



TRANSFORMING FINANCIAL 'ADVICE' REPORT

SEPTEMBER 2022



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FOREWORD



David Bell
Executive Director

The provision of affordable advice and guidance services on a large scale is one of the greatest challenges facing Australia's financial services sector.

The Conexus Institute has been exploring how to provide accessible and affordable solutions to the advice and guidance challenge in Australia. This project is titled *Transforming Financial 'Advice'*, acknowledging that the solutions may not meet the technical definition of financial advice. There is no easy solution to this challenge, otherwise it would have been identified already.

Part of our research is to better understand consumers. Here, we acknowledge the generosity and expertise of CoreData who contributed survey resources to this project. Thank you to members of the Conexus Institute project working group who contributed to the design of this survey.

The current state is poor and needs to be improved. This survey explores many areas, from financial literacy (unfortunately it is poor) and management of financial affairs (mixed), through to the sources of financial assistance used now and possibly in the future. On many of these topics we've tried to explore how and why.

Traditional financial advice from a financial adviser is highly valued but on its own will not be the solution given the scale of the challenge. The report considers five candidate (scalable) solutions to the advice and guidance challenge. Each has its own issues which would need to be addressed. It is likely that a combination of solutions is required. We believe government and industry both have an important role to play. We hope that this report contributes to finding a solution to this important challenge as all Australians deserve access to affordable, relevant financial assistance.

EXECUTIVE SUMMARY

Through their lives Australians face a multitude of financial decisions. These range from high frequency, relatively basic decisions on issues such as spending, through to one-off highly complex decisions such as developing a retirement financial plan. Many Australians make these decisions without credible third-party assistance.

Unfortunately, Australia has low financial literacy levels which, for many, translates into poor management of financial arrangements. Government and industry both need to do more through short and long-term initiatives.

A relatively small number of Australians (around one in five) already receive financial advice and can be expected to have the necessary guidance and support. However, helping large numbers of individuals and households successfully navigate their way through the myriad financial decisions, of varying complexity, which can have both short and long-term impacts remains both a clear and unsolved challenge.

This survey assesses the current state of Australian consumers with regard to their financial literacy and management of financial affairs, and the present behaviours and reasons for utilising different sources of financial assistance. Further, we explore the future intentions of consumers. Throughout this survey financial assistance is defined to be any form of assistance relating to a financial decision. Accordingly, it considers both formal and informal forms of assistance.

Given the supply and cost constraints in financial advice provided by a financial planner, alternative financial assistance solutions need to be considered, especially those which can provide low-cost assistance at scale. Possible solutions include ASIC MoneySmart, general assistance provided by superannuation funds, Centrelink, online financial calculators, and subscription-based digital advice services. Each candidate solution, explored in this report, has potential but each is faced with challenges. Some of these solutions sit outside the terms of reference of the Quality of Advice Review. We encourage Government to take a holistic mindset and put in place a range of initiatives that, in aggregate, will address the shortfall in quality and affordable financial assistance.

All Australians face the need to make many ongoing financial decisions. These range from basic spending and saving decisions (which impact every consumer), through to the estimated 1.3 million Australians who, over the next five years, will need to make a highly complex decision relating to their retirement financial plan. All this is set amidst a complex backdrop of elevated inflation and rising interest rates. Financial assistance is more important than ever, and Government needs to take steps to shape the financial assistance landscape of the future.

IDENTIFYING THE PROBLEM

AUSTRALIAN FINANCIAL LITERACY

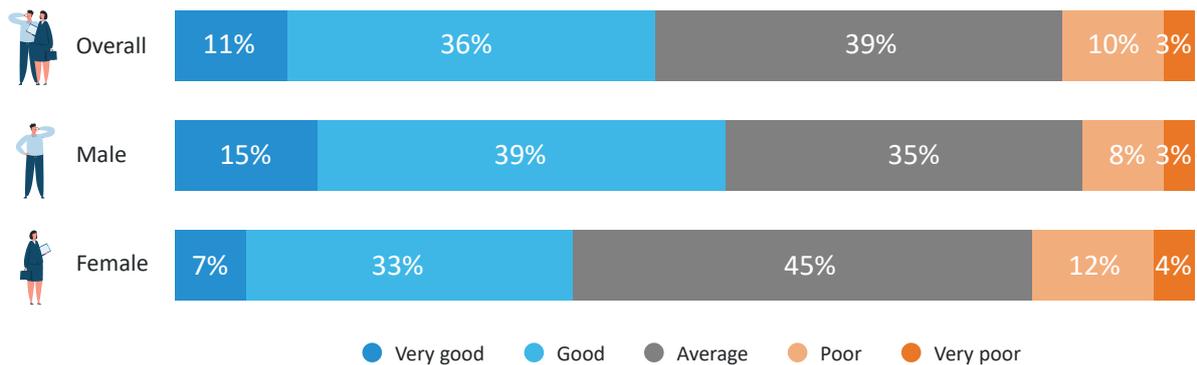
Personal finance plays an important role in determining the trajectory of many aspects of a person's life in Australia. This includes how much they need to work, ability to pursue leisurely interests, quality of retirement, and overall comfort in life. Despite the clear importance of personal finance and the desirability of having a good understanding of it, less than half of Australians (48%) rate their overall knowledge of financial matters as good or better, and just one in 10 (11%) rate their knowledge as very good.

Men are more confident than women in their own abilities and are more likely to rank their knowledge as good or better (54%) than women (39%). The most women rate their knowledge as average (45%), while one in six rate it as poor or very poor (16%).

Australians were asked a series of questions to test their capability and knowledge on the financial topics of simple and compound interest, inflation and the relationship between risk and reward. Although questions involved calculations taught in early high school, and even though inflation and interest rates are an almost constant topic in current public discourse, less than half of Australians (45%) got all six questions correct.

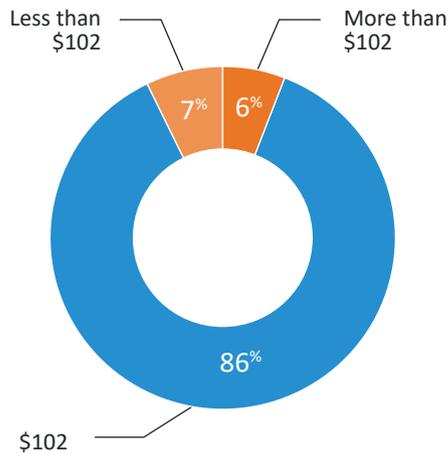
Even those confident in their financial literacy, rating their financial knowledge as very good, fared little better, with three in five (62%) answering all questions correctly. Just a third of women (36%) answered all questions correctly (53% of men), but those receiving financial advice tended to perform better (59%) than those without (42%).

How would you rate your overall knowledge about financial matters?



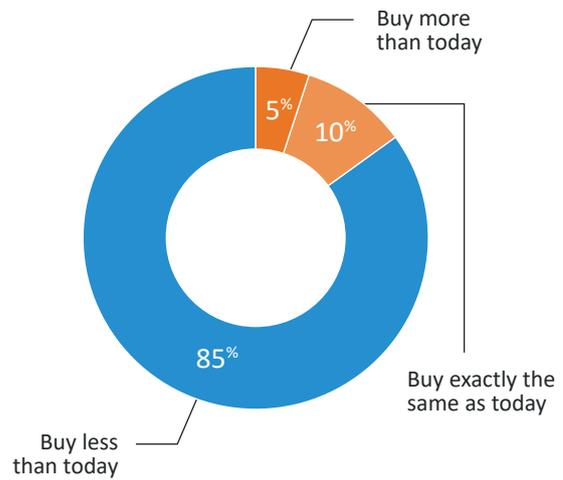
Question 1

Suppose you put \$100 into a no-fee savings account with a guaranteed interest rate of 2% per year. You don't make any further payments into this account and you don't withdraw any money. How much would be in the account at the end of the first year, once the interest payment is made?



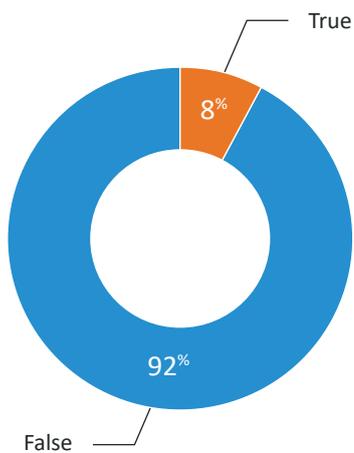
Question 2

Imagine now that the interest rate on your savings account was 1% per year and inflation was 2% per year. After one year, would you be able to buy more than today, exactly the same as today, or less than today with the money in this account?



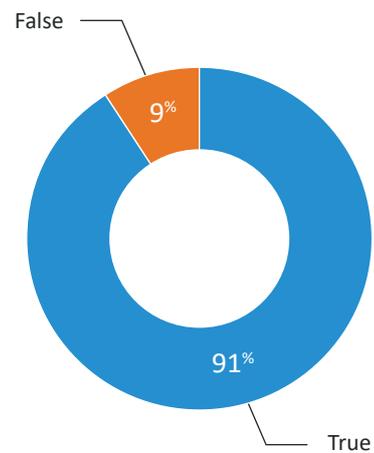
Question 3

Do you think that the following statement is true or false? *Buying shares in a single company usually provides a safer return than buying shares in a number of different companies.*



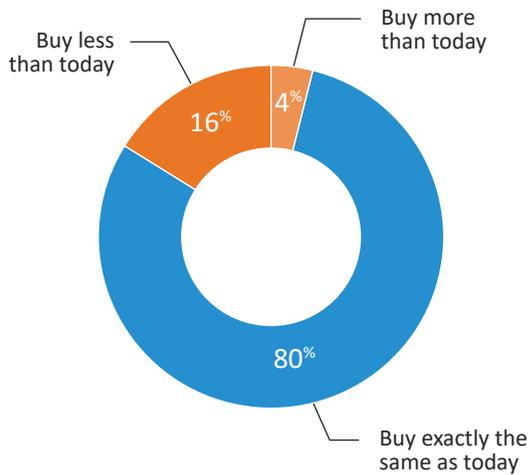
Question 4

Do you think the following statement is true or false? *An investment with a high return is likely to be high risk?*



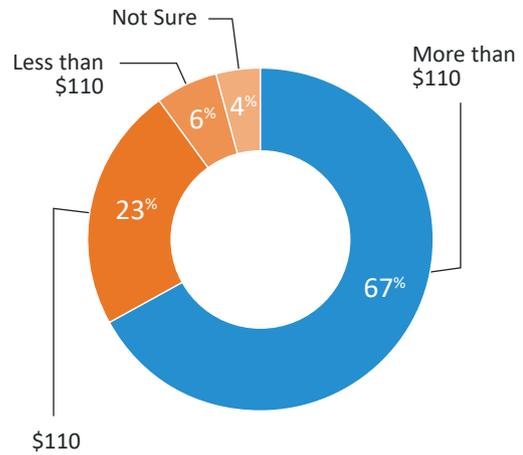
Question 5

Suppose that by the year 2030 your income has doubled, but the prices of all of the things you buy have also doubled. In 2030, will you be able to buy more than today, exactly the same as today, or less than today with your income?



Question 6

If you deposited \$100 in a bank account paying 2% interest per year, what would you have after five years if you didn't deposit or withdraw (ignoring bank fees and charges)?



Although the majority of people were able to identify the correct answer in each question, it is surprising that less than half of the population were able to get all six questions correct. As inflation becomes more of a concern in Australia, one in six (15%) were unable to answer the second question correctly. Given the importance of compound interest in building future wealth and preparing for retirement, it is especially worrying that one in three (33%) were unable to answer the sixth question correctly.

As there are many factors to a life well lived in Australia that link to their financial wellbeing, it is important to consider the broader implications of many people's inability to answer basic questions about personal finance.



BACKGROUND TO THE PROBLEM

AUSTRALIA'S ATTITUDES TO AND ENGAGEMENT WITH MONEY

Emotions and attitudes to finance and decisions

Not all Australians are confident in their knowledge of financial affairs, so it is unsurprising to learn that people feel a variety of emotions when making choices regarding money. Two in five Australians say they feel relaxed and in control (42%), while one in five (22%) say these decisions make them stressed and anxious. The rest (36%) feel neither stressed nor relaxed when making these decisions.

Individuals will tend to make sensible financial decisions that they have thought through adequately if they feel relaxed and in control. It should be a goal for the financial services industry to ensure that consumers are as well-informed and confident as possible. However, while the proportion of those who feel relaxed and in control is already low, it is especially low among some segments of the population. Australians aged under 30 are much more likely to feel stressed and anxious (32%), as are women (29%).

Concerningly, it is those who are least confident in their financial knowledge who also feel the most stressed about making financial decisions: two in three (65%) of those who rate their financial knowledge as very poor also feel stressed and anxious about making financial decisions. This creates a situation where those who are already likely to make sub-optimal financial choices are feeling anxious and stressed, which may lead to them making even worse decisions, to the detriment of their personal finances.

Conversely, those who rate their financial knowledge as very good overwhelmingly feel relaxed and in control (84%), and most of those receiving financial advice also feel the same (58%).

Australians have varying attitudes to their finances. Just over half (53%) the population categorise themselves as interested in money and financial affairs, and enjoy learning about these topics, while the other half (47%) state that they are not overly interested in money and financial affairs and feel that it is more of a chore.

Although a survey regarding financial matters is unlikely to connect with those who are completely disengaged from finance, respondents are similarly split between those who prefer to do their own research as a basis for making financial decisions (55%), those who prefer assistance when making decisions (41%), and the small proportion who prefer to hand over responsibility for all financial decision making (4%).

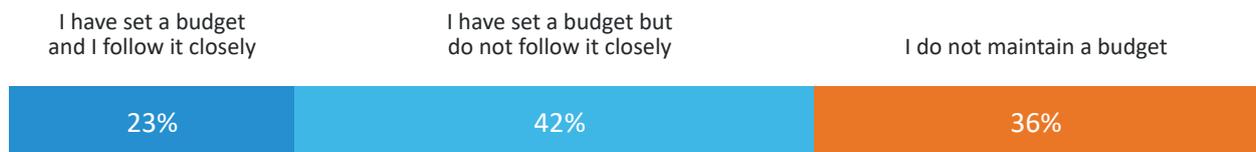
Time allocated to money and financial affairs varies widely, with many Australians feeling that while they are busy, they assign an appropriate amount of time to their money and financial affairs (31%). Others say they have sufficient time to allocate to managing their money (30%). The remainder of the population feel that they are time poor, and as such, don't allocate much time to money and financial affairs (21%), and a further one in five do not spend much time on finance by choice (19%).

Budgeting and financial plans

In order to better monitor ingoing and outgoing funds, control spending, and have a better overall view of their financial position, many Australians maintain a budget. Two in three (64%) have a set budget, while the remainder of the population do not maintain a budget (36%).

However, although the majority claim to have a budget, two thirds of this cohort (65%) do not follow their budget closely, leaving the remaining third (35%, 23% overall) that have a set budget that they follow closely.

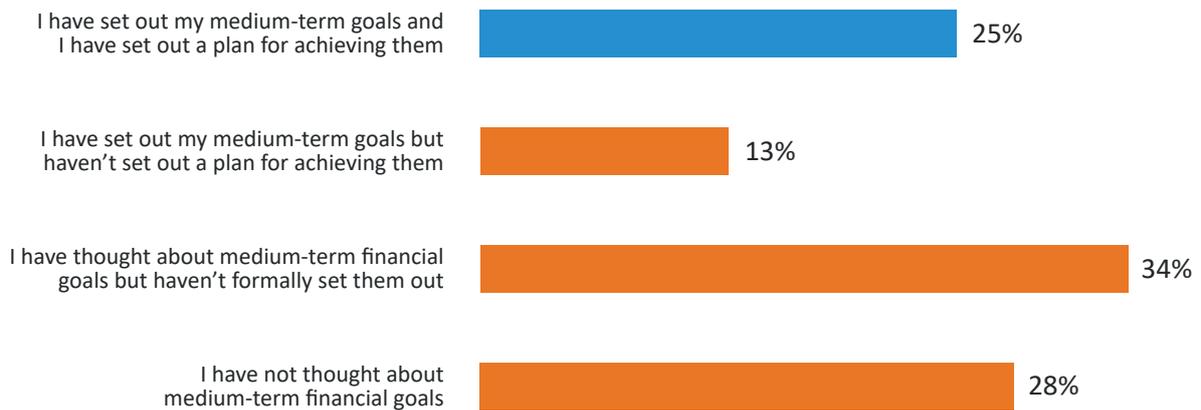
Do you maintain a budget and manage to stick to that budget?



This general lack of strict financial planning is echoed when Australians consider if they have medium-term financial goals and a plan for achieving them. Just a quarter (25%) have set out their medium-term goals

and have set out a plan for achieving them, while most have either not thought about these goals (28%) or have thought about them but have not formally set them out (34%).

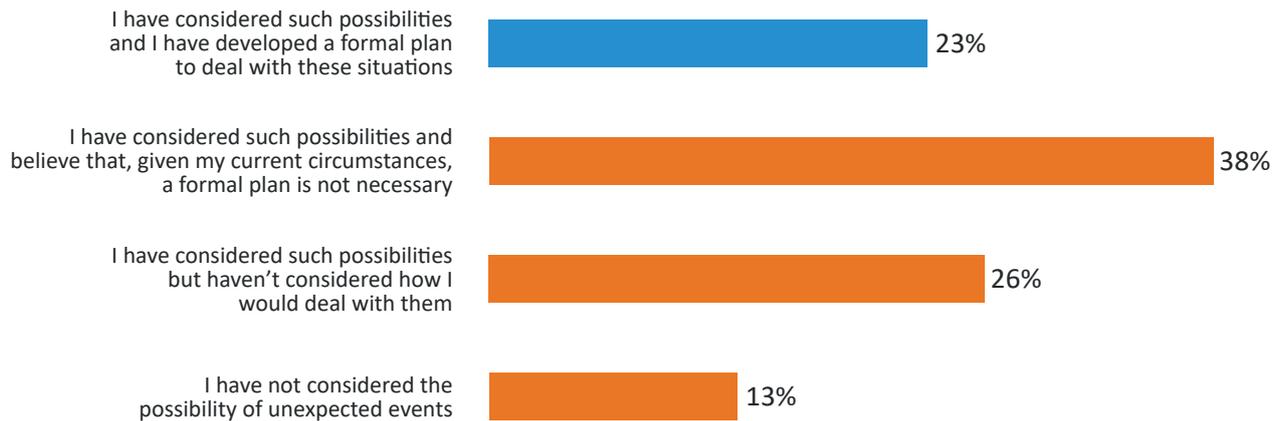
Have you set medium-term (3 to 5 years) financial goals and a plan for achieving them?



Australians also largely do not have a formal plan to deal with unexpected shocks, such as changes to their income or unexpected expenses. Less than a quarter (23%) have developed a formal plan to deal with these situations, whilst the most Australians say they have

considered these possibilities and believe that a formal plan isn't necessary (38%), or that they have considered these possibilities but not how they would deal with them (26%).

Have you set a plan to deal with unexpected shocks to your income or with unexpected expenses?



A number of other factors can also be considered and used as a proxy for assessing the average Australian's financial aptitude and preparedness.

Only two in five Australians have an up-to-date Will (41%), while the largest proportion either don't have one, or have one but are not sure that it is up to date (58%). Most have not compared the account fees charged by their superannuation fund in the previous three years (61%), and more than a third have never invested in shares or managed funds (36%).

Even among homeowners, who it would be expected have a better grasp on their finances, almost a quarter (23%) have not reviewed the rate they are paying on their mortgage in the past three years. Given the recent shifts in interest rates, where the RBA has lifted interest rates

for five straight months¹, it is especially concerning to learn that so many Australians are disengaged with what is likely to be their largest debt.

Factors including a lack of budgeting and medium-term financial planning, low rates of having a Will or formal plan for unexpected financial shocks, and lack of reviewing important financial expenses such as superannuation fees and mortgage rates, paint a worrying picture of the financial capabilities and preparedness of the average Australian.

Fortunately, averages are not representative of the entire population and there are some segments that are bucking this trend: those who rate their financial knowledge as very good; and people receiving financial advice.

¹ <https://www.rba.gov.au/media-releases/2022/mr-22-28.html>

Financially knowledgeable Australians

It is not surprising to learn that those who rate their overall knowledge about financial matters as very good performed better across almost all measures of financial literacy and engagement. They are more likely to have answered all six financial literacy questions correctly (62% vs 45% overall), are more likely to feel relaxed and in control when making financial decisions (84%), and are

more likely to have set out their medium-term financial goals and have a plan for achieving them (50%). They are more likely than the general population to have an up-to-date Will (59% vs 41%), to have compared their superannuation fees recently (60% vs 39%), and to have reviewed their mortgage rate recently (89% vs 77%).

Financial advice receivers

Similarly, Australians who currently receive financial advice have better outcomes when considering their financial knowledge and literacy, and other proxy measures for their overall financial wellbeing. They are more likely than the general population to have correctly answered the six financial literacy questions (59% vs 45%), are more likely to feel relaxed and in control when making decisions about money (58% vs 42%), and to have set out their financial goals and a plan for achieving them (50% vs 25%). They are more likely to have an up-to-date Will (71% vs 41% overall) and to have various insurance arrangements in place that they are confident account for their personal circumstances (80% vs 58% overall). They are more likely than the general population to have compared their super fund's fees (50% vs 39% overall) and are also highly likely to be investing in shares or managed funds (72% vs 45%).



The challenge

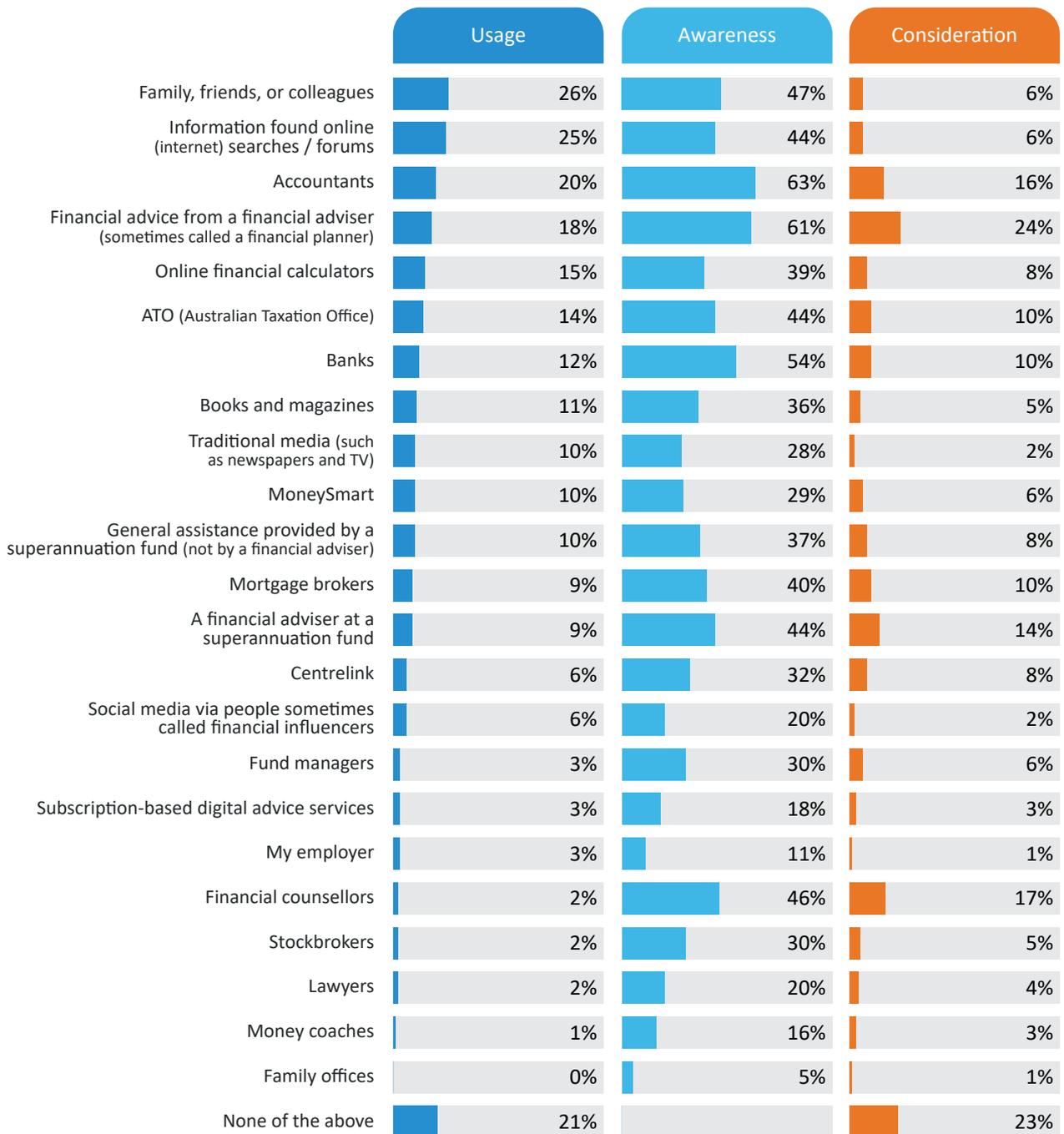
It is easy enough to say that the overall financial outcomes of Australians would be improved if everyone improved their financial knowledge just a bit, or if all people started to see an adviser. In practice, this presents a challenge on two fronts. There are currently about 14,000 full-time financial advisers in Australia, and Dunbar's Number stipulates that the cognitive limit that humans can maintain a relationship with is limited to approximately 150 people². These two figures combined illuminate the issue that the current number of practicing financial advisers is only sufficient to service less than one in five Australian adults.

Increasing the financial knowledge of all Australians is a noble, yet lofty goal. If it is to be achieved, considered

actions need to be implemented to ensure that Australians have access to financial information that is affordable, accessible, and meets their needs and desires. The next part of this report explores the current financial assistance options that are available to Australians, current awareness of these options, and their uptake. This report also considers consumers' appetites for financial assistance sources into the future in order to best meet the needs of the population, whilst seeking to boost overall financial knowledge and literacy to ensure the best possible financial outcomes for all Australians. These factors are taken into account in developing recommendations for five alternate sources of financial information and guidance that can be scaled to meet the needs of more people.

² <https://royalsocietypublishing.org/doi/10.1098/rsbl.2021.0158#:~:text=%27Dunbar%27s%20number%27%20is%20the%20notion,other%20individuals%20in%20the%20group.>

SOURCES OF FINANCIAL ASSISTANCE



Australia's middling levels of financial knowledge, aptitude and preparedness are less surprising when considering the country's preferred sources of financial assistance. The most-used type of assistance is currently family, friends or colleagues (26%), closely followed by information found online (25%). Whilst there is nothing inherently wrong with these sources of information

as they are accessible, free, and to some degree personalised, the information transmitted through these sources may not always be of the highest quality. This may be simply because the person or people transmitting information is misinformed, or also because there may be other hidden agendas at play.



There are reputable government-funded assistance types that have the ability to counter this phenomenon, though sources like Centrelink and MoneySmart currently have comparatively low levels of awareness (32% and 29% respectively). A resource such as MoneySmart has a wide range of information including guides on managing money, reducing debt, planning for the future and growing wealth, as well as tools like a budget planner, superannuation calculator and resources for finding unclaimed shares, superannuation accounts and life insurance. On the other hand, Centrelink includes information and resources regarding children, housing, aging and work, as well as education and health. These are resources that would be useful to all Australians, not just those with limited financial knowledge or capabilities. Further, it would likely create better financial outcomes for people when they are learning about finances from a trusted, reputable source that has been created by government with the financial wellbeing of citizens in mind.

The third most used source of information, Accountants (20%), are also the source that the most Australians are familiar with (61%). While there are many topics covered by financial advisers that many accountants are not authorised to advise on, they are trained to give quality information that considers the circumstances and needs of users. Further, the large numbers of currently practicing accountants and future accountants coming through the university system mean that this source of paid assistance is better placed to cater to a comparatively high proportion of those considering using accountants in the future (16%).

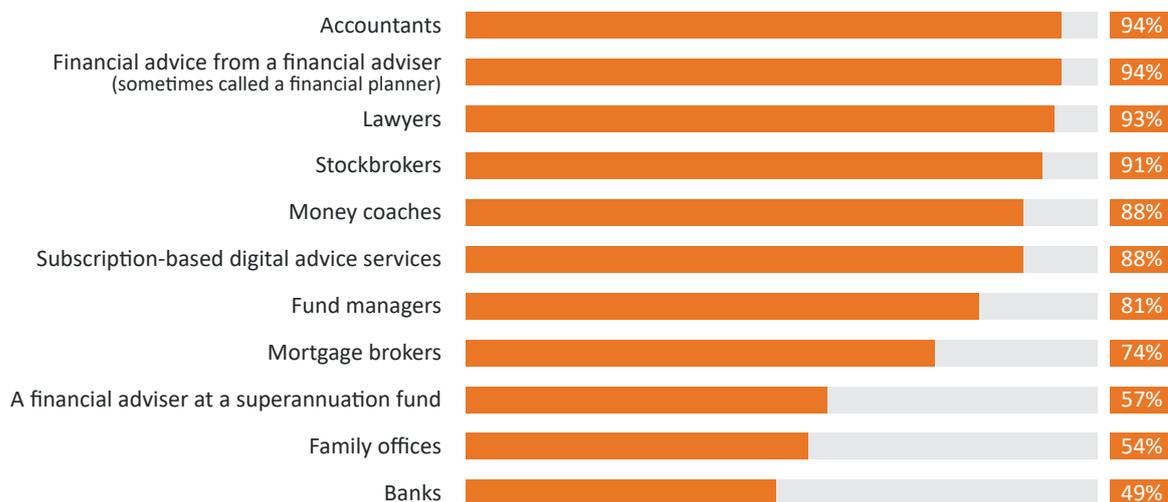
Australia's fourth most utilised source of financial assistance, financial advisers (18%), is also the source that has the highest proportion of people who would consider using them in the future (24%), as well as high existing awareness levels (61%). This high consideration presents an issue as previously mentioned, as this source in its current state is not well equipped to take on the large number of clients that are disposed towards using it.

Another form of financial assistance that has the potential to grow in usage is financial counsellors, due to their high future intention rate (17%). However, given this source is more geared towards helping people out of difficult financial situations once they've got into them, a better outcome would be to reach Australians before they have the need for financial counsellors.

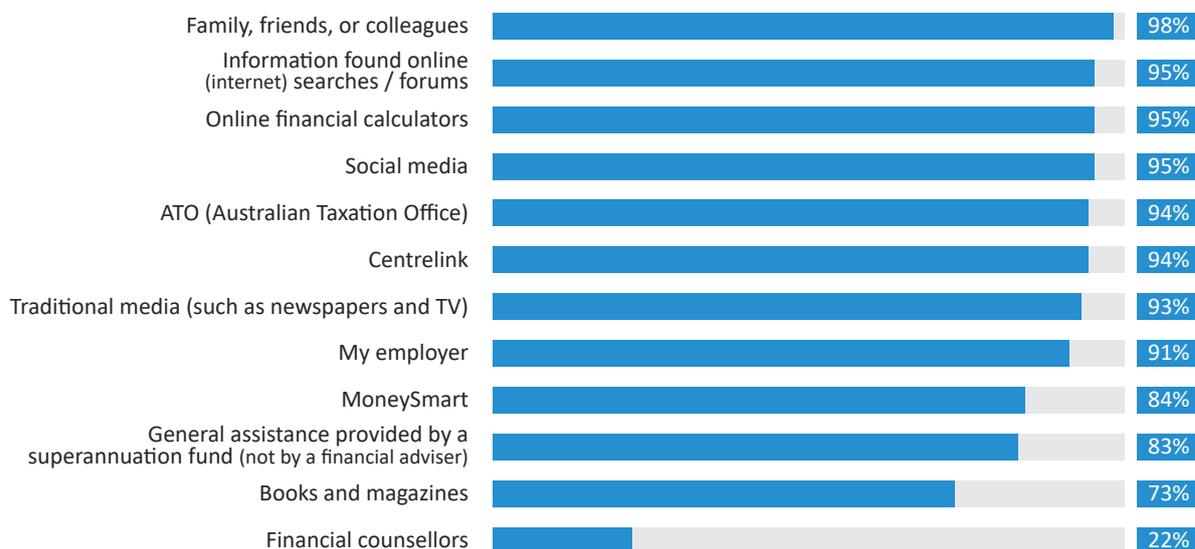
Financial advisers at superannuation funds also have above-average consideration rates (14%), though they face the same supply issues as financial advisers more broadly. Mortgage brokers also have above-average consideration levels (10%), though serve a niche purpose. Encouragingly, the ATO has potential to grow its usage as a source of financial assistance with good levels of consideration (10%) and the highest levels of trust of any information source (trust levels discussed shortly). This source has some of the same proposed benefits as Centrelink and MoneySmart insofar as it is government-run, and provides information that is verified and with the best interests of users in mind.

For each of the sources of financial assistance listed below, please identify which ones you expect to charge a fee. Note that a fee could mean a direct expense (such as an upfront fee) or an indirect expense (such as a commission or brokerage).

Paid sources of financial assistance – % correctly identified as paid



Free sources of financial assistance – % correctly identified as free



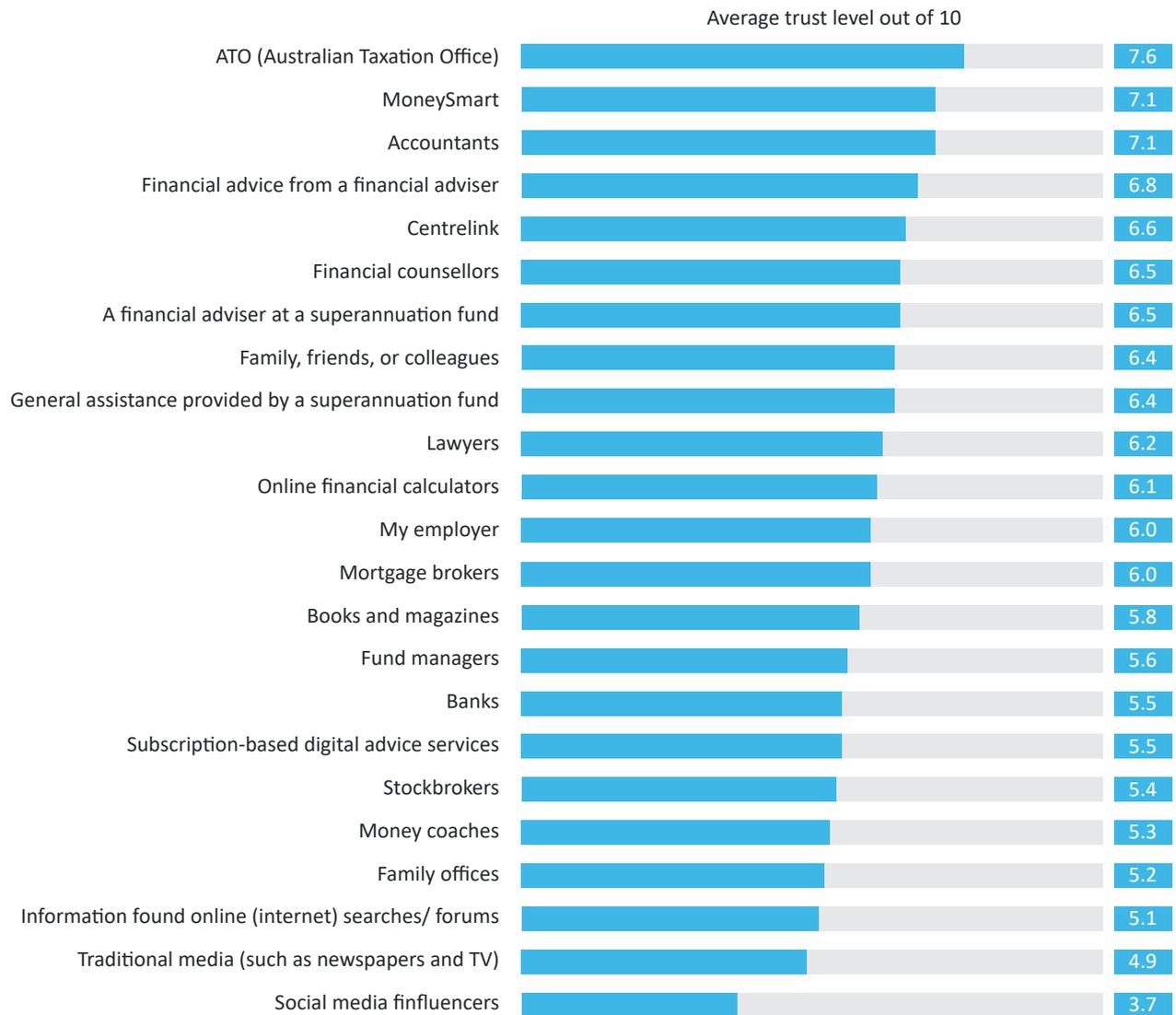
While most that are aware of various free formats of financial assistance were able to correctly identify them as free, only one in five (22%) correctly identified financial counsellors as a free source. A number of paid sources of financial assistance were also misidentified as

being free. It is a misconception of many that are aware of mortgage brokers that because they are not charging up-front fees for their consultations, that customers are not paying for the service indirectly (26%).

An even larger proportion of those aware of banks as a form of financial assistance (51%) were unable to correctly identify that using them has a cost, as with financial advisers at superannuation funds (43%).

It is important that Australians are aware of this distinction so that if they do choose to use these sources, they can enter with full awareness that they will be paying for the service in some format or another.

Trust in financial sources



The Australian Taxation Office is the most trusted source of financial information among those who are aware of it (7.6 out of 10), and like the second most trusted source, MoneySmart (7.1), it is government-funded. Accountants and financial advisers are both highly trusted (7.1 and 6.8 respectively), as is Centerlink (6.6). Family, friends or colleagues, which are currently the most used form of financial assistance, have reasonably high levels of trust

(6.4), although interestingly, the second most used form of assistance, online information, has a low average level of trust (5.1). Traditional media, which has long been a staple of many Australian's media consumption habits, has low levels of trust as well (4.9), though the lowest levels of trust are seen in social media influencers (3.7).

FINANCIAL DECISION-MAKING APPROACHES AND THE LINK TO FINANCIAL ASSISTANCE

This survey captures insights of Australians who engage with their finances. Because the survey invitation discloses that the focus is on financial decision-making it naturally filters out the disengaged. Other surveys, undertaken on a different basis, have been able to identify a sizable disengaged cohort, similar in size to the two major cohorts identified in this paper. We acknowledge the importance of providing relevant products and services to assist the disengaged cohort of the population. The focus of this paper is on providing insights from those with greater engagement.

Those with greater engagement can be broadly categorised in two cohorts: those who prefer to do their own research as a basis for making financial decisions; and those who prefer assistance. With the exception of gender, these segments are largely demographically similar. However, they diverge when considering their financial attitudes and behaviours.

Those who prefer to do their own research as a basis for making financial decisions are more likely to be male (58%), while those that prefer assistance when making decisions are almost equally likely to be male (48%) or female (52%). They are more confident in their abilities and are significantly more likely to feel relaxed and in control when making decisions about money and financial affairs (51% vs 30% preferring assistance), as well as tending to rate their overall financial knowledge as good or very good (58% vs 36%). They are also more likely to have no debts (38% vs 30%), and when considering how they would like to receive financial assistance, they prefer it on a topic-by-topic basis as issues arise (50% vs 26%).

Those who prefer assistance when making decisions are less likely to feel either stressed and anxious when making financial decisions (29%) or to feel relaxed and in control (30%), but instead are most likely to place themselves somewhere between these two poles (41%). They are, unsurprisingly, more disposed to using a financial adviser (30%) when compared with those who prefer to do their own research (9%). Some of the indicators used in this paper to assess financial health are worse among this cohort, as they are less likely to have a budget that they follow closely (19% vs 25% who prefer to do their own research). They have insurance arrangements in place that they are unsure as to whether they account for their personal circumstances (24%) more frequently than those who prefer to do their own financial research (16%). They are also significantly more likely to not have reviewed their superannuation account



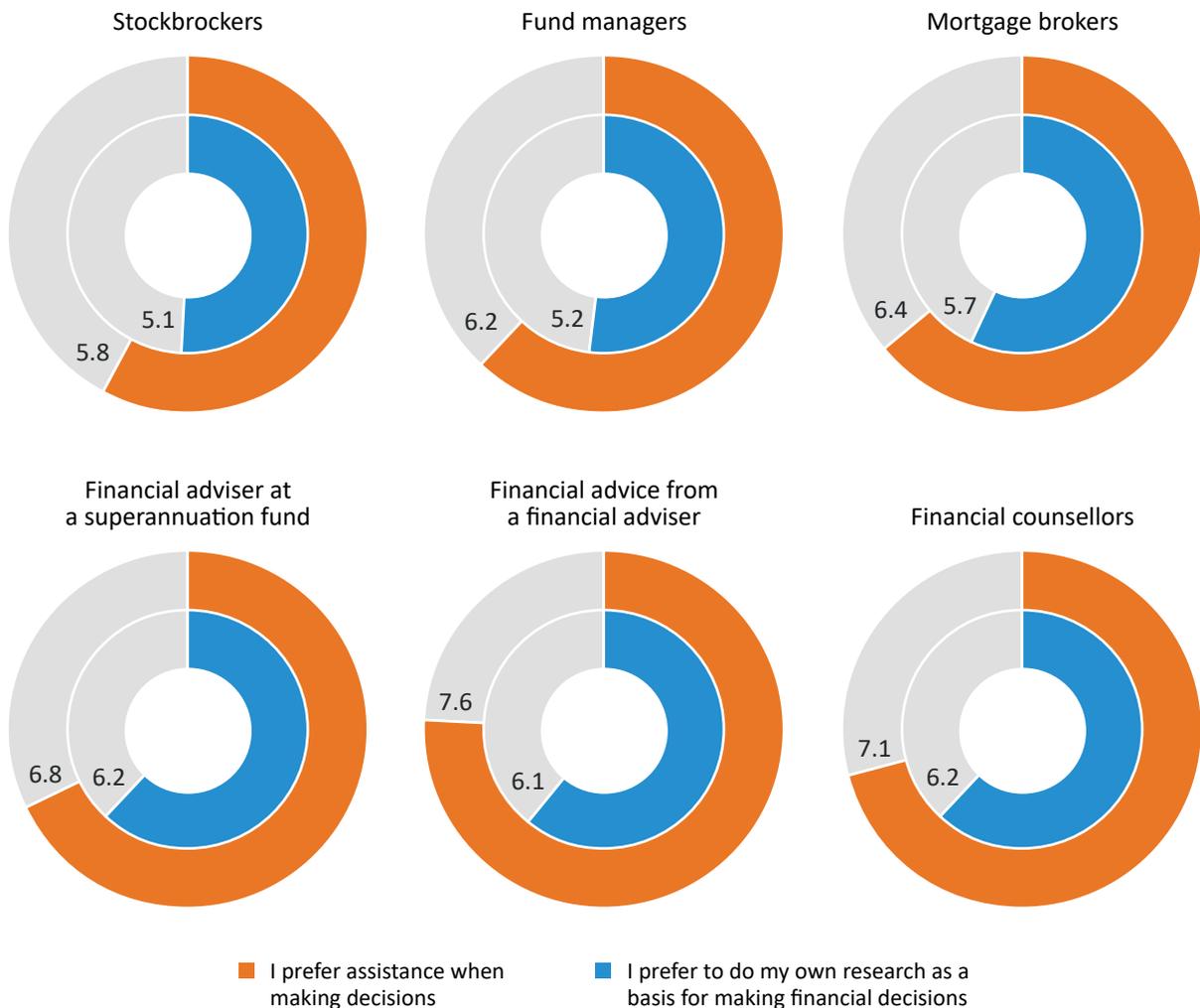
fees (66% vs 56%). When considering how they would like to receive financial assistance, they are much more likely to prefer a comprehensive plan, reviewed from time-to-time (47% vs 27%).

Of note, trust in the various forms of financial assistance varies between those who prefer to do their own research as a basis for making financial decisions and those who prefer assistance. Those preferring assistance have, on average, more trust in the various forms of support available to them, while those who prefer to do

their own research have lower average levels of trust. As well as being more likely to use advisers, those who prefer assistance are significantly more likely to use family, friends or colleagues (30% vs 23%), and are also somewhat more likely to use financial counsellors (4% vs 1%). Those that prefer to do their own research are more likely to use information found online (30% vs 20%), books and magazines (14% vs 7%) and MoneySmart (13% vs 7%), demonstrating their “do it myself” mindset in action. Those that prefer to do their own research also use a wider variety of information sources, using on average 2.5 sources while those who prefer assistance use an average of 2.3 sources.

The preferences and attitudes of those who prefer assistance when making choices should be front of mind for financial decision makers and government when considering the evolution of the financial advice space. This group are already pre-disposed to receiving financial advice and have inherently higher levels of trust in the various pre-existing sources of financial assistance. They do prefer their assistance in the format of a comprehensive plan that is reviewed periodically, and with these factors in mind, they are ideal candidates for new forms of financial assistance as they evolve.

Average levels of trust

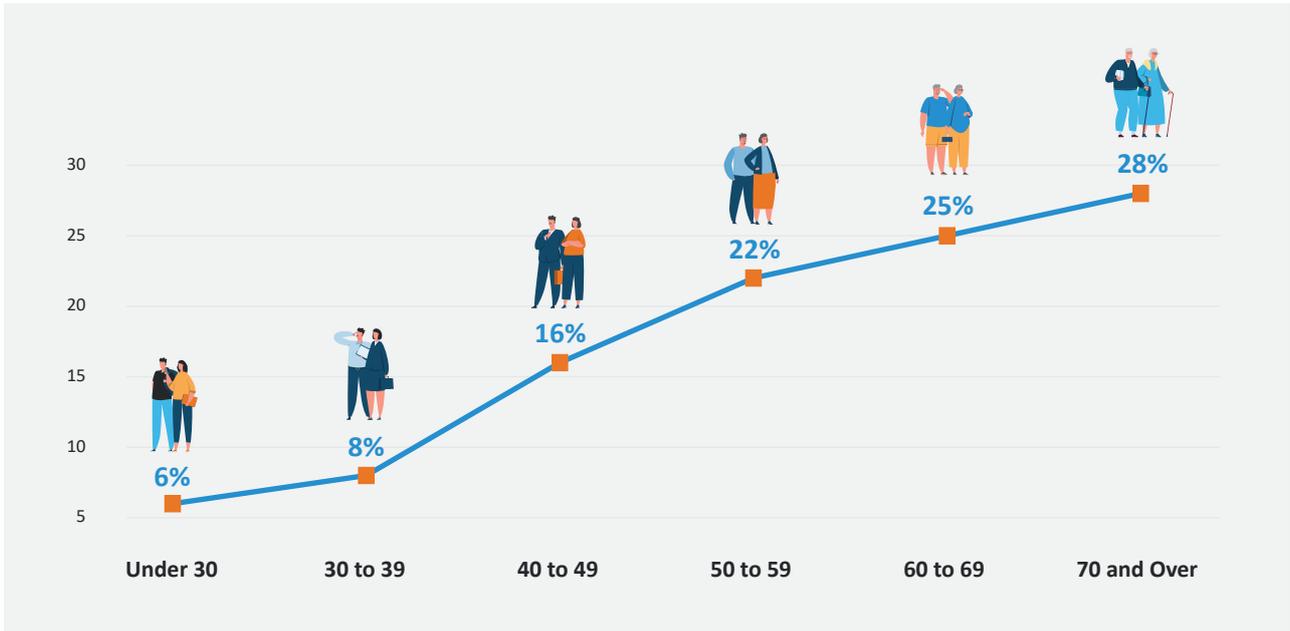


STAGE OF LIFE AND THE LINK TO FINANCIAL ASSISTANCE

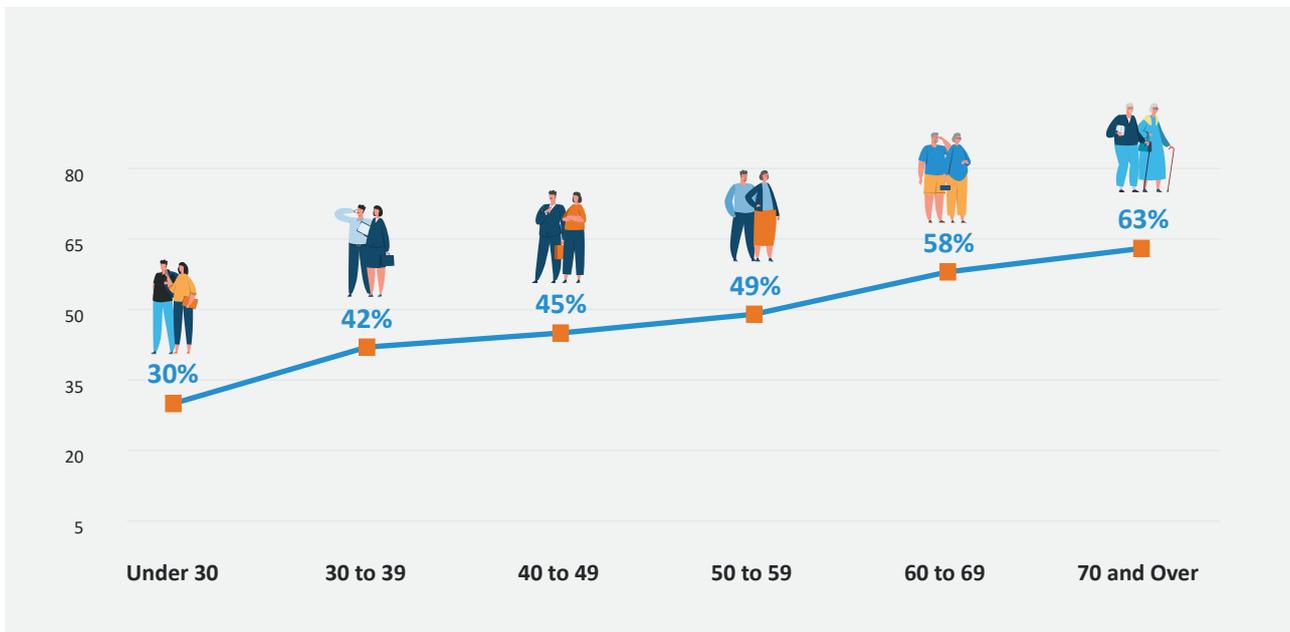
Segmentation and the link to financial assistance

	Top three financial matters in their life		Most used financial assistance sources	
Under 30 	 Budgeting, saving and cashflow management	77%	 Family, friends or colleagues	54%
	 Buying their home/ mortgage	44%	 Information found online	33%
	 Building/managing their investment portfolio	43%	 Australian Taxation Office	26%
30 to 39 	 Budgeting, saving and cashflow management	64%	 Family, friends or colleagues	37%
	 Buying their home/ mortgage	43%	 Information found online	37%
	 Building/managing their investment portfolio	35%	 Online financial calculators	20%
40 to 49 	 Budgeting, saving and cashflow management	57%	 Family, friends or colleagues	27%
	 Managing debt	37%	 Information found online	24%
	 Buying their home/ mortgage	30%	 Accountants	24%
50 to 59 	 Budgeting, saving and cashflow management	42%	 Accountants	27%
	 Managing superannuation issues	41%	 Information found online	26%
	 Accounting or tax issues	39%	 Financial advice from an adviser	22%
60 to 69 	 Retirement income planning	47%	 Financial advice from an adviser	25%
	 Managing superannuation issues	39%	 Accountants	23%
	 Budgeting, saving and cashflow management	37%	 Financial advice from a superannuation fund	19%
70 and Over 	 Budgeting, saving and cashflow management	32%	 Financial advice from an adviser	28%
	 Managing superannuation issues	30%	 Accountants	15%
	 Aged care planning	26%	 Traditional media (e.g. newspapers & TV)	14%

Adviser Usage By Age



Feeling relaxed and in control when it comes to making decisions about money & financial affairs



SPOTLIGHT ON:

FINANCIAL ADVISERS

Financial advisers have a high level of public awareness as a source of financial assistance (61%). They are used by less than one fifth of the population (18%), and those who use advisers are most likely to be 65 years and older, retired, and rate their own financial knowledge as very good. The users of financial advice are significantly more likely to have a postgraduate qualification and to have larger superannuation and investment balances.

One in ten respondents (10%) have used advisers previously but no longer use them. Advisers have high levels of trust, with an average rating of 6.8 out of 10, making them the fourth most trusted source of financial assistance behind the Australian Taxation Office, MoneySmart and accountants. Those using advisers are mostly satisfied (69%), with advisers having an average satisfaction rating of 7.1 out of 10.

Reasons for using financial adviser



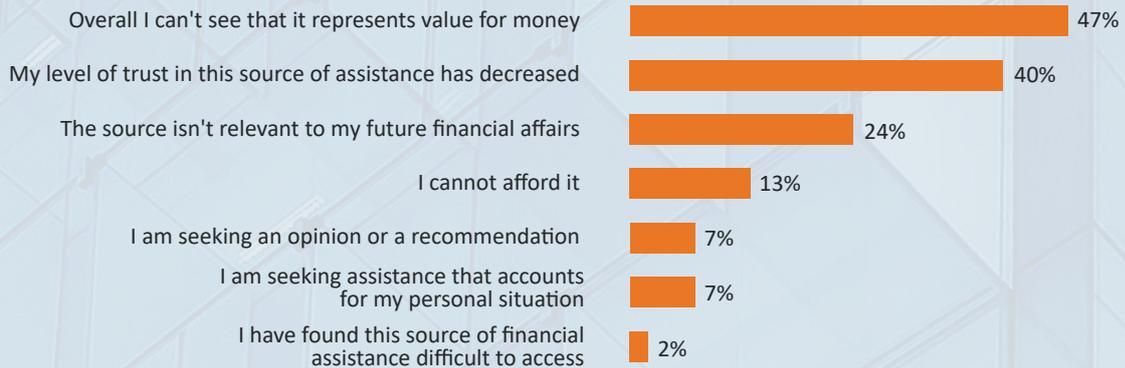
Reasons for not using financial adviser



Reasons for considering using a financial adviser in the future



Reasons previous users are unlikely to use a financial adviser in the future



People who use financial advisers also consult additional sources of financial assistance. The most popular additional sources include accountants (31%), with respondents commonly stating that they consult an accountant to complement recommendations made by their adviser (58%). Those receiving advice also use information they find online (23%), which they largely look for to make them better informed before seeking financial advice (43%). Likewise, those getting information from family, friends or colleagues (21%) do so to complement recommendations made by their adviser (49%).

When those who are currently receiving advice or are considering receiving advice in the future consider how they would prefer to receive their advice, they most commonly state they would like a comprehensive plan reviewed regularly by a financial planner (46%). One in four would prefer a comprehensive plan which they can follow for the next few years (26%), while smaller proportions would like it piece by piece as required (18%) or to do it themselves using readily available information (10%).

THE SOLUTION

FUTURE OF FINANCIAL 'ADVICE'

Given the finite number of qualified financial advisers imposes a limit on how many Australians can receive in-person advice at any point in time, it is important to consider the other sources of financial assistance that are currently available. In order to improve financial outcomes, alternate forms of assistance need to be effective, accessible and scalable to in order to meet the needs of as many people as possible.

When considering how they would prefer to obtain financial assistance, people are most likely to say they would like it on a topic-by-topic basis as an issue arises (40%), whilst others would prefer a comprehensive plan, reviewed from time to time (35%). A smaller proportion would also like a comprehensive plan, and to follow it for the next few years (22%).

In the following section of the report, five sources of information are suggested as possible solutions to improving Australia's financial literacy and outcomes

as they are scalable and have the potential to provide quality information that is accessible. Greater uptake of these solutions will not be without difficulty, however, as the types of financial assistance that do have potential to reach a wider range of people are not always consistent with the current desires of Australians.

When ranking how they would prefer to receive financial assistance, most Australians ranked receiving in-person face-to-face information first (55%). This poses an issue, as providing personalised face-to-face information to every person is not possible with the current supply of financial advisers. Promisingly, the assistance delivery ranked second-most popular was written information (25%) and over the phone proved to be a popular third choice (23%). There is promise in both of these delivery methods and their ability to meet the needs of Australians as they are more scalable and accessible than the traditional advice delivery model.

MoneySmart

MoneySmart is a free service provided by ASIC and the Australian government which has calculators and information to help Australians "take control of [their] money and build a better life". It is provided in the form of a website which is accessible from any web browser and does not require any membership, accounts or payments. The financial information is split broadly into four categories: manage your money, reduce your debt, plan for your future, and grow your wealth.

Manage your money provides information for people in difficult financial situations, including urgent help with money, financial counselling, and managing on a low income, as well as how to save for an emergency fund.

Reduce your debt provides simple steps to get debt under control, pay off a mortgage faster, as well as information about debt consolidation and a credit card calculator.

Plan for the future delivers tips on saving, growing super, developing an investment plan and insurance.

Grow your wealth contains information for buying a house, building an investment portfolio and how to buy and sell shares. The website also has a budget planner, superannuation calculator and a tool for finding lost shares, superannuation accounts and life insurance.

The wide variety of useful, understandable and actionable information makes MoneySmart an excellent option for providing financial assistance and information to more Australians. It currently has low awareness (29%) as a source of financial assistance, and only one in 10 Australians currently utilise it (10%). Among those who are aware of it, it has very high levels of trust (7.1 out of 10) making it the second most trusted source of financial assistance behind the Australian Taxation Office. Those who use it say it is easy to access (79%) and that it provides useful and relevant information (79%).

General assistance provided by superannuation funds

As superannuation is compulsory for all Australian employees, super funds have the potential to serve as a trusted touchpoint and source of financial assistance for a large proportion of the population. Many Australians already have long-term relationships with and good levels of trust in their superannuation fund, so funds are well placed to provide financial assistance to members. It is also in the interests of superannuation funds to provide quality financial assistance to their members, as members who are financially knowledgeable and trust their fund will be financially satisfied and loyal members for years to come. Australia's largest superannuation fund, AustralianSuper has some financial information regarding superannuation, its relationship to retirement, and associated insurances available on its website. The information is somewhat limited in scope, being all associated with superannuation, but there is the opportunity for information to reach the nearly 2.6 million Australians it counts as members. The second most popular superannuation fund, Rest, also provides digital advice, including superannuation and retirement health checks, as well as tools to analyse insurance needs and optimise contributions. They also provide simple advice by phone, increasing accessibility for those who do not use the internet while ensuring that they are meeting the needs of the sizeable proportion of members that desire financial assistance provided by phone.

A potential area of expansion in service offering for superannuation funds could be through the provision of staff that can explain the written information they have available but not provide an opinion or recommendation. Nearly half (45%) of those using this source of assistance rated it as highly valuable.



Among the many sources of financial assistance available, general assistance provided by superannuation funds has a moderate level of awareness (37%) and is used by a low proportion of Australians (10%). Trust levels in this source rank in the top half among all sources (6.4), and those using it say that it provides useful and relevant information (63%) and is easy to access (57%).

Centrelink

Another government-based source of financial assistance that has the potential to meet the needs of more Australians is Centrelink. Whilst mostly associated with the provision of government payments, Centrelink also provides a wide variety of information which is easily accessible through its website. It includes information and resources regarding children, housing, aging and work, as well as education and health. Most information relates to payments associated with each of these topics. However, there is also some broader financial information there. Centrelink has the opportunity to increase its offering with further information on these topic categories that are relatable to all Australians, not just those currently receiving or interested in payments. Centrelink already has the advantage of a physical presence in many parts of the country, and by expanding the information offering on its website or through

phone channels, it has the opportunity to meet the desires of Australians for face to face, written and phone information, with trusted information that has been approved by government.

Centrelink has surprisingly low awareness (32%) as a source of financial information given its wide presence across Australia, possibly a function of its association with welfare. Only approximately one in twenty Australians (6%) are currently using it for financial assistance. It does have comparatively high levels of trust (6.6), with trust levels being the fifth highest among the various sources. Reasons provided by those using it include that it accounts for their personal situation (57%) which is especially the case in face-to-face and phone call delivery methods, and also that it provides useful and relevant information (40%).

Online financial calculators

Financial calculators are a broad category of tools that can be accessed online, usually free of charge. The tools can fulfil a variety of needs related to varying stages of life. Popular online financial calculators incorporate tools to help determine appropriate amounts for budgeting, determining wealth, or planning for retirement. These tools have the potential to provide great utility for those who are planning their financial future so that they can think about how they are spending their money currently, and how they should be saving and investing money into the future to achieve their financial goals, purchase a property, or retire comfortably. These tools are highly scalable given that once they have been created and released online, they are accessible to anyone with an internet connection. Many of the online financial calculators that are available are similar in focus to those

provided by ASIC's MoneySmart, so it is important that financial information being provided to Australians is consistent between and across all calculators. Beyond that, calculators should encourage Australians to make positive financial decisions, and to be realistic when calculating things like potential future potential investment returns or retirement outcomes.

Online financial calculators have moderate awareness among Australians (39%), and while usage is slightly higher than MoneySmart and Centrelink, it is still low (15%). Most individuals have only moderate levels of trust in these calculators (6.1). The most common reasons given for using these calculators is that they are easy to access (78%), and that they provide useful and relevant information (66%).

Subscription-based digital advice services

Subscription-based digital advice services are websites, apps and services where users pay a monthly or annual subscription fee to gain access to real-time digital financial advice, as well as financial information, calculators and apps. These services offer an alternative to the traditional advice model as instead of paying for expensive face-to-face or phone consultations, they provide automated product advice using technology and algorithms without needing a human adviser. They are much cheaper than seeing a financial adviser and offer convenience in that they can be accessed anywhere and at any time. Providers like Otivo offer users advice when they want it, as well as facilities to organise their savings, insurance, and mortgage payments, while also helping them to reduce debt and organise their retirement. These are all aspects that have traditionally been the domain of financial advisers, but by offering these services as a subscription to large numbers of people, they are able to achieve economies of scale and provide a scalable financial assistance solution for a fraction of the cost of a traditional financial adviser. As they are much more affordable and accessible, they have the potential to bring sound financial information to younger people who are already comfortable using technology frequently, as well as those with lower incomes who are not able to afford a financial planner.

These services also have the opportunity to expand their offering through the provision of staff that can explain how to use calculators and what the outputs mean. This was assessed as a valuable prospect by two in five Australians (42%) and has the potential to increase as these services become more prevalent.

Before they become more commonplace, subscription-based digital advice services need to overcome low levels of awareness among Australians (18%). Only a tiny fraction of the country is currently using them (3%), despite the mentioned advantages they provide over other types of paid financial assistance. For higher adoption to occur, this source will also need to improve trust levels which are currently relatively low (5.5). Among the small proportion using them, they cite the usefulness and relevance of the information provided (65%), as well as ease of access (49%) and its provision of opinions or recommendations (47%) as the key reasons for using them.

CLOSING REMARKS

We hope you found this report informative. We acknowledge CoreData's generosity in providing the resources for this survey. We believe the breadth of the survey provides a unique insight into the current state of financial decision-making by Australians.

This report depicts a concerning current state and identifies challenges for Government and industry:

- **Australia has a significant financial literacy challenge which directly contributes to poor management of financial arrangements.** The survey results are a reminder that this problem, with all its associated costs, needs to be addressed. Government and industry both need to do more through short and long-term initiatives.
- The survey maps the life spectrum of financial matter priorities and the most used sources of financial assistance. Financial assistance needs change through time while a preparedness to pay for financial assistance only emerges amongst people once they reach their 40's. By the time people reach their 60's, the decade in which retirement income planning is paramount, financial advice from a financial adviser becomes the dominant source of financial assistance (and remains dominant). This analysis highlights that **a range of scalable services, at varying levels of affordability, are required to ensure the entire population has access to high quality financial assistance.**
- The survey clearly identified the attractions of financial advice (it accounts for personal situation, provides useful and relevant information, and provides a recommendation or opinion). Further, financial advice from a financial planner is a trusted source of financial assistance. However, this form of financial advice is unlikely to be the solution for all consumers (it is viewed by many as unaffordable and not representing value for money). This raises the risk that financial advice from a financial adviser becomes viewed as a luxury good. **Unless policy reforms achieve the dual outcomes of reduced cost and increased scale, financial advice provided by a financial adviser will remain a partial solution to the needs of all Australians.**
- Given the supply and cost constraints in traditional financial advice, a range of alternative financial assistance solutions need to be considered, especially those which can provide low-cost assistance at scale. Possible solutions include ASIC MoneySmart, general assistance provided by superannuation funds, Centrelink, online financial calculators, and subscription-based digital advice services. Each candidate solution has potential, but each is faced with challenges. Some of these solutions sit outside the terms of reference of the Quality of Advice Review. **We encourage Government to take a holistic mindset and put in place a range of initiatives that in aggregate will address the shortfall in quality and affordable financial assistance.**

We hope the findings of this survey contribute to the current discussion on this important topic and add weight to the need for a range of well-considered initiatives.

COREDATA TEAM



Andrew Inwood
CEO

Andrew Inwood is the founder and principal of CoreData and has more than 30 years' experience in the Australian financial services industry. He started his career at Rothschild Australia Asset Management where he headed the marketing team, before moving to AMP Investments where he spent more than a decade. During his time at AMP, he was seconded to Virgin Direct in the UK to help establish the finance and investment arm of the group.

Andrew returned to Australia to be marketing director of Wizard Home Loans. From Wizard he moved to Telstra where he spent three years as general manager of applications and hosted services, before leaving to start CoreData. In the past 20 years, CoreData has expanded out of Sydney to have offices in Perth, London, Boston and Manila.

Andrew is the author of more than 50 pieces of significant research into clients and their behaviour and has a particular focus on the value of the client experience in financial services. He is a highly regarded speaker and has delivered keynote speeches in every Australian capital city, London, Edinburgh, New York, Tokyo, Queenstown, Monaco and Berlin.

Andrew has served on a number of charity and sporting club boards and been a seed investor in and director of a number of start-up businesses, particularly in the online sector, a practice which he continues to this day.

He has a Bachelor of Economics from the University of Sydney ASIA.



Aymon Blundell
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Aymon is a research consultant at CoreData. His responsibilities include research design and implementation, data analysis and research report writing.

He holds a Bachelor of Commerce from the University of Sydney, where he majored in Marketing and minored in Spanish and Latin American studies. Before working at CoreData, Aymon previously worked for market research consultancy EY Sweeney, as well as other various roles in the advertising and market research industries where he was able to develop his acumen for using data to create actionable business insights.

