

Australians and financial literacy



Improving financial literacy in Australia:
benefits for the individual and the nation

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For more information
about the Commonwealth Bank Foundation's programs
visit www.commbank.com.au/foundation
email foundation@cba.com.au or
phone **02 9378 2755**

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A Commonwealth Bank Foundation
study of the economic and social
impacts of financial literacy in Australia

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Message from David Murray



Being able to make informed judgements and to make effective and responsible decisions about the use and management of money is an essential life skill for all Australians. This includes having the ability to balance a bank account, prepare budgets, save for the future and learn strategies to manage or avoid debt.

The Commonwealth Bank Foundation was established in 2003 to develop education initiatives to enhance the financial literacy skills of young Australians. By supporting education programs, the Foundation aims to empower Australians – particularly young Australians – to develop skills that will stand them in good stead throughout their lives.

The Foundation has made some remarkable achievements, building on the Commonwealth Bank's history of contributing to the education of young people. Since the Bank's student banking program was introduced in 1931 to teach the basic skills of money management and encourage saving, the Bank has played an important role in helping millions of young Australians learn about the importance of money.

The Commonwealth Bank Foundation is proud to further the Bank's commitment to the education of Australians in financial matters, with the launch of what we believe to be a most important research report, ***Improving financial literacy in Australia: benefits for the individual and the nation.***

■ e-Learning Grants

The Foundation believes that teaching life skills must start early. Since 2002, the Foundation has offered the e-Learning Grants program to encourage the development of important literacy and numeracy skills through the use of technology. Since the program commenced, the Foundation has awarded more than \$1 million to 210 primary schools throughout the country.

■ MoneySense financial literacy workshops

The Commonwealth Bank Foundation is working in partnership with the Enterprise Network for Young Australians (ENYA) to deliver financial literacy workshops for 16 – 25 year olds in regional and rural areas. MoneySense is a series of workshops which aim to develop key financial, money management and enterprise skills. The workshops will be free to participants and offered in each state and territory in 2005 and 2006.

■ Girl\$avvy

Girl\$avvy is a series of workshops aimed at high school students to motivate and educate young women about the importance of being financially aware. Offered by the Office for Women in the NSW Premier's Department, participants undertake a range of activities which aim to boost self esteem, inspire them about the diversity of job options available and focus on the benefits of good financial planning. Girl\$avvy is proudly supported by the Commonwealth Bank Foundation.

Commonwealth Bank Foundation

What is the Commonwealth Bank Foundation and what does it do?

In 2003, the Bank established the Commonwealth Bank Foundation to further encourage developments in education, especially financial literacy. The Foundation believes that education is the key to empowering individuals to take effective decisions to achieve their financial goals.

What activities does the Foundation support?

The Foundation develops most of its activities in-house, and in partnership with education groups, authorities and teaching associations across Australia and is not seeking funding requests at this time.

Foundation programs include:

■ Financial Literacy Grants

The Financial Literacy Grants program offers secondary schools across Australia the opportunity to apply for up to two grants of \$3,500 each to help implement creative, engaging and sustainable financial literacy education programs to support students in Years 7 to 12. One hundred grants are made available to Government, Independent, and Catholic schools across each state and territory.

■ Schools Financial Literacy Curriculum Resource

The Foundation is working with education departments, authorities and teaching associations across Australia to develop a Financial Literacy Curriculum Resource. The resource will have a cross-curricula focus, support financial literacy education in Years 7–10 and will be freely available to all schools in 2005.

■ Financial Literacy Assessment

The Foundation is developing, with a leading educational group, an annual Financial Literacy Assessment for secondary students, to provide teachers with a tool to assess and develop student skills and to assist students in identifying their individual financial literacy strengths and weaknesses. The Assessment is scheduled for August 2005.

The research found that by increasing the financial literacy of the 10% of the population with the lowest scores over a ten-year period, Australia's economy would significantly benefit with an increase in GDP of \$6 billion per year and the creation of 16,000 new jobs.

This suggests a significantly higher impact than most major micro-economic reforms, resulting from improved productivity flowing from better savings and investment decisions. The report also suggests important outcomes for individual Australians.

I am sure you will find the results of the research interesting and thought provoking.



David Murray

CEO, Commonwealth Bank of Australia and
Chairman, Commonwealth Bank Foundation

Key findings

The Commonwealth Bank Foundation commissioned research to investigate people's ability to make informed and responsible financial decisions, and to examine relationships between financial literacy and its impact on individuals and the Australian economy. The research revealed a profile of those Australians with lowest levels of financial literacy and demonstrated potentially significant benefits from increases in financial literacy, both for individuals and the Australian economy.

Overview

- Annual personal and household income are related to financial literacy. On average the higher the financial literacy score, the higher the annual income.
- The higher their financial literacy score, the more confident people are of their ability to raise 10% of their income within a week, boosting their ability to withstand sudden financial pressure.
- Lower financial literacy scores are significantly related to respondents having been unable to pay their mobile phone, utility and credit card bills in the last ten years.

Annual personal income by financial literacy score



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-Financial literacy for life

The Commonwealth Bank recognises that education, and in particular financial literacy, is important for a more secure and financially stable Australia. The Bank seeks to empower Australians to develop financial literacy skills that will stand them in good stead throughout life.

Being able to make informed judgements and take effective decisions about the use and management of money is an essential life skill for all Australians. This includes balancing a bank account, preparing budgets, saving for the future and learning strategies to avoid debt. This is why the Bank has been supporting financial education for more than 70 years.

Recognising that acquiring and updating financial literacy skills is a lifelong process, the Commonwealth Bank offers the following programs:

- Student Banking
- School Visits
- DollarsandSense website
- Investor Education
- Retirement Focus Day and Retirement Planning Seminars
- Banking Made Easy for Older Persons
- An array of self-help guides including Handling your Credit Card, Banking Made Easy, the Better Banking Book, Managing Your Finances Online and the Property Value Guide.

About the survey

A national telephone survey was conducted with 5,000 Australians aged 16 – 65 years, between August 18 and September 9, 2004, using Computer Assisted Telephone Interviewing (CATI). With a sample of this size, we have a maximum 95% confidence interval of $\pm 1.4\%$.

The research was commissioned by the Commonwealth Bank Foundation, and conducted by the Commonwealth Bank's Quantitative Research division within CommSec, in partnership with Eureka Strategic Research and the Centre of Policy Studies, Monash University, which each conducted major sections of the research.

About Eureka Strategic Research

Eureka was established in 1995 and has become one of Australia's most respected market and social research companies.

About the Centre of Policy Studies Monash University

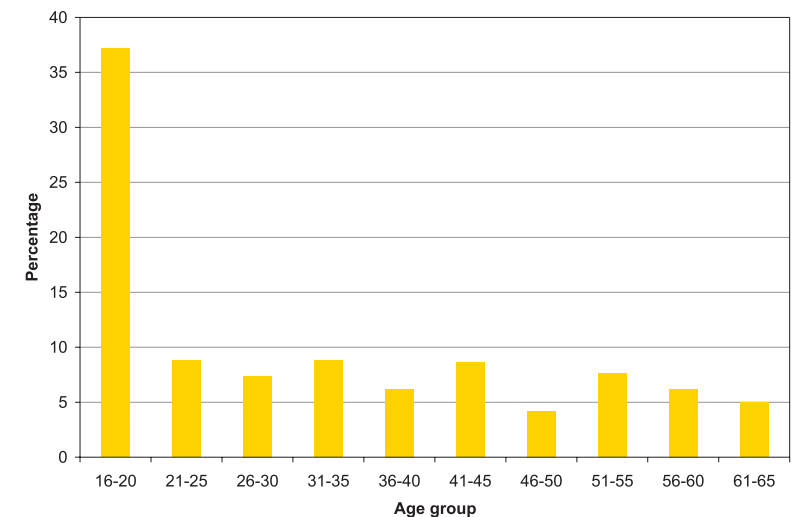
The Centre of Policy Studies at Monash University specialises in computable general equilibrium (CGE) modeling and developed the MONASH dynamic computable general equilibrium model of the Australian economy for educating scenarios. MONASH has been used to analyse many economic policies, including changes in taxes, tariffs, environmental regulations and competition policy. MONASH simulations also underlie detailed forecasts of labour market demand and income distribution.

Profile of the least financially literate

The 10% with the lowest financial literacy are more likely to:

- be aged 16 to 20 (38.6%)
- be male (55.6%)
- be unemployed or students (7.1% and 29.6% respectively)
- have lower education levels (15% of those not currently studying had some high school and 20% of those not currently studying had completed Year 12)
- have lower annual personal income (34% reported annual personal income under \$10,000)
- have lower annual household income (44% reported annual household income under \$50,000)

The least financially literate 10% by age



Effects of increasing financial literacy

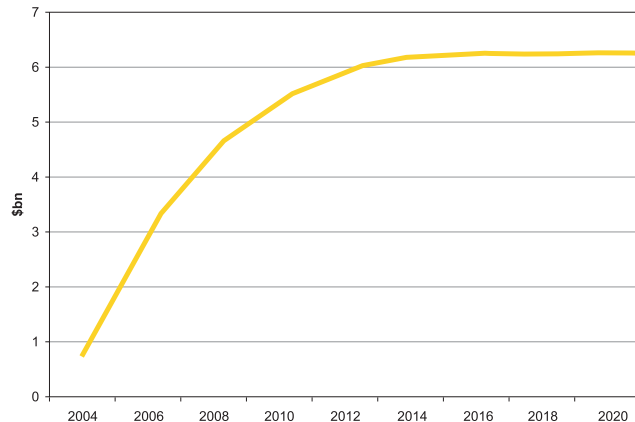
Increasing financial literacy by a modest amount amongst the 10% of least financially literate Australians over ten years would:

- for the Australian economy

■ contribute \$6bn per year to GDP

■ create over 16,000 new jobs

Increases in GDP for an improvement in financial literacy commenced in 2004



These benefits flow from:

- improved decision-making in the workforce, resulting in improved productivity
- less capital wastage with improved decisions on starting new businesses and home purchasing
- increased flow of funds to Australia's more profitable businesses via better saving and investment decisions

Potential indirect benefits include:

- reduction in need for welfare
- increased economic opportunities

- bolstering of national savings
- creation of well-informed consumers

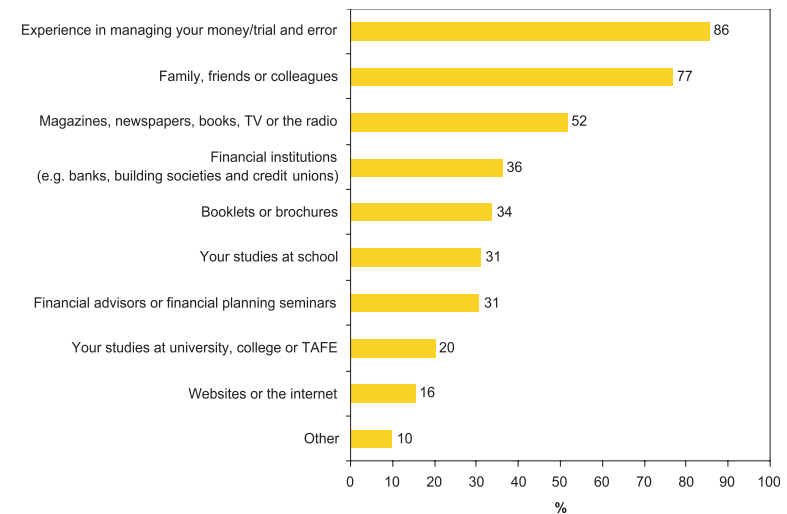
- for the individual

■ increase annual personal income, by \$3,204 per person on average

- reduce the probability of being unemployed, on average by 0.16 percentage points
- reduce the proportion of people unable to pay their mobile phone bill by 2%
- reduce the proportion of people unable to pay their utility bill by 1%

Sources of financial knowledge

Stated sources of financial knowledge



For 16 - 20 year olds with the the lowest 10% of financial literacy, the main sources of financial knowledge are family, friends and colleagues (86%), experience/trial and error (69%) and school (68%).