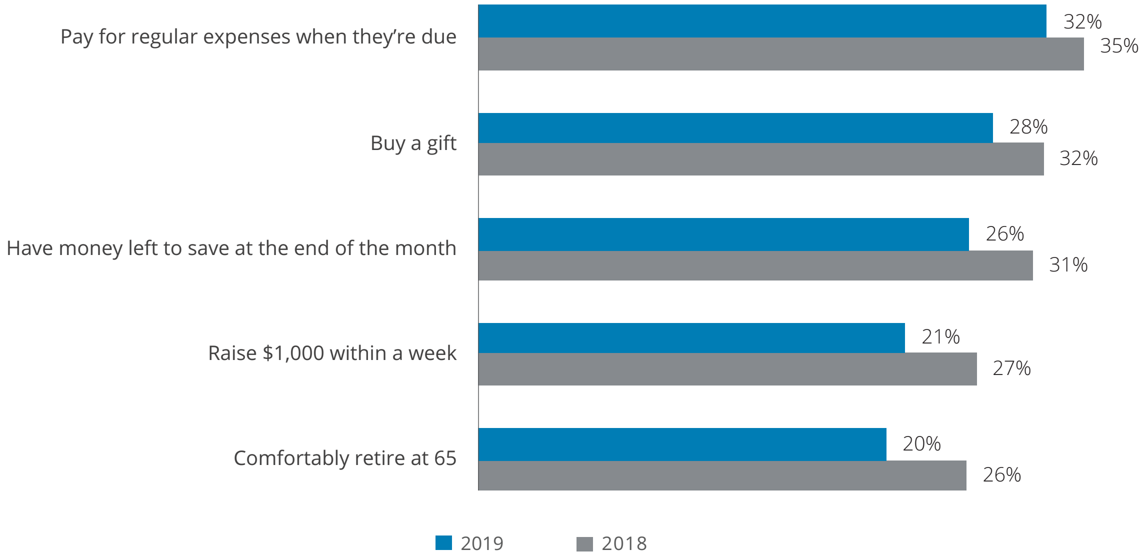
For example, those who feel confident in their perceived ability to raise $1,000 within a week, compared to this time last year, was lower (from 27% down to 21%). In addition, over the longer term, **those Australians who feel confident, compared to this time last year, about their ability to comfortably retire at the age of 65, has fallen (from 26% down to 20%).**

Compared to this time last year, Australians indicated that they were worse off, when considering the perceived change in the value of their homes.

Housing hits close to home. A lot of an individual's wealth is tied up in the value of their home – and it can represent their hard work, their hopes and their aspirations. So when the value of this asset falls, people feel poorer and can feel even more insecure.

While **56% of homeowners felt that the value of their property had increased last year, this number dropped to only 38% this year**. These findings are consistent with falling house prices off the back of strong growth over the past decade, particularly across Australian capital cities.

Chart 3.1 Level of confidence compared to last year



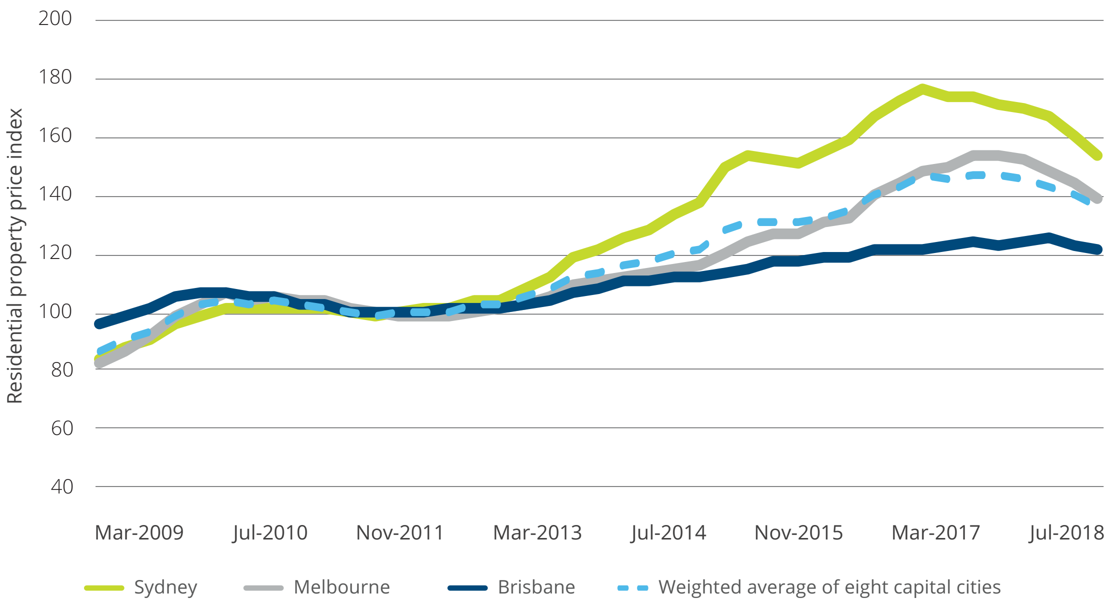
Source: Deloitte Access Economics.

Note: this chart shows the sum of the level of Australians who feel confident–to-more confident compared to this time last year, for 2018 and 2019. Refer to B.22. in Appendix B. Numbers may vary slightly due to rounding.

Chart 3.2 shows a falling trend of falling house prices across the capital cities, including Greater Sydney, Greater Melbourne and Greater Brisbane. Looking forward, **Australians aren't optimistic about house prices** either, with the number of homeowners predicting an increase in the value of their property declining, from 53% last year to 40% this year.[9]

But it's not all completely gloom and doom. Despite confidence taking a dive in aggregate, there is still just over one-third of Australians who think it is a good time to take a well-deserved holiday (34%) - although this is still down from 42% in 2018.

Chart 3.2 Residential Property Price Index (selected capital cities)



Source: ABS 6416.0 Residential Property Price Indexes: Eight Capital Cities, Mar 2019.

9 Refer to Question B.25. in Appendix B.

3.4 Concern and rebuilding trust

The number of respondents concerned about the state of Australian politics and domestic conditions has increased over the past year. The level of **concern about Australian politics increased from 77% to 81%** (Chart 3.3). This increase could be partially explained by the timing of the survey, which was fielded during the Federal election campaign.

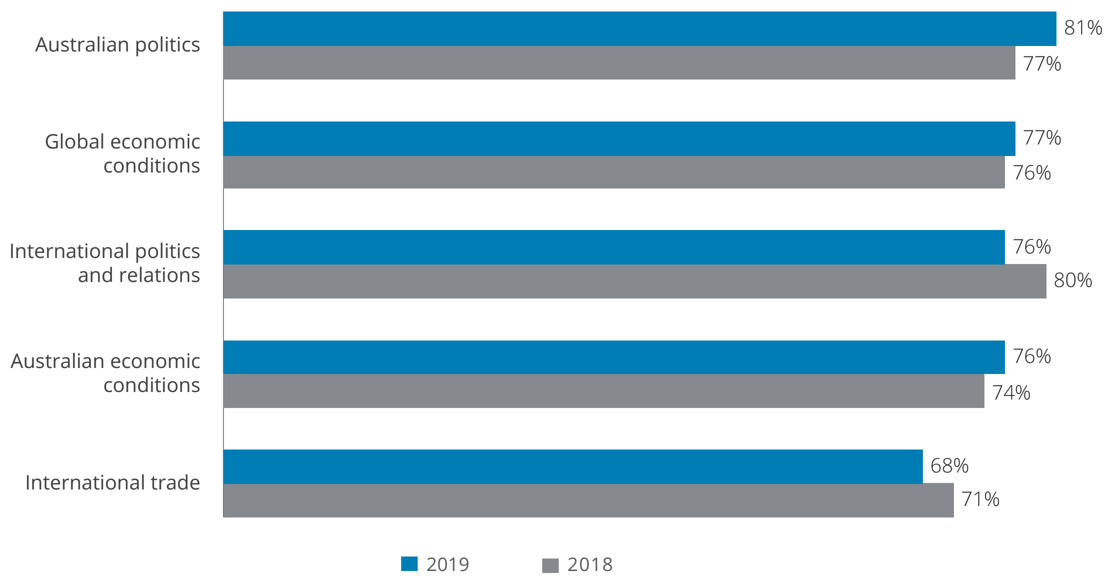
Interestingly, despite slowing global economic conditions, uncertainty surrounding international politics and a looming trade war, Australians do not seem to be overly concerned by this. One explanation for this could be people feel less connected to these global issues, either by lack of understanding or interest – are Australians sick of hearing about Donald Trump?

Or, if more people are concerned about raising $1,000 in one week, maybe they are less concerned about a US trade war with China.

The Banking Royal Commission received wide coverage last year, and the effects of this were more than evident in the results of the 2018 survey, particularly for retail/commercial banks and insurance companies, with trust levels sitting on average around 20% for the banks and 17% for insurers - a seemingly low level of trust for a country with a well-established financial system (Chart 3.4).

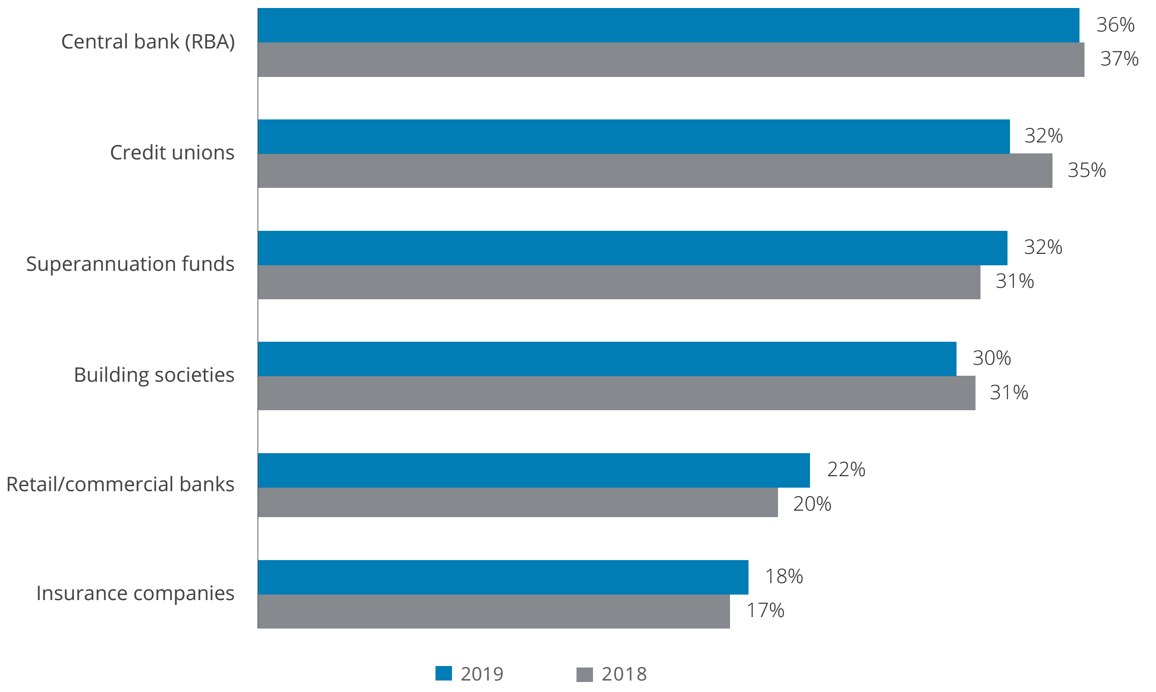
But this may be behind us now, and while some of these financial institutions – most notably retail/commercial banks and insurance companies – still represent the lowest level of trust, it seems that they may be slowly starting to earn back the trust of Australians.

Chart 3.3 Got some concerns?



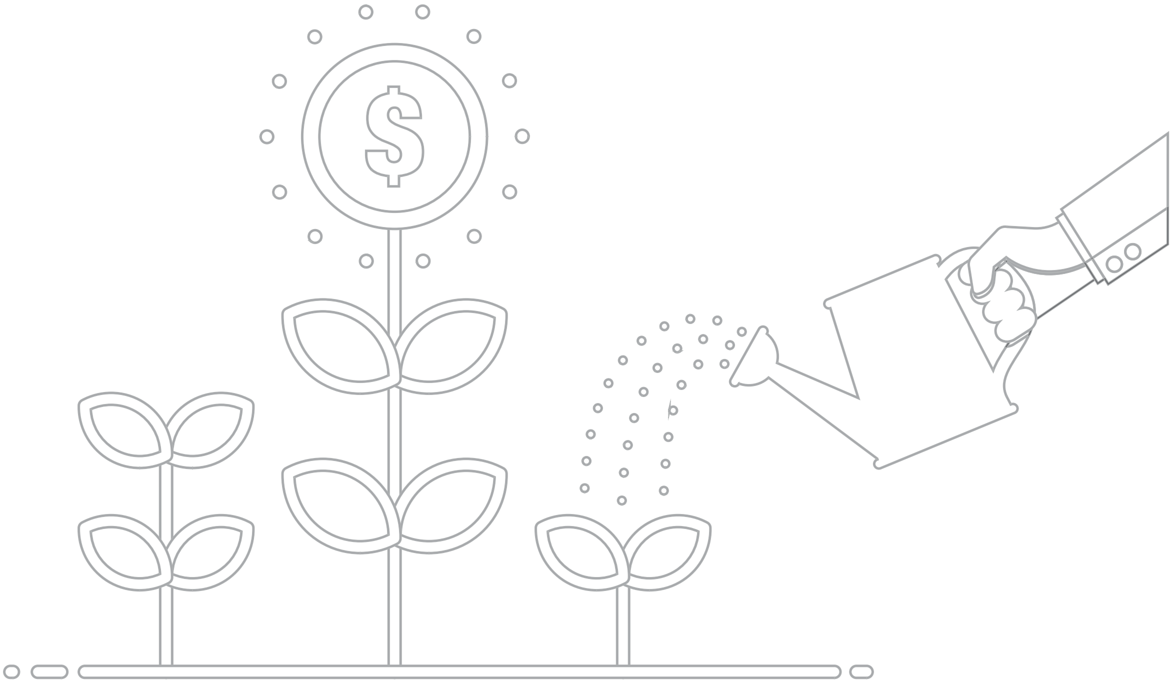
Source: Deloitte Access Economics.

Chart 3.4 It's a matter of trust



Source: Deloitte Access Economics.

Note: this chart shows the sum of the level of Australians who trust-to-fully trust financial institutions, for 2018 and 2019. Refer to B.28. in Appendix B. Numbers may vary slightly due to rounding.



Appendix A Financial Consciousness Index method

This section presents the Financial Consciousness Index method. The Index was created in a number of steps, briefly outlined below:

- Definition of financial consciousness and its building blocks;
- Survey design and data collection; and
- Constructing the index.

A.1. Definition of financial consciousness and its building blocks

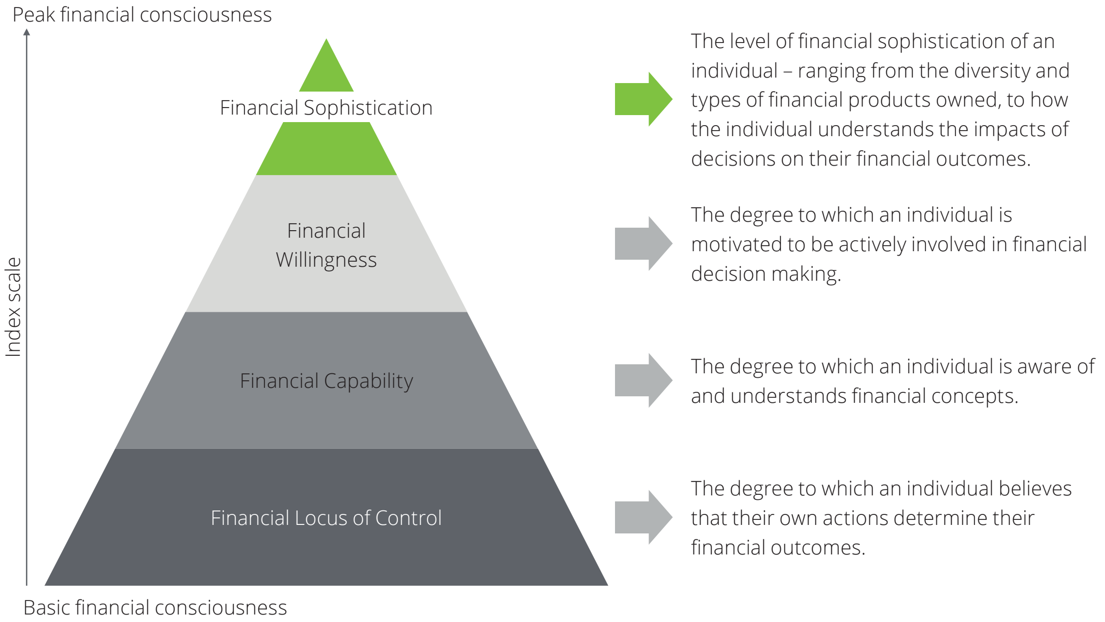
Financial consciousness, and the way in which Compare the Market and Deloitte Access Economics have sought to define it, is a fairly distinctive concept; it moves beyond the traditional understanding of financial literacy.

A mix of national and international literature has informed the building blocks that comprise the definition of financial consciousness and, in turn, the Financial Consciousness Index.

- **Financial locus of control** describes the degree to which an individual believes that their own actions determine their financial outcomes. This is an important starting point to gauge how individuals feel about their financial control, and if individuals feel that they have more control, it would be expected that they would be more inclined to act.
- **Financial capability** describes the degree to which an individual is aware of and understands financial concepts. Financial capability, or financial literacy, is well defined and measured within the literature[10] and forms an integral part of financial consciousness.
- **Financial willingness** describes the degree to which and individual is motivated to be actively involved in financial decision making. This building block goes one step further than how most people would think about financial literacy (i.e. knowledge) and extends to an individual's willingness to take action.
- The level of **financial sophistication** of an individual range from diversity and types of financial products owned, to how the individual understands the impacts of decisions on their financial outcomes. A financially sophisticated individual reflects peak financial consciousness; they have a deeper awareness and understanding of financial concepts as well as how external forces affect their financial position.

By measuring not only how a person views their degree of control over their financial outcomes, their literacy, proactivity in making financial decisions, and their overall financial sophistication in both the short- and long-term – a more complete picture of Australian financial understanding is captured.

Figure A.1 Financial Consciousness Index building blocks



Source: Deloitte Access Economics

A.2. Survey design and data collection

The survey was designed with a number of questions relating to each of the building blocks to financial consciousness. The survey was presented as questions covering general financial experiences and various financial topics. Respondents were made aware that responses were anonymous to encourage honesty and openness.

The survey was fielded online with a representative sample size of 3,000 Australians – cutting across all states and territories. The survey questions and results are presented in Appendix B.

A.3. Constructing the Index

The approach for building the Index was informed by previous indices spanning various topics such as financial wellness[11], literacy[12] and sentiment[13].

Each building block was given a different weighting, reflecting the importance of the building blocks to financial consciousness.

- Financial locus of control is worth 15 out of 100 points
- Financial capability is worth 20 out of 100 points
- Financial willingness is worth 25 out of 100 points
- Financial sophistication is worth 40 out of 100 points

The questions within each of the building blocks were then given an equal weighting. For instance, the financial capability building block had four questions that formed part of the Index calculation. Since the building block was worth 20 out of 100 points, each question within this was worth a maximum of 5 points.

10 See, for example, ASIC, 2017b; Klapper, Lusardi, Oudheusden, 2015; Lusardi and Mitchell, 2014; OECD/INFE, 2017; MasterCard Intelligence, 2015.

11 See, for example, the WSSA Financial Wellness Index and the Momentum/Unisa Household Financial Wellness Index.

12 See, for example, the MasterCard Financial Literacy Index.

13 See, for example, the ANZ-Roy Morgan Australian Consumer Confidence Index and the Westpac-Melbourne Institute Consumer Sentiment Index.

Points were then allocated to each of the answers, where the best answer is worth 5 points, the worst answer is worth 0 points, and other answers sit within these scores. See the example for question 2.4 below.

What best describes your approach to your finances?

	Score
I budget, and stick to my budget	5.0
I budget, and try my best to stick to my budget	4.5
I budget, but do not stick to it	3.0
I don't budget, but watch what I spend	2.5
I don't budget, and do not typically watch what I spend	0.0
I only notice my finances when I have a significant purchase to make (e.g. a car, a house, a holiday)	1.0
I spend the same amount each week and have nothing left over	2.5
None of the above	0.5

In the case where there is an objective and correct answer, 5 points are allocated to the correct answer while 0 points are allocated to incorrect answers. See the example for question 2.5 below.

Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to earn interest?

	Score
More than $102	5.0
Exactly $102	0.0
Less than $102	0.0
Do not know	0.0

Some questions were designed to dig deeper into the 'why' and did not form part of the Index calculation. For example, within the financial sophistication building block, question 2.15 asks *'How often do you monitor RBA cash rate announcements?'*, which is scored as part of the Index. However, question 2.15.1 and 2.15.2 follow up to ask why individuals do or don't monitor the RBA cash rate announcements, and these are not scored as part of the Index.

To calculate the Index, the scores from each question were added to form an overall score for each building block. The sum of the building blocks then gives a score out of a possible 100 points.

The same approach as described above was taken in constructing the financial wellness and sentiment measures.

Appendix B Survey Results

This section presents the survey results.

B.1. Which age group do you fall into?

18-24	14%
25-34	20%
35-44	17%
45-54	15%
55-64	16%
65-70	6%
70+	12%

B.2. What gender do you identify as?

Male	49%
Female	50%
Other	<1%

B.3. Please indicate your gross personal income. This should include superannuation, interest, dividends, and should be before taxes.

Less than $10,000	11%
$10,000 - $40,000	35%
$40,001 - $70,000	25%
$70,001 - $100,000	14%
$100,001 - $130,000	7%
$130,001 - $160,000	3%
$160,001 - $190,000	2%
$190,001 - $220,000	1%
$220,001 or more	1%

B.4. Which state or territory do you live in?

New South Wales	27%
Victoria	22%
Queensland	18%
South Australia	11%
Western Australia	11%
Tasmania	7%
ACT	3%
Northern Territory	2%

B.5. What is your postcode?

Note: Postcodes were converted to regions

Greater Sydney	20%
Rest of NSW	7%
Greater Melbourne	16%
Rest of Vic.	6%
Greater Brisbane	9%
Rest of Qld	9%
Greater Adelaide	9%
Rest of SA	2%
Greater Perth	9%
Rest of WA	2%
Greater Hobart	3%
Rest of Tas.	4%
Greater Darwin	1%
Rest of NT	<1%
Australian Capital Territory	3%

B.6. What do you think determines your ability to meet your financial commitments? Drag and drop the three that most apply to you, in order of most important to least important.

	First	Second	Third	Did not answer
Luck	3%	3%	5%	89%
Sticking to my budget or financial plan	28%	19%	13%	40%
Economic conditions	6%	10%	13%	72%
My performance at work	5%	5%	5%	85%
My employer	6%	5%	5%	84%
Unforeseen events outside my control (like an accident or a health issue)	5%	8%	10%	77%
The financial advice I receive	2%	2%	4%	91%
My investment and savings choices	11%	14%	13%	62%
My understanding of financial matters	9%	11%	11%	68%
The needs of my family or friends	8%	7%	9%	76%
Housing prices	4%	5%	4%	87%
The financial position of my family	12%	11%	9%	68%

B.7. To what extent do you feel that your own actions determine your:

	C1 My actions have no control	C2	C3	C4 Somewhat control	C5	C6	C7 My actions completely control
Income	7%	5%	8%	27%	19%	17%	16%
Debt	2%	2%	4%	20%	16%	22%	34%
Investment outcomes	10%	7%	11%	31%	17%	12%	12%
Day-to-day purchases	1%	1%	2%	15%	17%	24%	40%
Retirement outcomes	8%	4%	8%	29%	19%	16%	15%
Ability to pay the bills	2%	1%	3%	19%	20%	24%	31%

B.8. In a year from now, how much control do you think you will have over:

	C1 Much less control	C2	C3	C4 Same amount of control	C5	C6	C7 Much more control
Income	4%	3%	8%	49%	16%	10%	9%
Debt	2%	3%	5%	49%	15%	12%	14%
Investment outcomes	7%	4%	8%	52%	13%	8%	7%
Purchases	1%	2%	4%	50%	16%	13%	14%
Retirement outcomes	5%	4%	8%	52%	14%	9%	8%
Ability to pay the bills	2%	2%	6%	49%	15%	12%	14%

B.9. What best describes your approach to your finances?

I budget, and stick to my budget	21%
I budget, and try my best to stick to my budget	42%
I budget, but do not stick to it	4%
I don't budget, but watch what I spend	23%
I don't budget, and do not typically watch what I spend	3%
I only notice my finances when I have a significant purchase to make (e.g. a car, a house, a holiday)	2%
I spend the same amount each week and have nothing left over	4%
None of the above	1%

B.10. Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to earn interest?

More than $102	77%
Exactly $102	9%
Less than $102	5%
Do not know	8%

B.11. Suppose the interest rate on your savings account was 1% per year and inflation was 2% per year. After a year, how much would you be able to buy with the money in this account?

More than today	14%
Exactly the same	12%
Less than today	59%
Do not know	15%

B.12. Is this statement true or false? “It is usually possible to reduce the risk of investing in the stock market by buying a wide range of shares.”

True	53%
False	14%
Do not know	33%

B.13. Today, around what proportion of your income do you estimate you:

Note: This is on average across all respondents

Spend on essentials (e.g. bills, food)	49%
Spend on non-essentials (e.g. entertainment)	13%
Spend on paying down debt (e.g. mortgage, credit card, loans)	18%
Save	13%
Donate	2%
Other	5%

B.14. Are you confident that you are getting the best deal on your financial products (i.e. insurance, credit card, home loan)?

	Yes, I'm confident I'm getting the best deal	No, I know there are better deals	Not sure, I haven't checked	Not applicable to me
Health insurance	25%	12%	10%	52%
Credit card	27%	16%	12%	44%
Home loan	12%	11%	6%	69%
Superannuation	31%	10%	19%	37%

B.15. How often do you do each of the following?

	Daily	Weekly	Monthly	Yearly	Every five years	Less often	Never	N/A
Check bank account	29%	41%	9%	1%	1%	1%	1%	16%
Check superannuation balance	2%	7%	20%	22%	1%	5%	5%	37%
Check loan balance	3%	11%	17%	5%	1%	3%	3%	36%
Check the stock market	9%	9%	9%	5%	1%	6%	32%	28%
Speak to a financial adviser	1%	2%	6%	13%	4%	12%	39%	23%
Look at other home loan products	0%	1%	3%	9%	3%	5%	6%	69%
Look at other savings products	3%	7%	15%	20%	4%	16%	20%	14%
Look at other insurance products	1%	2%	7%	32%	5%	13%	15%	18%
Buy or sell shares	1%	3%	6%	8%	3%	9%	34%	35%
Change insurance providers or banks	1%	2%	3%	13%	10%	30%	24%	7%

B.16. When making significant financial decisions, who do you typically consult with?

No one, I make my own decisions	43%
My partner, we make financial decisions together	41%
Financial professionals (e.g. accountant, banker, financial planner)	17%
Other family or friends	14%
Other (specify)	1%

B.17. Which of the following short or long term budgets/financial plans do you have? Select all that apply.

Weekly budget	40%
Monthly budget	33%
Annual budget	15%
Financial plan for this year (e.g. savings goals)	20%
Financial plan for the next two years (e.g. savings goals)	9%
Financial plan for the next five to ten years (e.g. savings goals)	8%
Financial plan for a period longer than ten years (e.g. savings goals)	5%
Financial goals, without a specific plan	12%
I don't have any financial plans or budgets	20%

B.18. Which of the following financial products do you have? Select all that apply.

Health insurance	48%
Car insurance	68%
Home and contents insurance	53%
Travel insurance (when applicable)	25%
Life insurance	19%
Income protection	11%
Credit card(s)	56%
Home loan(s) – personal home loan	24%
Home loan(s) – investment property	11%
General transaction bank account	70%
Superannuation	63%
Investments such as managed funds	11%
Shares	22%
Bonds	3%
Options	1%
None of the above/Don't know	5%

B.18.1. [CODED RESPONSE] Have you ever stress tested your loans?

Stress test: To consider how a change in interest rates would affect your mortgage repayments.

Yes	28%
No	65%
Don't know	7%

B.18.2. [CODED RESPONSE] How many superfunds do you have?

1	83%
2 or more	15%
Do not know	3%

B.18.2.1. [CODED RESPONSE] Why do you have one superfund?

Proactively consolidated my superannuation	37%
Superfund offered to consolidate my superannuation	8%
Only had one employer	20%
I have continued to use my original super fund when changing jobs	27%
Other (specify)	4%
Don't know	3%

B.19. Do you subscribe to financial market reports and analysis?

Yes	9%
No	91%

B.19.1. [CODED RESPONSE] Why do you subscribe to financial market reports and analysis? Select all that apply.

General interest to me	54%
Relevant to my financial investments	48%
Relevant to my financial planning	39%
Relevant to my profession and employment	23%
Other(specify)	0%

B.20. How often do you monitor RBA cash rate announcements?

Never	44%
Not very often	19%
Sometimes	25%
All the time	12%

B.20.1. [CODED RESPONSE] Why don't you monitor RBA cash rate announcements?

No interest	27%
Don't see relevance to me	28%
Forget to	6%
Don't know what it is	31%
Other (specify)	2%
Don't know	6%

B.20.1.1. [CODED RESPONSE] Why do you monitor RBA cash rate announcements? Select all that apply.

General interest in financial markets	49%
Relevant to my mortgage	34%
Relevant to my profession and employment	9%
Relevant to my financial investments	23%
Relevant to my savings (including superannuation)	31%
I have a keen interest in how lending institutions respond	20%
Other (specify)	3%

B.21. Are you an early adopter of new financial technologies (e.g. Bitcoin, Acorns application)?

Yes, I typically adopt new financial technologies	8%
No, I typically don't adopt new financial technologies	64%
It depends, I research new financial technologies before deciding to adopt them	18%
Don't know	10%

B.22. Compared to this time last year, how confident are you about your ability to:

	Less confident		Same level of confidence		More confident
Pay for regular expenses when they're due	6%	10%	52%	17%	15%
Buy a gift	6%	12%	53%	16%	12%
Raise $1,000 within a week	25%	14%	40%	11%	10%
Comfortably retire at 65	19%	16%	45%	10%	9%
Have money left to save at the end of the month	14%	17%	43%	15%	11%

B.23. In one year from now, how confident do you think you will be about your ability to:

	Less confident		Same level of confidence		More confident
Pay for regular expenses when they're due	6%	9%	51%	18%	16%
Buy a gift	6%	10%	53%	17%	14%
Raise $1,000 within a week	16%	10%	47%	15%	12%
Comfortably retire at 65	16%	12%	49%	12%	11%
Have money left to save at the end of the month	11%	12%	45%	18%	14%

B.24. Compared to this time last year, how do you feel each of the following has changed?

	It is worse off		It is the same		It is better off	Not applicable to me
Your income	9%	10%	49%	19%	9%	4%
Your debt	7%	9%	36%	17%	12%	19%
The value of your investments	4%	8%	35%	16%	7%	30%
The value of your home	5%	10%	29%	18%	9%	29%
The value of your superannuation	4%	7%	34%	25%	11%	19%
Ability to pay the bills	7%	11%	55%	14%	11%	2%

B.25. One year from now, how do you think each of the following would have changed?

	It will be worse off		Will be the same		It will be better off	Not applicable to me
Your income	5%	8%	48%	22%	12%	4%
Your debt	4%	7%	35%	21%	13%	19%
The value of your investments	4%	7%	34%	18%	8%	30%
The value of your home	4%	7%	32%	20%	9%	29%
The value of your superannuation	4%	6%	33%	26%	11%	19%
Ability to pay the bills	5%	8%	54%	18%	14%	2%

B.26. Do you think it is a good time to:

	It is a very bad time		Neutral		It is a very good time
Buy a property	17%	16%	39%	19%	9%
Go on holiday	11%	12%	42%	24%	10%
Invest in shares	14%	13%	54%	15%	5%
Save more money	5%	8%	36%	31%	20%
Find a new job	14%	14%	50%	13%	9%
Seek financial advice	7%	7%	56%	21%	10%

B.27. How do you feel about the current state of:

	Extremely concerned		Somewhat concerned		Not concerned
International politics and relations	14%	21%	41%	15%	9%
Global economic conditions	12%	19%	46%	16%	8%
International trade	7%	15%	45%	20%	12%
Australian politics	25%	22%	34%	12%	7%
Australian economic conditions	13%	20%	43%	18%	7%

B.28. How much do you trust the following financial institutions?

	Do not trust them at all		Neutral		I trust them fully	Don't know
Retail/commercial banks	17%	21%	36%	16%	5%	6%
Central bank (RBA)	8%	9%	39%	24%	8%	12%
Building societies	6%	11%	44%	21%	5%	13%
Credit unions	7%	12%	41%	23%	6%	12%
Superannuation funds	8%	13%	41%	23%	6%	9%
Insurance companies	15%	23%	38%	14%	3%	6%

B.29. How much of your income would you estimate you save each pay cycle (after paying your mortgage, rent and other living expenses)?

I spend more than I earn	8%
Nothing	18%
Less than 10%	29%
10%-20%	23%
More than 20%	14%
Don't know	7%

B.30. Do you ever struggle to pay your bills (e.g. utilities, mortgage, rent)?

Not at all	32%
Not very often	26%
Sometimes	28%
Most of the time	9%
All of the time	5%

B.30.1. [CODED RESPONSE] Why do you struggle to pay your bills? Select all that apply.

Cost of living increases (e.g. power prices, food)	60%
Higher mortgage and rent payments	19%
Not enough income	61%
Low/no wage growth	31%
Spend too much on non-essentials	15%
Other (specify)	5%

B.31. Which of the following would you rely on, if you were suddenly unemployed/unable to have income for more than 3 months?

I have salary continuance insurance	7%
I have emergency funds set aside	32%
I would receive a payout from my employer	11%
I would draw down on my mortgage or take out a loan	9%
I would rely on family or friends	22%
I would rely on government support or benefits	37%
I would access my superannuation	15%
Other (specify)	5%
I'm not sure	12%

B.31.1. [CODED RESPONSE] How long would you estimate you are covered for in the event you are unable to work/gain income?

Up to a month	14%
Up to three months	16%
Up to six months	12%
Up to a year	7%
Over a year	16%
I'm not sure	23%

B.32. How much job security do you feel you have in your current work?

Very little job security	8%
I worry about job security sometimes	12%
I feel reasonably secure in my job	20%
I feel very secure in my job	16%
Not currently employed/Don't work	44%

B.32.1. [CODED RESPONSE] Why do you feel job insecurity in your current work? Select all that apply.

Broader Australian economic conditions	22%
International economic conditions	12%
Technological change	16%
Concerns of redundancy	28%
Changing workplace structure	37%
In a temporary, casual or part-time position while trying to find permanent employment	38%
Other (specify)	8%

B.33. Are government benefits, pensions and/or allowances more than half of your personal income?

Yes	31%
No	58%
Don't know	11%

B.34. What is your employment status?

Full time employed	34%
Part time or casual employed	23%
Full/part time education	4%
Unemployed	10%
Stay at home parent	8%
Retired	21%

B.35. What is your highest completed level of education?

Primary school	2%
High school	29%
Certification or trade training	33%
Undergraduate	24%
Postgraduate	13%

B.36. Are you a homeowner?

Yes, I own the home where I live outright	27%
Yes, I own the home where I live with a mortgage	26%
Yes, I own an investment property but live elsewhere	4%
No, I rent	33%
No, someone who I live with owns or rents the property I live in	10%
Other (specify)	1%

B.37. What is your household composition?

Single – living alone or in shared accommodation	24%
Single – living with parents	10%
Single parent with children at home	7%
Couple – children at home	26%
Couple – no children at home	30%
Other arrangement (specify)	2%

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