MELBOURNE INSTITUTE
Applied Economic & Social Research

Using Survey and Banking Data to Understand Australians' Financial Wellbeing

John Haisken-DeNew
David C. Ribar
Nicolás Salamanca
Andrea Nicastro

Commonwealth Bank of Australia and Melbourne Institute Financial Wellbeing Scales Technical Report No. 2
Executive Summary
July 2018

In partnership with

CommonwealthBank

THE UNIVERSITY OF MELBOURNE

MELBOURNE INSTITUTE

Using Survey and Banking Data to Understand Australians' Financial Wellbeing

John Haisken-DeNew, David C. Ribar, Nicolás Salamanca
Melbourne Institute: Applied Economic & Social Research, University of Melbourne

Andrea Nicastro
Commonwealth Bank of Australia

Commonwealth Bank of Australia and Melbourne Institute Financial Wellbeing Scales Technical Report No. 2

July 2018

Acknowledgements. The authors thank Ben Grauer and Mohammed Khalil for their guidance and direction throughout this project, James Ross and David Rowe for their assistance with quantitative analyses, Etinosa Agbonlahor and Carole Comerton-Forde for helpful comments, and Kaitlin Walsh for editorial assistance. All opinions and errors are the authors' own.

For correspondence e-mail <david.ribar@unimelb.edu.au>.

Melbourne Institute: Applied Economic & Social Research
The University of Melbourne
Victoria 3010 Australia
***Telephone* +61 3 8344 2100**
***Fax* +61 3 8344 2111**
***E-mail* melb-inst@unimelb.edu.au**
***WWW Address* melbourneinstitute.unimelb.edu.au**

Executive Summary

In this report, we examine how financial wellbeing varies among Australians, with the aim of identifying characteristics of people that are associated with high or low financial wellbeing. Understanding the components and correlates of financial wellbeing is important in identifying ways to increase Australians' financial wellbeing, effectively targeting those interventions, and assisting people with low wellbeing.

As well as many characteristics that people associate with financial wellbeing, such as incomes, wealth, and household size, we examine others that are also important, such as financial knowledge, financial behaviours, attitudes, health, and marital status.

Financial wellbeing is a complex, multi-faceted condition. Because of this complexity, it has tended not to be well or consistently measured. Commonwealth Bank of Australia (CBA) and the Melbourne Institute: Applied Economic & Social Research (MI) have recently developed two innovative multi-item scales of Australians' financial wellbeing:

- The CBA-MI Reported Financial Wellbeing Scale (version 1), which is formed from people's responses to 10 questions that ask about their perceptions and experiences of financial wellbeing outcomes, and
- The CBA-MI Observed Financial Wellbeing Scale (version 1), which is formed from five measures that come from customers' financial records.

This report uses these two scales to analyse quantitatively how financial wellbeing differs among Australians. It uses data from an on-line survey that asked 5,682 CBA customers about their financial wellbeing, personal and household characteristics, external conditions, and financial behaviours. The report also uses data from customers' bank records.

Defining and Conceptualising Financial Wellbeing

We define people's financial wellbeing in terms of financial outcomes that they achieve or experience. Our definition is much broader than just the money that people earn and incorporates temporal and probabilistic elements of finances, including people's 'everyday', 'rainy day', and 'one day' outcomes. It considers people's motivations and needs for financial outcomes, and it considers ways that outcomes might be reported by people or observed through their financial records. We define people's financial wellbeing as:

the extent to which people both perceive and have:

1. *financial outcomes in which they meet their financial obligations*
2. *financial freedom to make choices that allow them to enjoy life*
3. *control of their finances, and*
4. *financial security—*

now, in the future, and under possible adverse circumstances.

We frame our analysis within a conceptual model that describes how

- **personal and household characteristics**, including incomes, other economic resources, personal capabilities, household needs, preferences, and attitudes,
- **external conditions**, including economic conditions, access to financial products and services, social support, social norms, public programs, and social insurance, and

- **financial behaviours**, including financial management, spending habits, savings habits, borrowing habits, financial discipline, planning and budgeting,

contribute to people's financial wellbeing.

For the model, we assume that people undertake financial behaviour to balance their current and expected future consumption, subject to their personal and household characteristics and external conditions. In this framework, personal characteristics, household characteristics, and external conditions affect financial wellbeing through people's financial behaviour, but they can also directly affect financial wellbeing.

The Distributions of the Financial Wellbeing Scales

Our Observed Financial Wellbeing Scale is constructed from measures based on CBA bank records. To make sure that we have a reasonably complete picture of people's financial outcomes from these records, we restrict most of our analyses to people from the on-line survey who indicated that they did most or all of their banking with CBA.

Among these customers, scores from the Reported Financial Wellbeing Scale have an approximate bell shape that ranges over all the possible outcomes from 0 to 100. The distribution is slightly skewed toward higher scale values with a median value of 55. We apply descriptive categories to the scores and find that:

- 8.8 per cent of customers were 'having trouble' (scores of 22.5 or below, which implied that they experienced the worst possible outcome for one or more reported financial wellbeing conditions)
- 30.8 per cent were 'just coping' (scores of 25-47.5, which implied they experienced a negative outcome for one or more reported conditions)
- 47.9 per cent were 'getting by' (scores of 50-75, which implied the averages of their reported outcomes were in neutral or second-highest categories), and
- 12.5 per cent were 'doing great' (scores of 77.5 or higher, which implied they experienced the best possible outcome for one or more reported conditions).

The distribution of the Observed Financial Wellbeing Scale also ranges over all the possible outcomes from 0 to 100 but is more positively skewed than the reported scale. It has a median value of 66.7. We apply descriptive categories to the scores and find that:

- 16.8 per cent of customers were 'having trouble' (scores of 33.3 or below, which implied that they had frequent dishonours, held payday loans, had frequent low balances, or could seldom raise a month's expenses)
- 60.1 per cent were 'doing okay' (scores of 44.4 to 77.8), and
- 23.1 per cent were 'doing great' (scores of 88.9 or higher, which implied that they experienced the best possible outcome for four or five observed conditions).

The Reported and Observed Financial Wellbeing Scales are positively related—customers with high reported financial wellbeing also tend to have high observed financial wellbeing. The scales have a (Spearman) correlation of 40 per cent. This indicates a lot of agreement between the scales but also some disagreement.

As a measure of agreement and disagreement, we compare the percentages of customers whose scores are above and below the median values of the two scales. About a third of customers have scores that are above the medians on both scales; about a third have scores that are below the medians on both scale; and about a third have scores that are above the median on one scale but below the median on the other.

Components of the Scales

Although the customers in our sample have neutral or positive outcomes, on average, for the components of the scales, substantial fractions have negative outcomes:

- 23 per cent reported it was difficult or very difficult to meet their necessary expenses over the preceding year
- 29 per cent never or rarely had money left over at the end of the month
- 29 per cent always or often perceived that finances controlled their lives
- 37 per cent indicated that they could not handle a major unexpected expense
- 32 per cent disagreed or disagreed strongly with a statement about having enough money to provide for their financial needs in the future
- 6 per cent used payday lenders
- 7 per cent had account dishonours in seven or more months of the year, and
- 12 per cent had liquid balances below one week's expenses for three-quarters or more of the year.

Personal and Household Characteristics

The distributions of customers' reported and observed financial wellbeing vary strongly with many personal and household characteristics but relatively little with others. Money is important; the distributions of the two scales are much higher than average for customers with annual incomes of $100,000 or more and much lower than average for customers with annual incomes below $20,000. However, money isn't everything, and scale values vary a lot within income groups. For example, a quarter of customers with annual incomes of $100,000 or more have reported financial wellbeing score values below 50, and a quarter have reported score values above 75.

The distributions of reported and observed financial wellbeing are markedly higher for home owners, married people, retirees, people with bachelor's degrees or higher, and people in good health. They are markedly lower for people who rent, people who are separated or divorced, unemployed people, people with less than a secondary education, people in poor health, and people who are disabled.

Reported and observed financial wellbeing vary especially strongly with people's financial capabilities, attitudes, and preferences. Financial wellbeing is higher for people with clear savings goals, who prefer not living on credit, and with a good understanding of financial products. It is lower for people who find finances confusing. The distributions of reported and financial wellbeing increase with the amounts of bank deposits, superannuation balances, mortgage offset accounts, and investment portfolios. They fall with the number of people in the household, the number of dependents, and levels of mental distress.

There are also some complex patterns. Reported and observed financial wellbeing do not vary much with age before age 64 but increase with age thereafter. Unpaid care responsibilities have little association with financial wellbeing unless they affect work.

Reported financial wellbeing is lower for women than for men, but the distributions of observed financial wellbeing are similar across genders.

There are also a few unexpected findings. Reported and observed financial wellbeing tend to be higher for customers with large mortgage or rent payments, though they are distinctly lower for those who report difficulty making payments. The distributions of financial wellbeing have a U-shaped relationship with the total values of mortgages and personal loans, initially falling with loan balances but increasing with very large balances.

External Conditions

Constraints on customers' ability to work are associated with lower financial wellbeing. Customers who would like to work more have relatively low financial wellbeing, and customers who are happy with their work hours have relatively high financial wellbeing. The distributions of reported and observed financial wellbeing are higher than average for customers who experienced a major financial improvement, recently retired, married, or were promoted. They are lower than average for customers who experienced a major financial worsening, were fired, or separated from a partner. Financial wellbeing is higher for customers with good social contacts and lower for those who needed or used community or government services.

Financial Behaviour

In our conceptual model, people's financial behaviour—how they spend, save, and invest their money, how they use financial products, and so on—is the main way in which they change their financial wellbeing. Consistent with this, we find especially strong associations between customers' financial behaviour and their distributions of reported and observed financial wellbeing. The distributions of the two scales are higher for customers who report doing a good job balancing their spending and savings, having strong savings habits, always paying their credit card balances, sacrificing for the future, organising their spending, regularly reviewing their finances, actively planning, and using budgets. The distributions are lower for customers who buy things they cannot afford, overspend, and put off financial decisions.

The distributions of reported and observed financial wellbeing are higher for customers who held term deposits, annuities outside their superannuation account, share investment portfolios, investment or margin loans, and accounts jointly with someone else. They are lower for customers with personal loans. Reported and observed financial wellbeing do not vary strongly with the number of banking relationships, the proportion of transactions conducted through the main financial institution, or sole or shared responsibility for household financial decisions.

Characteristics Measured from Bank Records

We are able to complement and, in some cases, corroborate the self-reported characteristics from the survey with bank-record measures of customers' economic resources, financial products, and financial behaviours. The distributions of reported and observed financial behaviour rise with customers' salaries and are higher for customers who receive salary monthly and hold offset accounts, home loans, or credit cards. The distributions are lower for customers with government benefits, who receive salaries weekly, with personal loans, with gambling transactions, who are in arrears, and who declare hardships. The distributions do not vary strongly with salary changes, the number of bank accounts, or the use of bank branches.

Patterns of Agreement and Disagreement between the Two Scales

We investigate how the percentages of customers whose scores are above and below the median values of the two scales vary with different characteristics. We find that the percentages of customers in the 'disagreement' categories (one score above the median, the other score below the median) do not vary with many characteristics or vary mainly because both types of wellbeing are very high or very low. However, there are a few systematic patterns in customers having divergent scores. Recent immigrants, customers with business or non-wage incomes, and customers with modest account balances are more likely than others to diverge in their scale values. Divergence is also higher for customers in complex circumstances, including those who have recently had major life events, customers with large housing payments, and customers who are sometimes but not always paying their credit card balances.

Implications

A key finding of this report is that financial wellbeing is strongly positively related to income, wealth, and other resources but that it is also distinct from these characteristics. More resources expand people's available spending, savings, and other financial choices, but people still must manage those resources. High personal debts, other obligations, careless spending, and failures to save or take financial precautions can lead to low financial wellbeing, even under relatively affluent circumstances. Although most customers with high incomes have high financial wellbeing, there is a range of outcomes, with some customers having only modest financial wellbeing. At the other end of the income distribution, we see the positive results that disciplined financial practices, managed spending, and putting some money aside can have, even when there are few resources.

The results also point to possible ways to improve people's financial wellbeing. The report shows that a host of financial behaviours, capabilities, and attitudes have strong associations with financial wellbeing. Behaviours, capabilities, and attitudes can be changed in positive directions. Spending habits can be altered; knowledge of financial concepts and practices can be taught; and the future implications of present actions can be highlighted. Although the report's analyses are associational and not causal, the strength of the associations indicates that these characteristics should be investigated further.

Methodologically, the CBA-MI Observed Financial Wellbeing Scale is coarser, with fewer categories and a stronger skew than the CBA-MI Reported Financial Wellbeing Scale. Because of these properties, the observed scale is less strongly associated with people's characteristics than the reported scale. CBA and the Melbourne Institute are collaborating on a second version of the scale that will improve its properties.

General Applicability to all Australian Adults

The analyses in this report focus on customers from the on-line survey who indicated that they did most or all of their banking with CBA. Many of our findings, however, are applicable to Australians generally. Where possible, we have re-analysed our results with weights to make our sample representative of all Australian adults. There are almost no appreciable differences between our findings for the adjusted and unadjusted samples. For precision and transparency, we have described our findings in terms of CBA's customers, but our results add to understanding about Australian society.

In partnership with

CommonwealthBank

THE UNIVERSITY OF MELBOURNE

MELBOURNE INSTITUTE