



PATHWAYS TO RESILIENCE

The impact of financial conversations on the financial capability of NILS applicants

Authored by Agathe Randrianarisoa & Kate Eccles

Research project funded by



Financial
Literacy
Australia
GRANTS



Good Shepherd
Microfinance

Acknowledgments

Good Shepherd Microfinance acknowledges the important financial contribution made by our funding partner, Financial Literacy Australia (FLA), towards this research.

We also thank the 72 NILS provider sites in Australia and their NILS microfinance workers, who took part in this project.

In addition, we acknowledge previous Good Shepherd research¹, particularly in developing the survey instrument we used to measure the impact of the NILS loans.

Finally, we would like to express our gratitude to the 734 NILS applicants who generously and enthusiastically shared their personal experiences during this research project, particularly those who spoke to us despite not receiving a loan.

Research Reference Committee

Les Hems

Director, Ernst & Young

Prof John Langmore

Assistant Director Research (Security and Political Engagement)
Melbourne School of Government, University of Melbourne
Deputy Chair, Board, Good Shepherd Microfinance

Tanya Corrie

Development Lead,
Good Shepherd Australia New Zealand

Karen Denham

Microfinance Manager — Queensland, Good Shepherd Microfinance

Kate Eccles

Research Coordinator, Good Shepherd Microfinance

Edited by

Vinita Godinho, General Manager, Advisory
Lauren Thomas, Manager, Program Design & Advisory Services

Report Availability

This report is available on the following websites:

www.goodshepherdmicrofinance.org.au

www.finlit.org.au

Citation

Randrianarisoa, A. & Eccles, K., (2016) Pathways to resilience: The impact of financial conversations on the financial capability of NILS applicants, Good Shepherd Microfinance, Melbourne

Contact

Advisory Services
Good Shepherd Microfinance
Level 11, 350 Queen Street
Melbourne, Vic, 3000
Australia

advisory@gsmicrofinance.org.au

(03) 9495 9600

Cover: Peter, NILS client and Gerry NILS Officer, Good Shepherd Australia New Zealand, Marrickville

1. Corrie, T (2013) Measuring the impact of Microfinance 'Money Conversations' on Financial Capability: A trial study — Methodological report and pilot findings, Good Shepherd Youth and Family Service

Foreword

As an organisation Good Shepherd Microfinance sets audacious goals. We aim to improve the financial resilience of clients and their families through access to innovative and inclusive financial products, and intend to reach one million people in Australia by 2018.

To achieve our bold ambitions, we draw upon the knowledge and expertise we have gained over 35 years of developing microfinance programs in Australia. Over this time we have established a network of 241 accredited providers in 636 locations across Australia, which are embedded in the communities that they serve. These partners manage approximately 70,000 No Interest Loan Scheme (NILS) loan enquiries.

A core part of our strategy is to improve our reach and our impact based on strong and rigorous evidence. This research project is an important step in our understanding of our impact on clients' financial capability, particularly through the hundreds of individual financial conversations that take place daily throughout our network with potential clients.

This report confirms that a key component of NILS is the personal support that is offered to every applicant at each stage of the NILS application process including before, during and after a financial conversation. Each such interaction is an opportunity to build the financial knowledge, skills and behaviours of those we service, offering pathways towards resilience. However, the nature of this opportunity varies for each person, based on a number of factors including their personal financial capability, circumstances and access to resources.

Our research emphasises that we help many of our clients move towards greater financial resilience, by providing the only safe and affordable finance they can access. The research also highlights that the financial conversation improves financial capability even for those applicants who are not successful in obtaining a loan. It also revealed that many people prefer goods rentals over payday loans, as the risks of renting goods are less well-known. These are valuable insights that will inform future financial conversations across our network.

The learnings from this research are crucial to our ongoing efforts to enhance program design to maximise the impact of each financial conversation. These insights also allow us to build capacity and capability within our service provider network, including providing learning & development opportunities for the 1,514 microfinance workers (paid and volunteers) who conduct financial conversations with our clients across Australia.

We acknowledge the vital contribution of our network of diverse community organisations, committed microfinance workers and dedicated volunteers to this research as well as our ongoing ability to service our clients' needs.

We also greatly appreciate the expertise and financial support NILS receives through our partnership with the National Australia Bank (NAB), as well as the Department of Social Services (DSS) and numerous state governments.

Finally, we are grateful for the opportunity to partner with Financial Literacy Australia (FLA) on this project. Without their help, a project of this scale would not have been possible to achieve. We believe and hope that the outcomes from this project can influence financial capability programs in Australia, and offer an important evidence-base for the future.



Adam Mooney

CEO of Good Shepherd Microfinance



shac
SHELTER HOUSING
ACTION CAIRNS

Julie, microfinance worker and Robert, StepUP client, Shelter Housing Action Cairns



Executive Summary

Executive Summary

As part of the assessment of eligibility and application for a NILS loan, applicants take part in a financial conversation with a microfinance worker or volunteer. These conversations are at the core of the microfinance programs offered by Good Shepherd Microfinance and represent a differentiating factor from commercial loans.

The financial conversation provides a combination of support, information, and positive reinforcement to NILS applicants who are reaching out for assistance. Topics that are discussed typically include budgeting, avoiding bank fees, managing bills, the high cost of fringe lending (such as payday loans and rent-to-buy contracts) and raising awareness of complementary programs.

This research reveals that the NILS application process is a journey that consists of a number of actions and interactions, with financial capability peaking at the point of the financial conversation. It confirms that each financial conversation is an opportunity to build the applicants' financial knowledge, skills and behaviour. Additionally, it highlights that the nature of this opportunity varies for each applicant depending on the applicants' existing financial capability, needs, and circumstances.

The methodology adopted for this research has blended concepts to measure the impact of the financial conversation, combining objective measures of financial capability based on a framework developed by prior research, with measures of financial self-efficacy based on clients' self-assessed confidence. In particular, our attempt to measure financial self-efficacy aims to contribute to the growing body of evidence recognising the importance of confidence in achieving financial capability.

This study also makes two important contributions beyond confirming the results of prior studies – the first is to provide evidence of the different types of impacts that the financial conversation can have for microfinance applicants. This is an important insight, which can allow microfinance workers to tailor the financial conversation, based on a better understanding of the applicants' needs and circumstances. Secondly, it also provides quantitative evidence that the immediate impact of the conversation normalises over time, demonstrating a need for ongoing support to influence longer-term behaviour change.

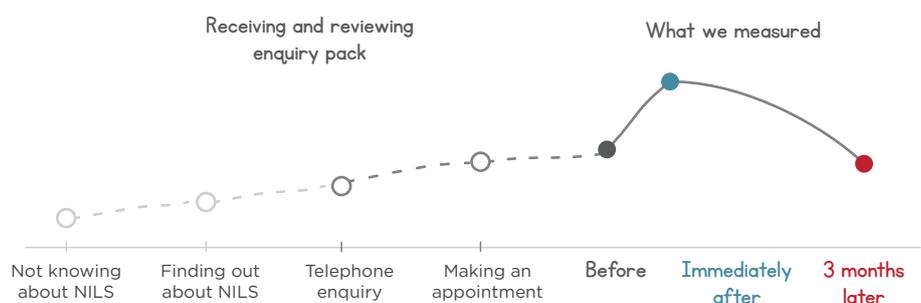
The key findings of this research are summarised below.

Applicants learn more and become more confident at each stage of the NILS application process. Financial capability peaks at the point of the financial conversation.

This research shows that the financial conversation impacts the applicants' financial capability before, during, and after the conversation. Figure 1 illustrates the applicants' journey through the NILS application process. Starting from not knowing about NILS, the applicants progressively learn more at each stage, increasing their financial capability and confidence up until they complete the financial conversation. Over time, their level of financial capability and confidence normalises, returning to usual levels as the pressure of managing a low income persists.



Figure 1
Financial capability along the NILS application journey



Preparing for a financial conversation has an impact

Knowing where to go to seek help in case of financial difficulties is an indicator of financial capability. Given that NILS is a safe and affordable financial option for many people on low incomes, the very process of learning about NILS and then seeking a loan, can indicate increased financial capability.

In addition, applicants undertake several preparatory steps before participating in the financial conversation — these can include requesting, receiving, and reading the NILS enquiry pack, arranging a NILS interview, and preparing for the NILS interview. For some applicants, this represents the first time they have thought about or taken action towards, improving their financial situation. These are important learnings which Good Shepherd Microfinance can incorporate into ongoing efforts to improve program design and effectiveness.



Leonie, NILS Program Coordinator,
Salisbury Community Organisation
Against Poverty



Recommendation One

Refresh the NILS enquiry pack

Improve the information given to applicants at the point of enquiry, for example by including a simple, well-designed budget which applicants can complete. Documents should be simply designed and written in plain, inclusive language.

Recommendation Two

Verify whether preparing for a financial conversation improves financial capability

Conduct research, possibly retrospectively, to assess the applicants' financial capability at the point of initial enquiry, and measure changes at the point the financial conversation occurs. This can also provide useful baseline data for subsequent studies.

Financial capability increases during a financial conversation

This research confirms previous studies within the Good Shepherd network that found the financial conversation has a positive immediate impact on each component of financial capability². It also found that applicants leave the financial conversation with more confidence and fresh strategies for managing their finances.

Applicants reported the largest increase in confidence for actions associated with financial knowledge, particularly in knowing where to seek information and assistance in case of questions about money (+10%). Qualitative feedback indicated that this could be the result of a concerted effort by microfinance workers, to include such information in every financial conversation.

Microfinance workers felt they could further improve the effectiveness of these conversations, if they were better able to gauge the specific needs and circumstances of each applicant.

Recommendation Three

Develop resources and tools to assess the initial financial capability of NLS applicants

Design resources and tools to assist microfinance workers/volunteers to more reliably assess the initial financial capability of applicants.

Recommendation Four

Develop evidence-based training for microfinance workers and resources and tools to help them tailor financial conversations to better suit applicants' needs

Design training and resources and tools, which can better support the microfinance network to deliver more client-centred and effective financial conversations.

Financial capability normalises over time

This research reveals that without ongoing support and/or contact, the immediate positive impact on applicants' capability tends to diminish, normalising over time. This diminishing impact corroborates global studies,³ which show that sustaining improvements in financial capability and financial behaviour over time is a challenge.

Qualitative feedback highlights the multi-faceted complexity of the daily lives of people on low incomes, and the structural challenges they face including the adequacy of Centrelink payments, and barriers to accessing safe, affordable and appropriate finance.

Further insights from qualitative focus groups revealed that three months after the financial conversation, life had 'returned to normal' for many applicants and the heightened capability experienced when first engaging with the NLS loan, was no longer front-of-mind. Applicants gave many reasons for this — for some, the automatic repayment process translated into a 'set and forget' mindset, while others had to focus on coping with new financial crises.

2. Eccles, K & McIlwain, G (2015) Life Changing Chats: The Impact of the Financial Conversations on StepUP Applicants. Corrie, T (2013) Measuring the impact of Microfinance 'Money Conversations' on Financial Capability: A trial study — Methodological report and pilot findings, Good Shepherd Youth and Family Service

3. Fernandes, D., Lynch, J., Netemeyer, R. (2014) Financial Literacy, Financial Education and Downstream Financial Behaviours.

Some applicants felt that the NILS policy of allowing only ‘one loan at a time’ meant they now had fewer safe and affordable options left, resulting in lower self-assessed capability. For other applicants, the ongoing loan repayments translated into feeling as if they now had less disposable income. The time period over which the questionnaires were administered, the higher stress months encompassing Christmas, school holidays and the back-to-school rush, may also have influenced some results.

Notwithstanding the reasons why many applicants assess their financial capability as normalising over time, feedback from the microfinance workers indicated that providing ongoing support and targeted tools could assist applicants to maintain the positive momentum, in the months after the financial conversation.



Jaymee, NILS client and Karen, Customer Service Advisor, Good Money Geelong.



Recommendation Five

Develop new resources and tools, particularly technology-led solutions for scale, grounded in a behaviourally-informed approach, to sustain the impact of the financial conversation

Sustain the impact of the financial conversation over the term of the microfinance loan and beyond, by developing client-centred resources and tools that can simultaneously inform, prompt, and encourage NILS applicants to maintain good financial habits.

The impact of the financial conversation varies. Analysis reveals four distinctive experiences, representing that each will have a different pathway to financial resilience

The detailed analysis undertaken as part of this research reveals that applicants arrive for a financial conversation with varying levels of confidence and can have differing experiences, depending on a number of factors including their initial level of financial capability, their circumstances, and their access to resources.

Four distinctive experiences emerged via statistical analysis, as described below. This valuable insight can be used to better tailor financial conversations to the specific needs of NILS applicants.

<p>Informed and inspired</p> <p>17% of applicants</p> <p>Much more confident in each area of financial capability, mainly due to very low initial confidence</p>	<p>Savvy and supported</p> <p>13% of applicants</p> <p>Much more supported and confident in knowing where to seek help</p>	<p>Confidence consolidated</p> <p>55% of applicants</p> <p>Slightly increased already high levels of confidence</p>	<p>Reality checked</p> <p>15% of applicants</p> <p>Initial overconfidence made more accurate via a financial conversation</p>
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Recommendation Six

Develop resources and tools to better support microfinance workers' efforts to tailor the financial conversation, based on an understanding of these four distinctive experiences

Resources and tools could include a diagnostic tool to assess initial financial capability, which can inform a more targeted conversation (see recommendation in section 4.1.2), as well as specific training modules for the microfinance network.

NILS applicants are more likely to be willing to enter a rent-to-buy contract than a payday loan

This study found that NILS applicants are more likely to be willing to enter a rent-to-buy contract, than a payday loan. Feedback from qualitative focus groups suggested that this could be due to a general perception among applicants that payday loans are more expensive and 'worse' than goods rentals.

This potential knowledge gap among our applicants could pose an ongoing challenge for our programs, as previous studies have demonstrated that goods rentals are usually more expensive than payday loans and also lock-in users for a longer term. The financial conversation is an important vehicle which can deliver this type of information to applicants, and should therefore communicate an accurate reflection of the comparable costs of these, and other lending options.

Recommendation Seven

Financial conversations should provide information about the comparable costs of payday loans and goods rentals to combat the overall perception that goods rentals are safer and less expensive

Planning future spending and saving is challenging

This research shows that NILS applicants are more comfortable with budgeting and keeping track of their money on a daily basis, than in planning future spending and saving. Although this difficulty directly relates to having to manage on low incomes, the financial conversation can help people see where they could potentially save money. It can also show that with careful budgeting, it may be possible to have a surplus income to save for future use, or for larger spending priorities.

Recommendation Eight

Explore client-centred approaches, for example, micro-savings programs and targeted support, through which financial conversations can encourage NILS applicants to save and plan future spending

Improving NILS processes: 'One loan at a time' and financial capability

Another unintended finding from this research is that NILS applicants are often very aware that while they are repaying a NILS loan, they are ineligible for another one. This could lower their financial capability and confidence, if they feel they have fewer safe options for finance, should it be needed. They may also be more likely to not know where to seek help.

This suggests that some applicants could benefit from the introduction of concurrent loans i.e. the ability to apply for an additional NILS loans while currently repaying one, should this be serviceable within the applicants' budget.

Recommendation Nine

Explore the potential to provide further microfinance options to eligible returning clients under certain circumstances, including concurrent loans and/or increasing the loan limit

These key findings are discussed in more detail in the main report. These insights will be used to directly inform future program design, as well as the development of new resources to better support our clients, microfinance workers, and volunteers. The research therefore directly contributes to Good Shepherd Microfinance's ability to enhance the impact of NILS, both for the duration of the loan and beyond.



Damien, Quality Assurance Officer, Good Shepherd Microfinance and Norma, NLS client Marrickville

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Reza, StepUP client Good Money



Introduction



1.1

Good Shepherd Microfinance is Australia's largest microfinance provider. We offer a suite of people-centred, affordable financial programs for individuals living on low incomes, aimed at different financial stages of their lives.

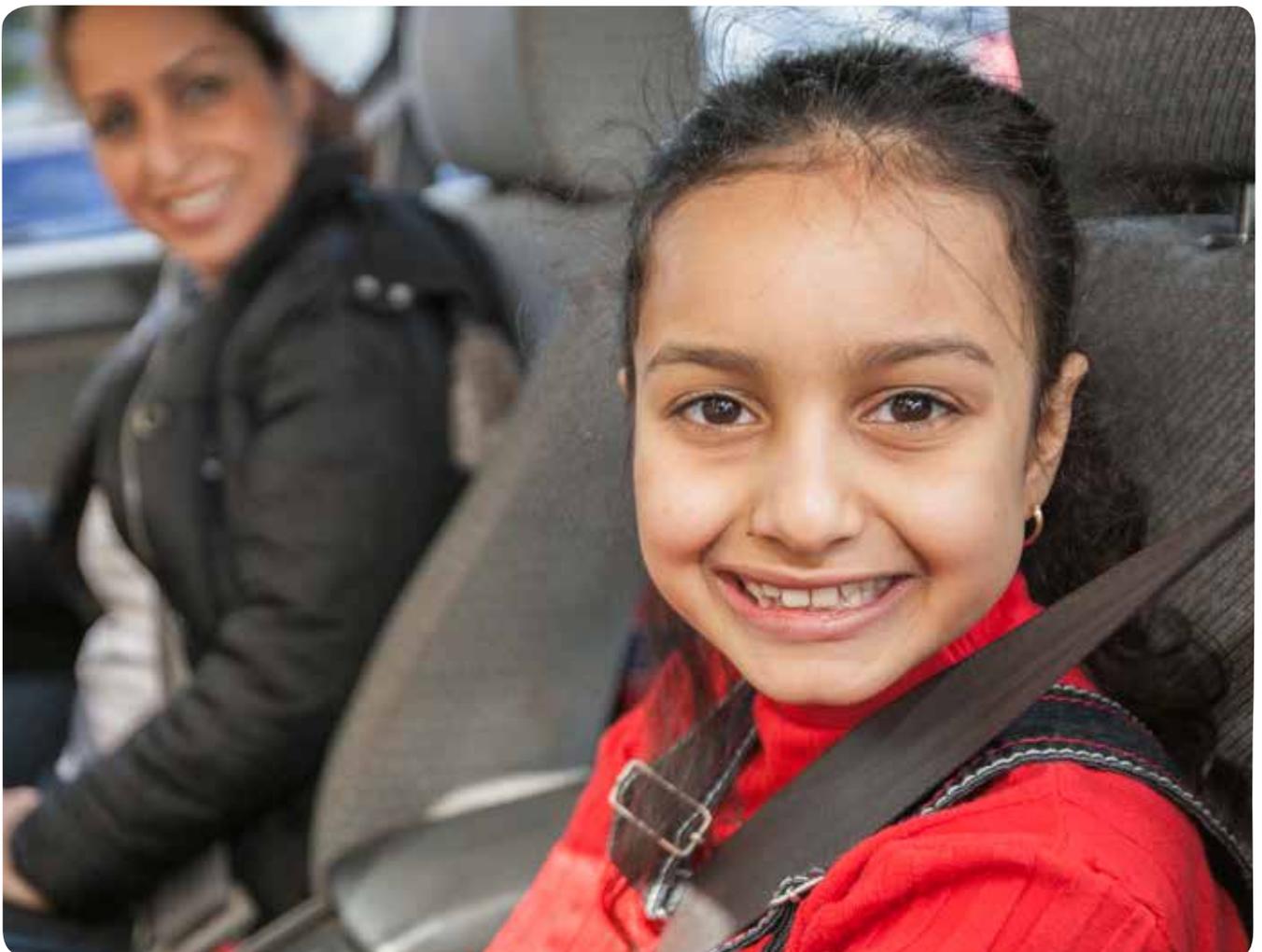
Almost three million people in Australia are excluded from the mainstream financial system.⁴ Good Shepherd Microfinance recognises that one of the many reasons why people can be excluded from mainstream financial services may be due to a lack of capacity to negotiate the financial system to their benefit and advantage.

We aim to build financial capability and resilience through the delivery of community finance products and services. This work helps to ensure that people can become economically mobile and independent.

We work in partnership with National Australia Bank (NAB), the Federal Government and state governments to deliver our services and programs. NAB's commitment of \$130 million in microfinance capital has enabled the expansion of our no interest and low interest loans across Australia.



Shahla NILS client Good Money
Dandenong and her daughter Raya



4. Centre for Social Impact (CSI) for National Australia Bank (NAB), (2014) Measuring Financial Exclusion in Australia



1.2 THE NO INTEREST LOANS SCHEME

Essentially, the No Interest Loan Scheme (NILS) provides individuals and families on low incomes with access to safe, fair and affordable credit.

NILS is the largest microfinance program in Australia and offers people on low incomes small loans that carry no fees or interest charges. Loans are worth up to \$1,200 and can be used to purchase essential household goods, such as whitegoods, or other services such as car registration, healthcare costs, or education.

NILS is offered by a large service provider network of more than 241 local community organisations and four Good Money stores, through over 636 locations across Australia.

During 2014-2015⁵:

- > 22,191 loans were delivered with a cumulative value of over \$20 million.
- > 67% of the borrowers were women.
- > 22% of borrowers identify as Aboriginal or Torres Strait Islander.
- > 94% of the loans were repaid in full.

To be eligible for NILS an applicant must:

- > Hold a Centrelink Health Care Card or Pension Card, or live on a low income (under \$45,000).
- > Have lived in the same residential address for three months.
- > Demonstrate willingness to repay, including a commitment to repay outstanding debts.
- > Demonstrate capacity to repay the loan.

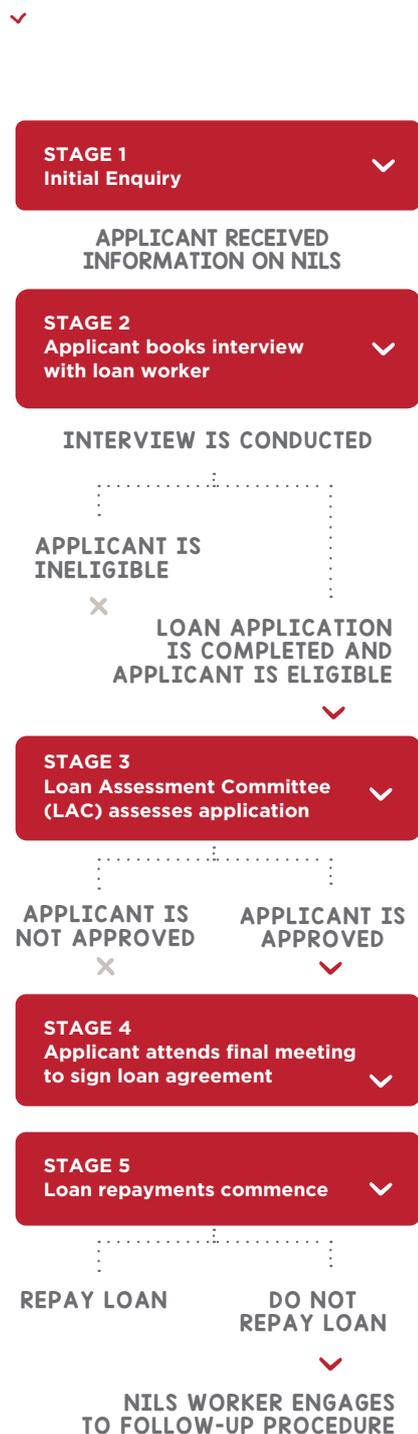
No credit checks are made, as this is a program based on trust and respect.

NILS works through a process of 'circular community credit.' Repayment of a NILS loan by one client makes another NILS loan available within the community.

After they have completed their first loan, NILS clients may be eligible to apply for another NILS loan and/or the AddsUP matched savings program (nb: AddsUP is not available to all clients due to funding limitations). NILS clients are also entitled to apply for a StepUP loan at a low interest rate if they require more than \$1,200 or if their loan purpose does not fit the NILS criteria of essential goods and services.

5. Good Shepherd Microfinance (2015) Partners in the Community Annual Report 2015

Figure 2
NILS Loan Delivery Process



1.3 THE FINANCIAL CONVERSATION

As part of the assessment of eligibility and application for a NILS loan, applicants take part in a financial conversation with a microfinance worker or volunteer.

Financial conversations are at the core of the microfinance programs offered by Good Shepherd Microfinance and represent a differentiating factor from commercial loans. The financial conversation provides a combination of support, information, and positive reinforcement to NILS applicants who are reaching out for assistance. This is almost always conducted in person and takes around 60 minutes, depending on the circumstances and needs of the applicant.

The topics discussed in the financial conversation are not stipulated by Good Shepherd Microfinance, however, typically include budgeting, avoiding bank fees, managing bills, the high cost of fringe lending, such as payday loans and rent-to-buy contracts, and raising awareness of other complementary programs such as financial counselling, StepUP, AddsUP, and insurance.

Before attending a financial conversation, the applicant would usually have enquired about a loan and received an enquiry pack that includes a list of the documentation required to apply for a loan. Applicants then schedule a loan interview with a microfinance worker or volunteer and are encouraged to bring this documentation to their loan interview.

This process can vary depending on the policies of the provider, the geographic remoteness of the region, and the needs and preparedness of the applicant.

1.4 PREVIOUS RESEARCH MEASURING THE IMPACT OF THE FINANCIAL CONVERSATION

This research has adapted a questionnaire and research design that was previously developed and tested by the Good Shepherd network to measure the impact of the financial conversation on clients' financial capability. A brief summary of this literature is contained below:

Measuring the impact of microfinance 'money conversations' on financial capability: a trial study⁶

In 2013, Good Shepherd Youth and Family Services (GSYFS) developed and piloted a questionnaire and research design to measure the impact, benefits, and key components of the financial conversation on microfinance loan applicants. This research developed a conceptual framework for financial capability (discussed further in section 1.5 below) that considered the individual's financial knowledge and skills, within the broader context of their access to appropriate financial information, support, a non-exploitative market, an emergency buffer, and an adequate income.

Using this framework, a questionnaire and research design was then developed and tested with NILS, StepUP and AddsUP applicants over three phases. The research found a link between the financial conversation and immediate improvements in financial capability. The findings were considered preliminary as the cohort was small and no follow up survey was conducted. The main outcomes of the research were a tool to measure the impact of the financial conversation and numerous recommendations for future use.

6. Corrie, T (2013) Measuring the impact of Microfinance 'Money Conversations' on Financial Capability: A trial study — Methodological report and pilot findings, Good Shepherd Youth and Family Service
 7. Eccles, K & McIlwain, G (2015) Life Changing Chats: The Impact of the Financial Conversations on StepUP Applicants
 8. Hira, T. (2010). The NEFE quarter century project: Implications for researchers, educators and policy makers from a quarter century of financial education. Denver: National Endowment for Financial Education.

Life changing chats: Impact of the financial conversation on StepUP applicants' financial literacy and capability⁷

In 2015, Good Shepherd Microfinance adapted the questionnaire from the 2013 study described above, by incorporating key recommendations to measure the impact of the financial conversation specifically on StepUP applicants. This study found that the impact of the financial conversation was greater when combined with a StepUP loan. This study explored the change in applicants' behaviour immediately and after three months. It also explored how applicants self-assess changes in their general confidence with money matters at the three month mark, as a proxy measure of their financial self-efficacy, the belief in their own ability to influence their lives.⁸ The most significant impact from the financial conversation for StepUP applicants related to financial knowledge, with relatively small improvements in financial skills and behaviours.

1.5 FINANCIAL CAPABILITY DEFINITION AND FRAMEWORK

The conceptual framework for financial capability utilised in this research (shown in Figure 3 below) was developed by Good Shepherd Youth and Family Services for initial pilot research exploring the impact of the financial conversation on applicants' financial capability.⁹ This integrated widely recognised definitions of financial literacy and financial capability used in the ANZ Financial Literacy survey¹⁰, and the work of the Financial Services Authority in the United Kingdom.¹¹

To build financial capability, financial knowledge must translate into useful skills through practice, and skills must be applied in day-to-day decision-making before information can result in behaviour change. The concept of financial capability therefore, incorporates both the knowledge and ability to do something along with the larger social context that influences the actions taken by an individual. Increasingly, researchers have recognised that financial capability is a more comprehensive framework to measure financial knowledge and skills than financial literacy as it also seeks to understand the structural factors that influence these.¹²

Figure 3
Conceptual framework for financial capability



9. At that time NILS was delivered through Good Shepherd Youth and Family Services. Good Shepherd Microfinance became a separate entity after this report was written.

10. Australia and New Zealand Banking Group, 2011, ANZ Survey of Adult Financial Literacy in Australia. Melbourne: ANZ.

11. Kempson, E., Whyley, C., Caskey, J., & Collard, S. (2000). In or Out? Financial Exclusion: a Research and Literature Review. Bristol: Financial Services Authority.

12. Atkinson, A., McKay, S., Kempson, E. and Collard, S. (2006) Levels of Financial Capability in the UK: Results of a Baseline Survey, London: Financial Services Authority.



Dianne, NLS client, Family Care Shepparton



Research Design



2.1 RESEARCH AIM

This research aimed to further develop our understanding of the impact of the financial conversation on the financial capability of microfinance loan applicants. We therefore explored, in greater detail, the link that has been found in previous studies between the financial conversation and changes to applicants' financial capability.

Methodologically, this research also aimed to continue to develop our understanding of how financial capability can be measured and also extended the research design to include a larger cohort of NILS clients.

Good Shepherd Microfinance intends to use this research to enhance the positive impacts of the financial conversation. The results of this study will inform future program design, the development of a training module for microfinance workers and volunteers, as well as targeted resources to maximise the impact of the financial conversation.

2.2 FINANCIAL CAPABILITY FRAMEWORK

The questionnaire developed in previous studies to measure financial capability identified key components, sub-components and associated actions based on the global literature on financial capability, as described in Table 1 below:

>

Table 1
Financial capability components

Financial capability	Sub-components	Associated actions
Knowledge	Making choices	> Choosing appropriate financial services
	Getting help	> Knowing who to ask if there are questions about money > Knowing where to go if there are questions about money
Skills	Money management	> Managing budgets > Keeping track of expenses > Resisting pressure to spend or borrow
	Planning ahead	> Saving money for an emergency > Saving money for future goals > Planning for large expenses
Behaviour	Strategies	> Strategies when money is short > Strategies when there is an unexpected large expenditure > Strategies when money is left over

2.3 REFINING THE QUESTIONNAIRE: INVESTIGATING FINANCIAL SELF-EFFICACY

In addition to measuring changes in financial capability by asking applicants *how often* they undertake certain financial decisions and actions, this research also explored the impact of the financial conversation on the *financial self-efficacy* of applicants.

The concept of **financial self-efficacy** acknowledges the role of psychological factors in financial decision-making, recognising that information and education alone are not sufficient to affect behaviour change. Financial self-efficacy is defined as 'having the confidence in one's ability to deal with a monetary situation without being overwhelmed'¹³ with the ANZ finding it is positively associated with financial literacy in their annual Adult Financial Literacy in Australia study.¹⁴

In this report, applicants' self-assessed confidence in their ability to deal with their financial situation i.e. their financial self-efficacy, has been used as a proxy measure of their financial capability. This proxy measure was selected because confidence/self-efficacy is recognised as a key driver of financial capability by the Financial Services Authority (FSA) in the United Kingdom. Their study¹⁵ found that confidence and attitudes are influenced by experience and circumstances, and are linked to knowledge and skills, with outcomes reflected in behaviour.

Although self-efficacy has been emphasised in existing literature as a key enabler of financial capability, few studies have attempted to measure it. We found that applicants found it easy to understand and self-assess their own confidence, across each component of financial capability in the questionnaire. This also made it easier for us to compare results across different points in time.

2.4 WHAT WE MEASURED

To measure the impact of the financial conversation over an extended period of time, applicants were asked about their financial capability in three stages, as described in Table 2 below:



Table 2
Stages and method of data collection

Stage	Method of delivery
Immediately before the financial conversation	> Paper survey
	> Or web survey
Immediately after the financial conversation	> Paper survey
	> Or web survey
3 months later	> Web survey
	> Or telephone survey

Table 3 provides more granular details on how financial capability was measured at each stage of the research. This table also shows how financial self-efficacy was incorporated into the financial capability framework.



Table 3
Financial capability components at each stage of research

Financial literacy components	Questions	Before	After	3 months later
Knowledge	Frequency (how often do you?)	✓		✓
	Financial self-efficacy (how confident are you?)	✓	✓	✓
Skills	Frequency (how often do you?)	✓		✓
	Financial self-efficacy (how confident are you?)	✓	✓	✓
Behaviour	Future intention (what would you do?)	✓	✓	✓

13. Hira, T. (2010). The NEFE quarter century project: Implications for researchers, educators and policy makers from a quarter century of financial education. Denver: National Endowment for Financial Education.

14. ANZ and The Social Research Centre (2011), Adult Financial Literacy in Australia

15. Kempson, E, Collard, S., & Moore, N (2006), Measuring financial capability: An exploratory study for the Financial Services Authority., Consumer Financial Capability: Empowering European Consumers 39

2.5 DATA COLLECTION AND ANALYSIS

This research enhanced the previous research design by employing a mixed-methods approach, combining qualitative and quantitative techniques. This allowed researchers to test emerging insights with participants via focus groups, generating richer data and enabling more nuanced understandings. The following sections describe the approach to data collection and analysis.

2.5.1 Quantitative data collection

Building upon the research design developed in previous studies, this research collected quantitative data in three stages, as described in Figure 4 below:



Note: After completion of Survey 1 and 2, respondents were given a \$10 voucher and another \$10 voucher after completion of Survey 3 as compensation for their time.

As illustrated in Figure 5, 48 partner organisations over 72 sites across Australia participated in this research project, ensuring geographical coverage across all Australian states except Western Australia.



Figure 5
Participating NLS sites per State



2.5.2 **Qualitative data collection**

Following preliminary analysis of the survey data, ten focus groups were held in four locations (Melbourne, Launceston, Devonport, Sydney) as follows:

- 6 focus groups were held with 25 NILS applicants.
- 4 focus groups were held with 16 NILS providers.

2.5.3 **Data analysis**

Quantitative data was analysed using a software package (SPSS) based on the following process:

- Applicants' responses to surveys 1, 2 and 3 were matched
- Data from those applicants who participated in each stage of the research, was used for further analysis
- Cluster analysis was also conducted, which included an initial factor analysis, the creation of three new variables, and a K-means cluster analysis

2.6 **LIMITATIONS OF THIS RESEARCH**

Participant self-assessment

The questionnaires used in this research required applicants to self-assess various aspects of their own financial capability. Hence, our qualitative and quantitative data is based on the applicants' perception of their own financial behaviour and financial self-efficacy/confidence.

The impact of timing

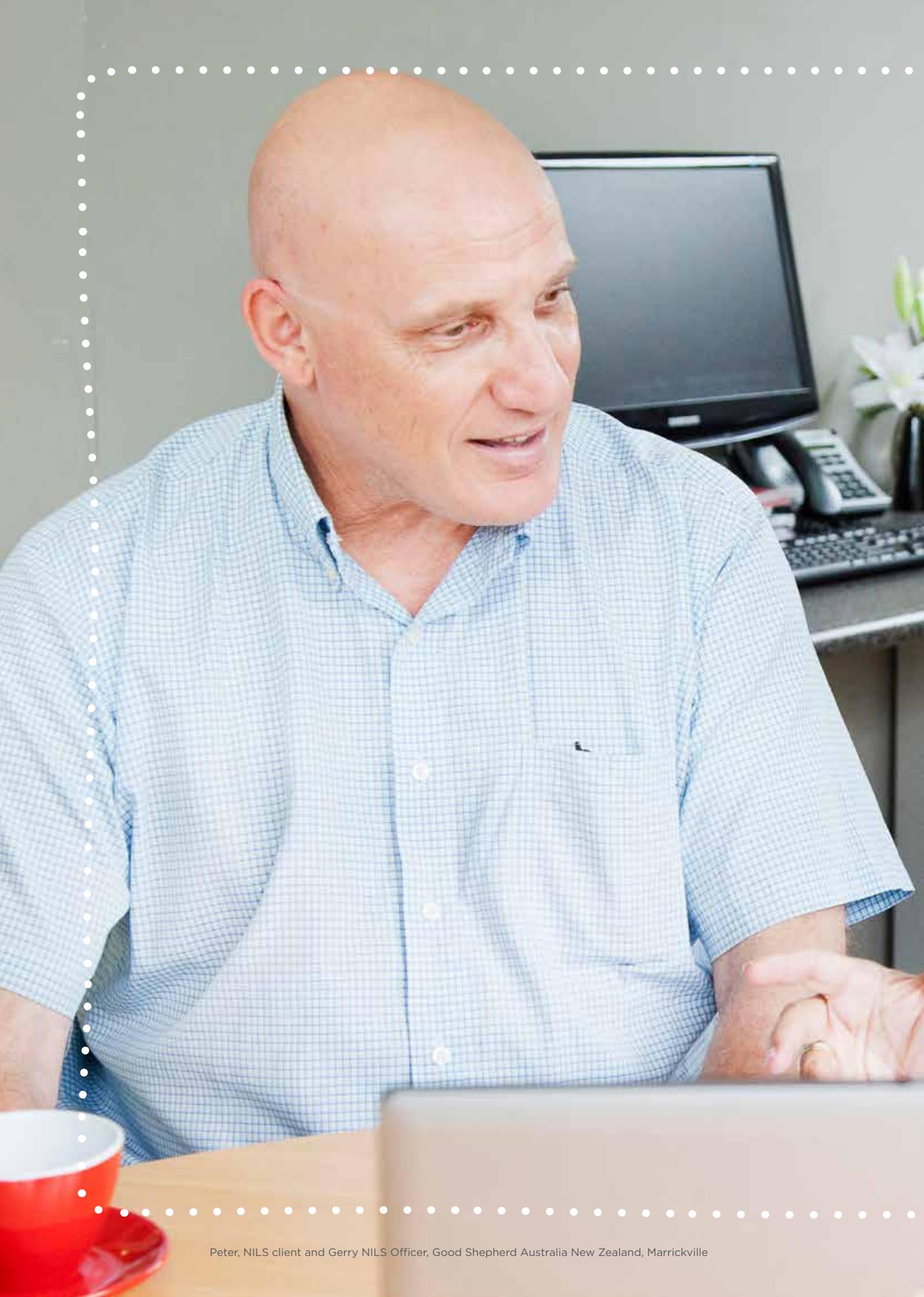
In the time period over which this research was conducted, the service provider network faced a number of challenges, including funding uncertainty and delays. Also, the three-month follow-up surveys were administered during the Christmas and holiday period, which is often a period of higher stress for those on lower incomes. Participants of the focus group discussions suggested that these contextual factors were likely to have influenced the self-assessed financial capability of applicants.

Research methods and data collection

The research process required the first two surveys to be administered by microfinance workers on the premises at the same time as the financial conversation. Both microfinance workers and applicants in focus groups suggested that responses may have been influenced by this, despite microfinance workers and informed consent documents emphasising the anonymity of the survey process. In particular, this may have resulted in applicants overstating their levels of financial capability in responses to the surveys administered before the financial conversation if they felt it could influence a more positive outcome for their loan application. As a focus group participant stated:

When you first go there, you're building yourself to sound better — but once you've got the loan, why build yourself up more because you don't need to.

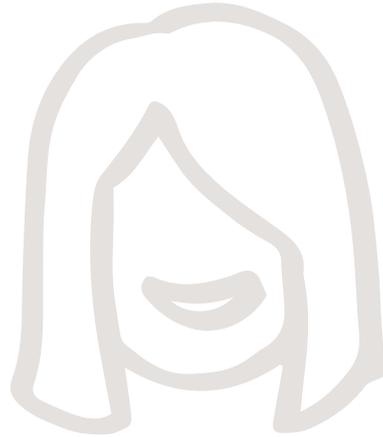
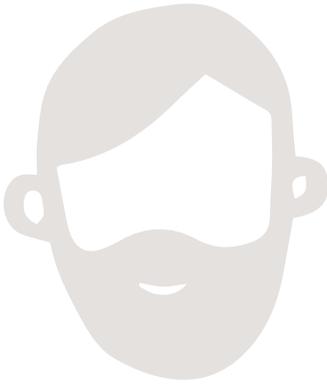




Peter, NLS client and Gerry NLS Officer, Good Shepherd Australia New Zealand, Marrickville



Demographics



3.1 PARTICIPATION

A total of 729 participants were included in this research — of these, 294 applicants completed all three questionnaires and their responses were matched. For consistency, all data analysis conducted for this report is based on the data from these matched applicants.

>

Table 4
Response rate at each stage of data collection

Survey timing	Before the financial conversation	After the financial conversation	3-month follow-up	Total matched respondents
Number of respondents	729	629	302	294
Response rate	Not available	86%	41%	40%

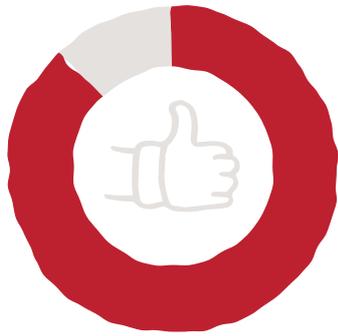
3.2 DEMOGRAPHICS

The socio-demographic profile of the research participants when compared with the July to December 2015 national NILES statistics, shows that the sample is generally representative of the NILES client cohort. However, some differences were noted — for example, participants in this research were more likely to be returning clients (55% of this sample vs 28% of the national client base) and female (74% of this sample compared to 67% of the national client base).

The detailed demographics of the participants are set out in Figure 6, which is a compilation of a range of data including gender, age, language, cultural identity, income, and household status.

Figure 6 also shows that three months after the financial conversation, most of the research participants (88%) had received a loan and only a small proportion (12%) did not receive a loan. Although this varies from the NILES national statistics that indicate 23% of enquiries lead to NILES loans, the national statistics do not record the number of actual financial conversations taking place across the network. We used this data to explore whether receiving a loan influenced the impact on financial capability and found that this was not a significant factor. This is a pleasing result, as it suggests that the financial conversation is able to improve financial capability even for those applicants who are not successful in obtaining a loan.

Figure 6
Participant characteristics



DID YOU RECEIVE A LOAN?

88% Yes
12% No



55%

Returning clients

13%

Aboriginal and Torres Strait Islander



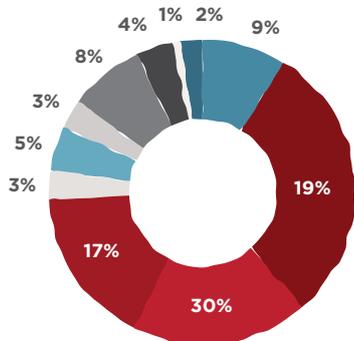
GENDER

74% Women
25% Men
1% Other



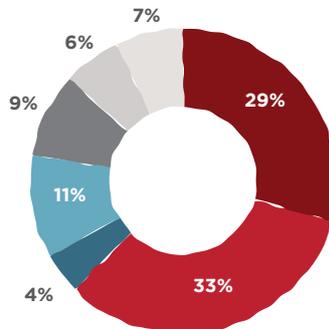
93%

English mother tongue or preferred language



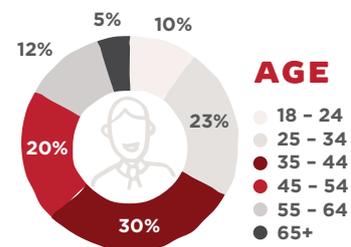
MAIN INDIVIDUAL INCOME SOURCE

- Disability Support Pension (Centrelink)
- Newstart
- Parenting Payment - Single
- Parenting Payment - Couple
- Age Pension (Centrelink)
- Youth Allowance
- Carers Payment
- Family Tax Benefit
- Full-time work
- Part-time/Casual work
- Other



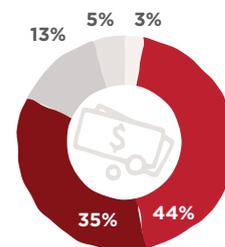
HOUSEHOLD STATUS

- Single no children
- Single with children under 15 and/or dependent status
- Partnered no children
- Multi adult household no children
- Partnered with children under 15 and/or dependent students
- Multi adult household with children under 15 and/or dependent
- Other



AGE

- 18 - 24
- 25 - 34
- 35 - 44
- 45 - 54
- 55 - 64
- 65+



INCOME RANGE

- \$0 - \$399
- \$400 - \$799
- \$800 - \$1199
- \$1200 - \$1599
- \$1600 - \$1999



Jaymee, NILS client and Karen, Customer Service Advisor, Good Money Geelong.



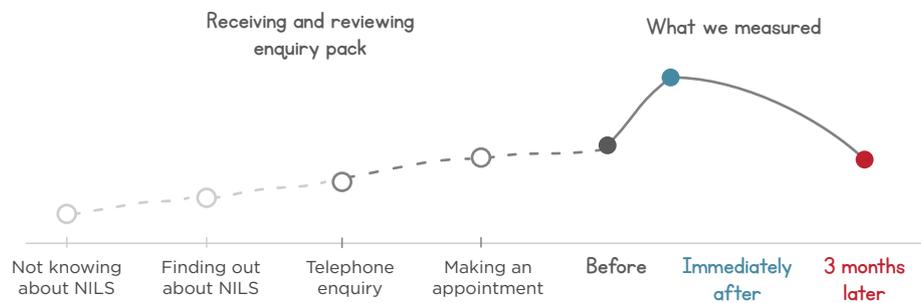
Research Findings



4.1 THE FINANCIAL CONVERSATION HAS AN IMPACT BEFORE, DURING AND AFTERWARDS

This research shows that the financial conversation impacts the applicants' financial capability before, during, and after the conversation. Figure 7 below, which was developed based on the feedback provided during focus groups with applicants, shows the applicants' journey through the Nils application process. Starting from not knowing about Nils, the applicants progressively learn more at each stage, increasing their financial capability and confidence along the way until they complete the financial conversation. Over time though, their level of financial capability and confidence diminishes, normalising back to usual levels, as the pressure of managing a low income persists.

>
 Figure 7:
 Financial capability through
 the Nils application journey



The focus groups, which were conducted after initial analysis of the quantitative findings, allowed the researchers to explore and validate their preliminary insights in more detail with participants. This approach enabled a much deeper understanding of the quantitative survey results than would otherwise have been possible.

The combination of quantitative and qualitative data brings to light the journey that a Nils applicant takes and at what point on that journey they participate in a financial conversation. Critically, the research provides rigorous data demonstrating the financial capability of Nils applicants at each of the points measured.

This is important information for Good Shepherd Microfinance and will allow us to target program development to enhance financial capability at each point in the Nils journey. The results pertaining to each stage of the journey measured in this research are discussed in the following three sections. These describe the impact of the financial conversation before, during, and afterwards and make recommendations relevant to each stage.

4.1.1 Preparing for a financial conversation has an impact

The qualitative component of this research design considered the financial conversation within the context of the NILS application process to explore the flow of information and support that is offered to applicants. This revealed that the steps an applicant takes in the lead up to their financial conversation likely deliver small and incremental boosts to applicants' financial capability, even before they arrive for a financial conversation.

Firstly, knowing who to ask, where to go, and which products are appropriate, are all indicators of growing financial capability.¹⁶ Given that NILS is a safe and affordable financial option for many people on low incomes, the process of learning about NILS and then seeking a loan, demonstrates a raised level of financial capability. Just by seeking a NILS loan, applicants are indicating that they know where to go, who to ask, and have chosen an appropriate financial product. This is represented in one statement from an applicant who says, 'for me, NILS is my bank.'

Microfinance workers also suggested that people with lower financial capability, who do not know about NILS, may be disadvantaged:

I would say that not all the people in the area know about NILS... if you could reach those people, that would be awesome because it would be stopping them getting into debt.

Secondly, the preparatory steps that an applicant undertakes, even before participating in the financial conversation, means that often for the first time, many applicants have thought about or taken action to improve their financial situation.

These steps can include requesting, receiving, and reading an enquiry pack, speaking to a microfinance worker over the telephone to arrange an interview, considering their eligibility, arranging quotes for the desired item and/or attempting to gather the required paperwork. At a minimum, the NILS Accreditation Resource Kit requires that prospective applicants be sent an enquiry letter with a checklist confirming the documentation that will be required, including proof of identity, Centrelink statement, payslips, utility bills, rental agreement, and bank statements.

Some providers also send loan application forms and household budgets to applicants and encourage them to fill in what they can. A few providers go even further and have developed pictorial budgets, which applicants with lower literacy can review prior to the financial conversation. Although these are great initiatives, they must be balanced in relation to the risk of overloading or deterring prospective applicants with information and tasks too early in the process. Any changes to the NILS enquiry process will therefore need to be carefully considered.

According to focus group participants, gathering this type of documentation and thinking about applying for a loan is something they may not have done for a long time, if ever. At the point of the financial conversation, one applicant said: **'You have more awareness. When you go for a loan you know how much you are spending.'**

This may also extend to contemplating your eligibility for a NILS loan, according to another applicant who said: **'Before you go in you have already looked at your budget to see if you can afford a NILS loan.'**

This increased awareness can result in a higher than normal level of financial capability just before attending the financial conversation. As this applicant stated, financial confidence and ability are raised before a financial conversation: **'Because it [the NILS application] was on their mind and they were thinking about it beforehand.'**

This effect is even stronger for returning clients, who are more likely to arrive well prepared to make a NILS application. One microfinance worker stated, **'The ones that had previously had a NILS application would come in with a budget already broken down. In saying that, that is usually the senior ones more so.'**

16. Financial Services Authority (2005), Measuring financial capability: an exploratory study

Additionally, applicants for a microfinance loan may also be working closely with a financial counsellor at the time of their application. These applicants would likely have been receiving support and information regarding financial matters for some time before their financial conversation and therefore would have higher levels of financial capability at that point in time.

Altogether, this suggests that financial capability could be raised even further by making improvements to the preparation process undertaken by a NILS applicant. For Good Shepherd Microfinance, this could include refreshing the enquiry pack provided to all prospective NILS applicants and adding additional resources to assist them in preparing for the financial conversation.

In addition, assessing applicants' financial capability at the initial enquiry stage of the NILS application process may offer an ideal opportunity to establish a more accurate baseline and measure subsequent changes over the course of the NILS journey. Our recommendations below aim to address these gaps.

Recommendation One

Refresh the NILS enquiry pack

Improve the information given to applicants at the point of enquiry, for example by including a simple, well-designed budget which applicants can complete. Documents should be simply designed and written in plain, inclusive language.

Recommendation Two

Verify whether preparing for a financial conversation improves financial capability

Conduct research, possibly retrospectively, to assess the applicants' financial capability at the point of initial enquiry, and measure changes at the point the financial conversation occurs. This can also provide useful baseline data for subsequent studies.

4.1.2 **Financial capability increases during a financial conversation**

This research demonstrated that the immediate impact of the financial conversation has a positive overall impact on the applicants' financial capability, corroborating the findings of the previous studies.

A range of probing questions were used to assess the immediate impact of the financial conversation on the financial capability of applicants, including the following:

Financial knowledge and skills

- > How confident are you ? (financial self-efficacy)
- > What prevents you?

Financial behaviour

- > What would you do?

Quantitative results, such as those shown in Figure 8 below, represent the mean across all of the participant responses. In addition, the responses relating to the actions associated with financial capability have been consolidated to generate an overall figure for each subcomponent (see Table 1). These results show overall improvements to financial capability across all sub-components that were measured.

These findings confirm previous studies that found the financial conversation has a positive immediate impact in each component of financial capability and applicants leave the financial conversation with more confidence and fresh strategies for managing their finances.

Financial knowledge and skills

The overall mean self-assessed financial self-efficacy results referred to hereinafter as 'confidence', in each of the areas associated with a component of financial capability, increased after the financial conversation. Qualitative responses suggest that this boost in confidence is likely related to the relief of having completed the application process, combined with the anticipation of a prospective successful loan.

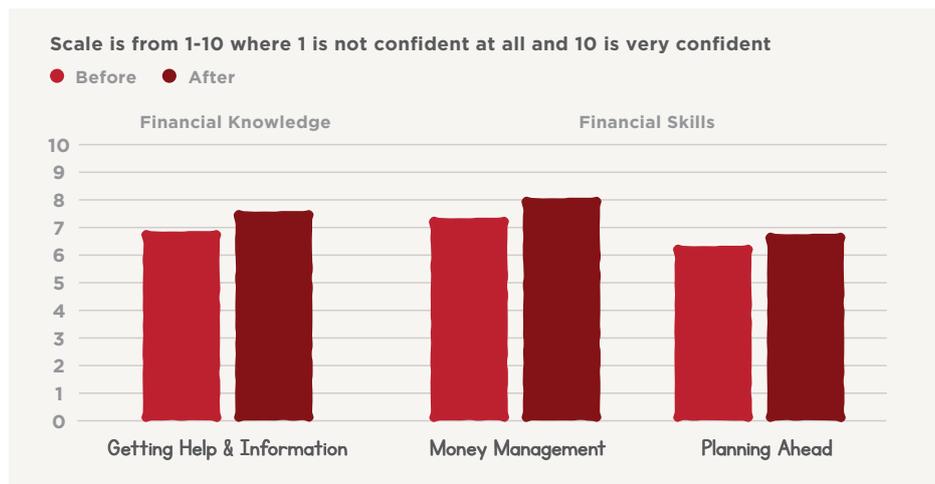
You get a pretty good indication in the interview about whether you will be successful, and if you're successful then you would feel more confident.

The increased confidence was largest for the actions associated with financial knowledge, particularly with the greatest increase for getting information and assistance with questions about money (+10%), as illustrated in Figure 8 below. This suggests that the greatest benefit of the financial conversation may be the increased confidence applicants gain in knowing where to go when they need help in the future. As one applicant stated:

“Your confidence is boosted because someone is helping you.” 

>

Figure 8:
Immediate Impact —
Mean scores for financial
self-efficacy in financial
knowledge and skills



In general, fewer applicants perceived there to be barriers to managing money and planning ahead immediately after the financial conversation, as highlighted in Figure 9 below. In particular, applicants were less likely to feel like they did not have enough money (48% to 42% of applicants), indicating that the budgeting exercise can help people see that if they adjust their spending, they may have enough money.

>
 Figure 9:
 Immediate Impact – % of responses to what prevents you from managing money and planning ahead?

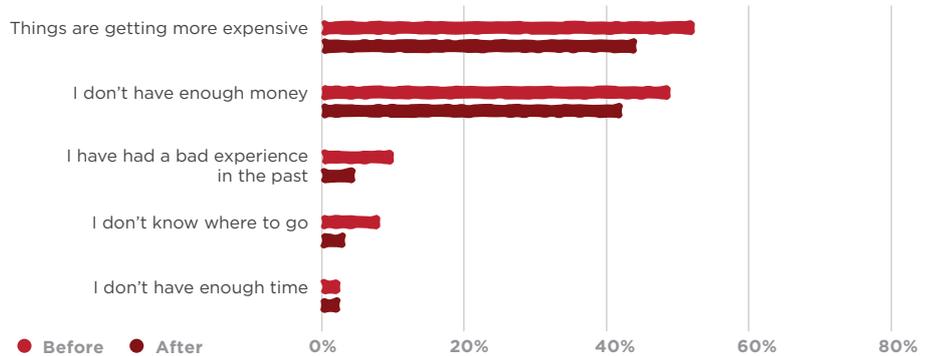
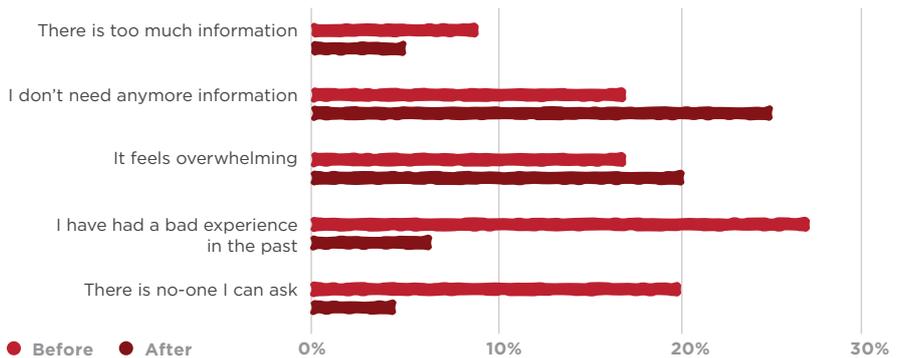


Figure 10 below illustrates the most significant changes in relation to barriers to getting help and information related to available support and previous bad experiences. This suggests the financial conversation provides a positive experience that can supersede past bad experiences (27% to 6% of applicants). Additionally, the financial conversation can provide a safe place for people to turn to, where they otherwise would feel they have no options for support (20% to 4% of applicants).

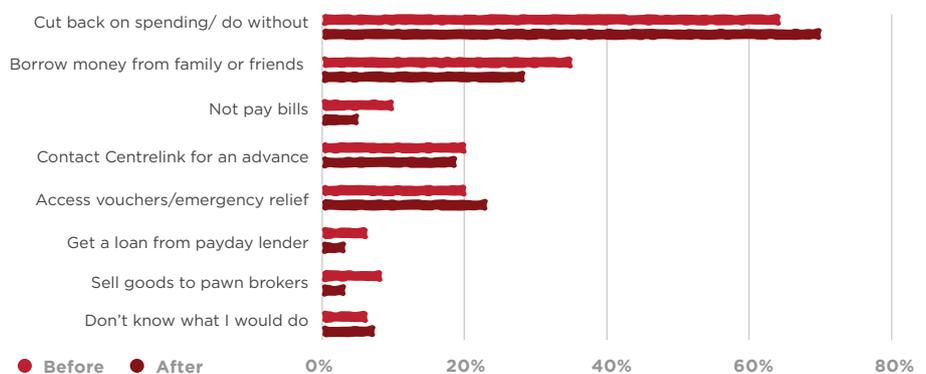
>
 Figure 10:
 Immediate Impact – % of responses to what prevents you from getting help and information?



Financial Behaviour

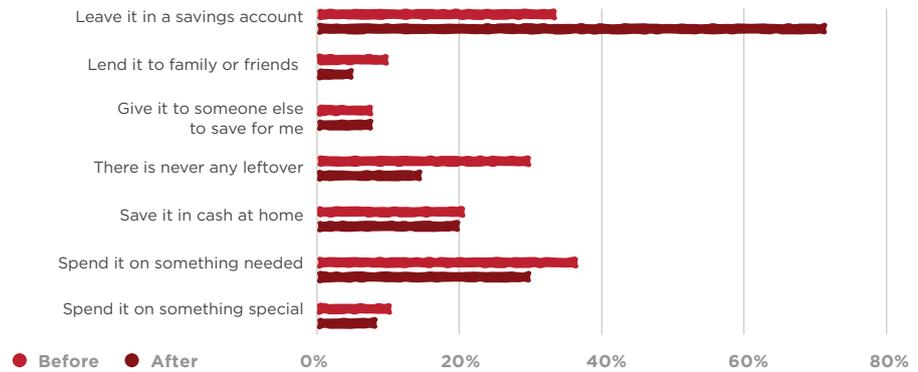
Applicants' understanding and intention to use a number of strategies to manage their finances changed during the financial conversation, as illustrated in Figure 11 below. Discussions in focus groups indicate that this was primarily influenced by the information and support offered to applicants during this time.

>
 Figure 11:
 Immediate Impact – % of responses to strategies when money is short



In particular, applicants were less likely to feel like they had no money left over (30% to 16% of applicants). These applicants appeared to have changed their response to indicate their willingness to leave their leftover money in a savings account (34% to 55% of applicants), as highlighted in Figure 12 below and also discussed in section 4.4:

>
Figure 12:
Immediate Impact—% of responses to strategies for what to do with leftover money



Qualitative results offered a deeper understanding of how applicants feel after a financial conversation and why their confidence may have grown:

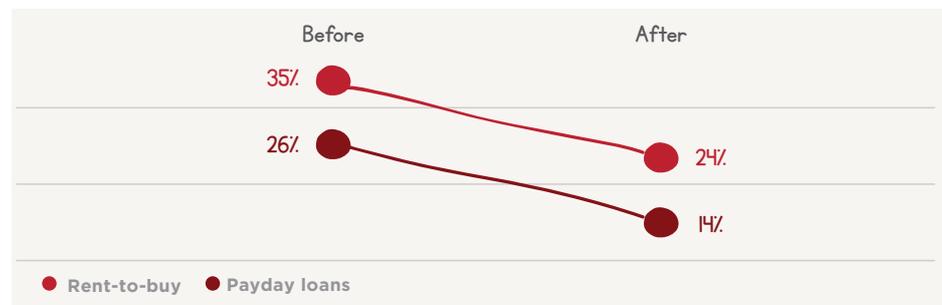
Probably because once they've done the interview it sounded so easy, so simple and there wasn't a big fuss.

When asked to share some strategies they use to help their clients, many microfinance workers and volunteers said they adapt the financial conversation to the individual needs of each applicant on a case-by-case basis. This seems to be a particularly valuable support for NILES applicants, especially for those who may have lower financial capability, as stated by this microfinance worker:

These clients are confident when they have someone with them holding their hands, at the start they have hope and feels like there is a solution and they have had a conversation and feel supported and boosted.

Microfinance workers and volunteers also indicate that they are often able to assess the financial capability of the applicants by using information provided in their bank statements and they use this knowledge to guide their conversations. For example, if an applicant is currently servicing payday lenders and/or rent-to-buy contracts, they include information about the higher costs of these forms of credit in their discussions. As Figure 13 below shows, these financial conversations work, as applicants report a lower willingness to access payday loans and rent-to-buy contracts in future.

>
Figure 13
Immediate Impact—% of applicants willing to use another financial option



While many experienced microfinance workers are very capable of interpreting signs of financial capability, there are no evidence-based resources available to support this at present. While there are modules to support budgeting and interview skills that are useful to the network, an additional complementary resource that enables microfinance workers to assess the applicants' financial capability and/or to tailor the financial conversation to suit their needs would be valuable. Our recommendations below aim to enhance these opportunities for improvement.



Karen, StepUP client and Kelly, StepUP Microfinance & Financial Counsellor, Anglicare NT



Recommendation Three

Develop resources and tools to assess the initial financial capability of NLS applicants

Design resources and tools to assist microfinance workers/volunteers to more reliably assess the initial financial capability of applicants.

Recommendation Four

Develop evidence-based training for microfinance workers along with resources and tools to help them tailor financial conversations to better suit applicants' needs

Design training, resources and tools, which can better support the microfinance network to deliver more client-centred and effective financial conversations.

4.1.3 **Financial capability normalises over time**

By focusing on both the immediate and medium term impacts of the financial conversation, this research reveals that without ongoing support and/or contact, the immediate positive impact on applicants' capability tends to diminish, normalising over time.

The normalising impact noted by this research corroborates global studies¹⁷ which show that sustaining improvements in financial behaviour and financial capability over time is a challenge and points to opportunities to investigate and implement innovative solutions. These findings also highlight structural challenges, such as inadequacy of Centrelink payments, that programs aiming to improve financial inclusion in Australia face and the multifaceted complexity of the daily lives of people on low incomes.

A range of questions were included in the surveys to measure the immediate impact of the financial conversation on the financial capability of applicants, including the following:

Financial knowledge and skills

- > How confident are you about.... ?
- > What prevents you?
- > How often do you ... ?

Financial behaviour

- > What would you do?

Researchers also investigated whether these results were impacted by whether or not the applicant was successful in receiving the loan. They found that unlike preceding studies¹⁸, this did not have any significant impact on the changes to financial capability and confidence experienced by the applicants. Although this may be due to the low number of unsuccessful applicants (12%) who participated in the survey three months after the financial conversation, this remains an area to be explored in future research.

The analysis of this data provided strong quantitative evidence to show that the immediate boost in financial capability experienced by the applicants following the financial conversation, normalises over time. By exploring this further through qualitative focus groups with NILS applicants and microfinance workers, the researchers were able to bring together valuable insights into the medium term impact of the financial conversation and the importance of context, namely the personal circumstances of NILS applicants.

Further insights from qualitative focus groups revealed that three months after the financial conversation, life had 'returned to normal' for many applicants and the heightened capability experienced whilst first engaging with the NILS loan, was no longer front-of-mind. Applicants gave many reasons for this – for some, the automatic repayment process translate into a 'set and forget' mindset, while others had to focus on coping with new financial crises.

Some applicants felt that the NILS policy of allowing only 'one loan at a time' meant they now had fewer safe and affordable options left, resulting in lower self-assessed capability. For other applicants, the ongoing loan repayments translated into feeling as if they now had less disposable income. The time period over which the questionnaires were administered, the higher stress months encompassing Christmas, school holidays and the back-to-school rush, may also have influenced some results.

Notwithstanding the reasons why many applicants assess their financial capability as normalising over time, feedback from the microfinance workers indicated that providing ongoing support and targeted tools could assist applicants to maintain the positive momentum in the months after the financial conversation.

17. Fernandes, D., Lynch, J., Netemeyer, R. (2014) Financial Literacy, Financial Education and Downstream Financial Behaviours.

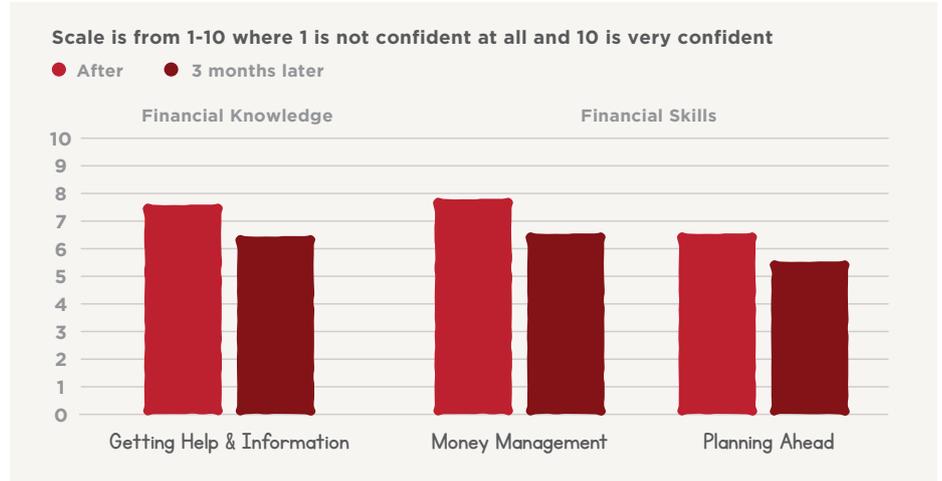
18. Eccles, K & McIlwain, G (2015) Life Changing Chats: The Impact of the Financial Conversations on StepUP Applicants

Financial knowledge and skills

This research shows the overall mean self-assessed confidence in the three months following the financial conversation diminishes, normalising back to usual levels over time. The level of decrease in confidence in Figure 14 below was comparable for each component, indicating that the overall trend is for confidence to degrade over time for NILS applicants.



Figure 14:
Medium term impact— Mean scores for financial self-efficacy in financial knowledge and skills



Qualitative focus groups allowed researchers to delve into this phenomenon in more depth. Broadly, this revealed that three months after the financial conversation, life 'returns to normal' for many people on low incomes that access NILS loans and for some, the next financial crisis has already hit.

Three months later is in the middle of your financial hiatus. You are taking it easy, you've just got your loan, and you've got what you need.

For others, there may be a new pressing financial issues requiring them to focus their time and energy on managing them to the best of their ability.

Microfinance workers participating in the focus groups say:

"When there is something going on in their life that is financial, they pay attention to their financial situation."

"This happens until the next crisis hits them, then they start to look at their financial situation again."

When asked, applicants who participated in focus groups offered other explanations for the lower confidence three months later, including the impact of the Centrepay 'set and forget' process:

"The fact that the payments are taken out of my Centrelink I never saw the money and I didn't have to worry about it."



19. Salvation Army, Media Release: Salvos Research Reveals Other Side of Christmas, 4 December 2015

Other applicants reported that their confidence was impacted by the timing of the research, which coincided with stressful periods for families on a low income e.g. Christmas and returning to school:¹⁹

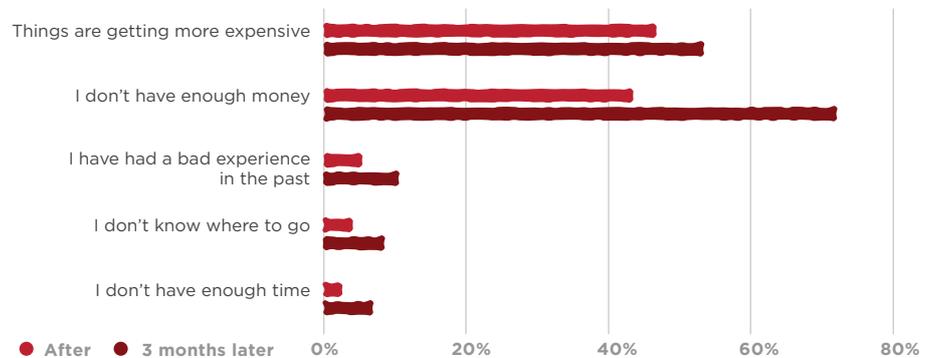
Three months later your situation can change. It was Christmas and I hate thinking about money at that time. Even after Easter and birthdays, the biggest thing for me was that my son started high school this year and it costs like \$3,000. After this my confidence with money was completely gone, I was wrecked. It's getting better now, but after those things, it kills me.



The researchers also investigated applicants' perception of barriers to managing money and planning future spending. As illustrated in Figure 15 below, these also changed over the medium term, as life returned to normal. Applicants were more likely to think they didn't have enough money and that life is getting more expensive.



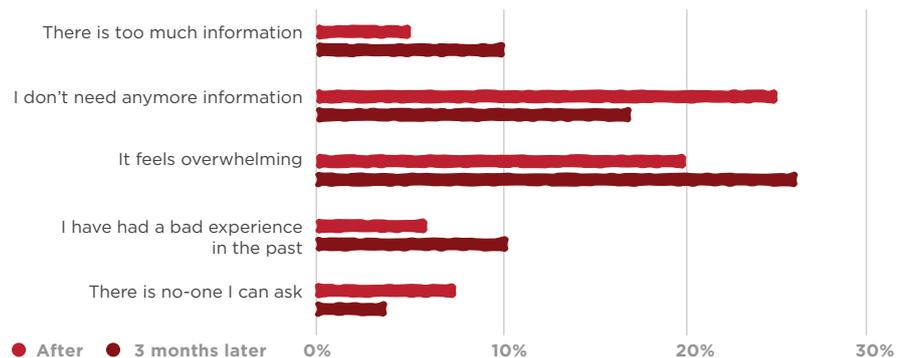
Figure 15:
Medium term — % of responses to what prevents you from managing money and planning ahead?



In addition, the data shows that applicants were more likely to feel overwhelmed about getting information and help about money matters. As Figure 16 below highlights, they were less likely to feel like they had enough information to manage their financial situation.

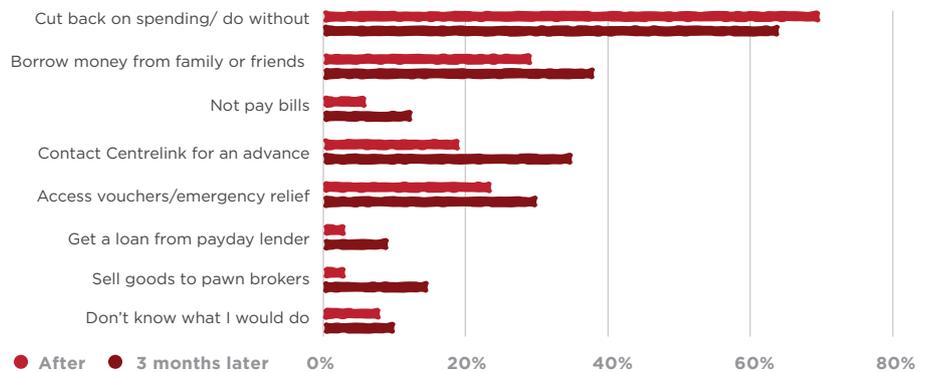


Figure 16:
Medium term impact- % of responses to what prevents you from getting help and information?



In addition, the data shows that applicants were more likely to feel overwhelmed about getting information and help about money matters. As Figure 17 below highlights, they were less likely to feel like they had enough information to manage their financial situation.

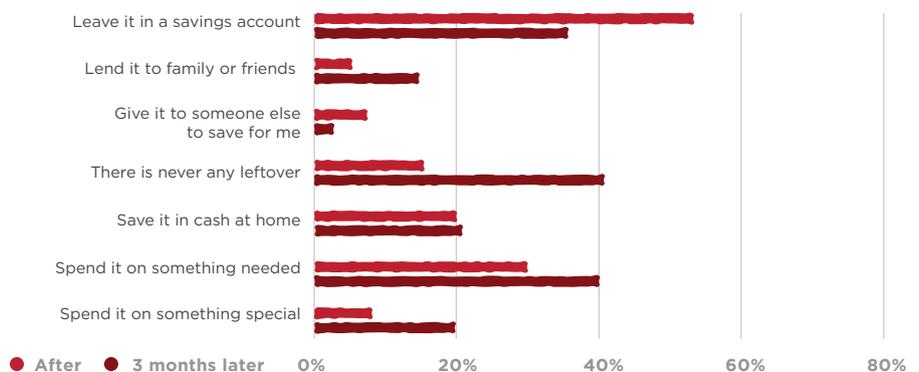
>
 Figure 17:
 Medium term impact – % of responses to strategies when money is short



Financial behaviour

This research explored applicants' financial behaviour by investigating their understanding of, and intention to use, a range of strategies to cope with financial challenges. As Figure 18 below illustrates, applicants reported they were less likely to use positive strategies to manage their finances in the months after the financial conversation.

>
 Figure 18:
 Medium term impact – % of responses to strategies for what to do with leftover money



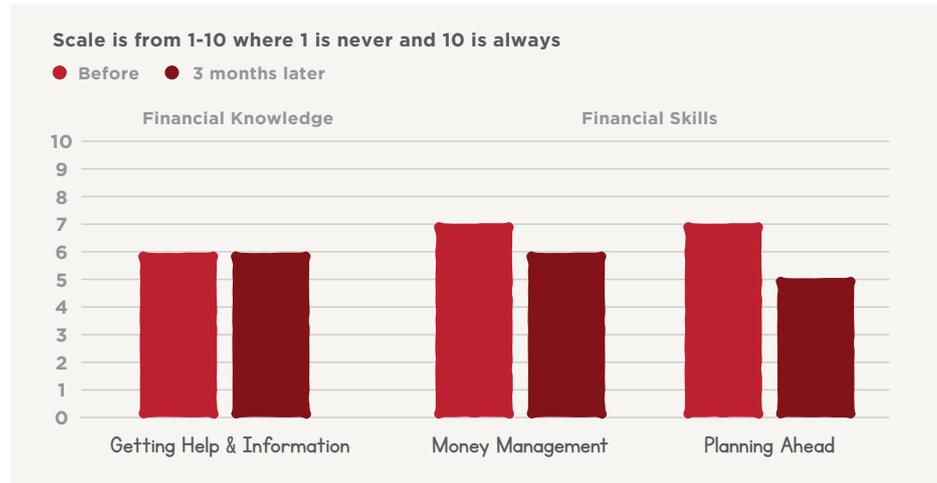
In particular, it appears that three months after the financial conversation, applicants were more likely to consider that they had no money left over at the end of their payment period (16% to 41% of applicants) and therefore less likely to consider saving leftover money, as Figure 18 shows.

Consistent with previous comments, the qualitative feedback from the focus groups suggested that a possible explanation for this phenomenon was that life had 'returned to normal' for these applicants and many were back to struggling to meet the regular costs of living.

The diminishing impact of the financial conversation is also apparent in Figure 19, which compares how frequently applicants undertake a variety of tasks before and three months after participating in the financial conversation.



Figure 19:
Medium term impact—Mean scores for frequency in financial knowledge and skills



The results show that three months after the financial conversation, respondents are less likely to be managing their money, planning ahead, or getting help and information. This insight directly relates to a previous finding (refer section 4.1.1) that by the time they attend the financial conversation, many applicants have already spent a considerable period of time thinking about, and taking action to, address their financial needs. This is particularly true for actions such as checking bank statements and considering the household budget to check eligibility for a microfinance loan. As one applicant stated:

“ A lot of those things on there [the questionnaire] you really only have to do once or twice. ”



In addition, the qualitative focus groups showed that many applicants who had taken a loan now had less disposable money in their household budget due to ongoing loan repayments. Some applicants commented that they felt they now had fewer safe and affordable options, as they are unable to access NILS while currently repaying a loan.²⁰

‘Because you are paying back the loan you have less money to play with, I actually felt the impact of it.’

‘I didn’t want to take it [a NILS loan out] because it was there for emergencies, like if my car broke down, but I always kept it for major emergencies. But I had to get it for my son’s laptop and now I have lower confidence because I have less options, I can’t get another one until I’ve paid it off.’

This feedback was also echoed by the microfinance workers/volunteers who participated in the focus groups.

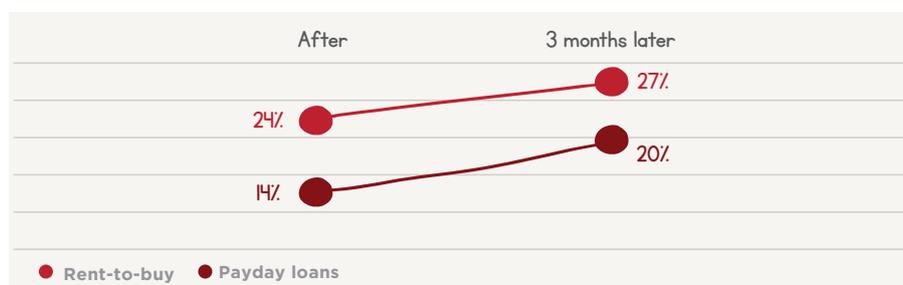
‘They [applicants] go back to what they know by three months’ time and it’s not until a crisis hits them that they reengage again.’

‘I think it also shows that when they have a NILS loan they are probably not feeling as confident about their financial situation because they have less money than they had previously. It might be normal for our clients to feel restricted because they have less money than when they started.’

20. NILS clients are currently only allowed to repay one NILS loan at a time.

Another interesting insight was that the applicants' willingness to consider a payday loan or rent-to-buy contract increased marginally over the three-month period. Importantly, the immediate impact of the financial conversation was sustained with regard to these financial products. The feedback obtained during the focus groups suggests that most applicants would only consider using these options as a last resort or in an emergency. One applicant said that while she would rent goods if necessary, **'it would be at the bottom of list of options'**.

>
 Figure 20:
 Medium term impact – % of
 applicants willing to use another
 financial option



This finding is supported by the growing recognition in global literature that improving financial capability is complex and challenging, particularly for those on a low income.²¹

The evidence of diminishing impact found in our study is also validated by global literature on financial literacy and financial capability²², including recent research comparing the results of 201 studies which found that financial education interventions 'explain only 0.1% of the variance in financial behaviours studied, with weaker effects in low-income samples.'

More recent literature has also explored the link between poverty and financial decision-making, developing new theories to explain the way poverty and financial instability affect the ability of those on lower incomes to adopt a longer-term focus. This body of work²³ describes the impairment of cognitive function due to the daily and persistent pressure of financial stress. It also proposes innovative approaches to program and policy development, which are informed by growing knowledge about human behaviour.

Our research also suggests that the time following the financial conversation is an important stage in the financial capability journey and our ongoing efforts to improve the financial capability of NILES applicants. Increasing the ongoing support offered to clients may therefore offer an effective way to enhance both the process and the impact of a NILES application. As this NILES client stated:

'I know I got a lot of information in one session about ways I could get help with managing money but I didn't follow it up. I don't know why I didn't follow it up. I probably didn't quite know what the next step was and didn't stop and think about it.'

21. Citi Foundation, (2012), Bridging the Gap: The business case for financial capability
 22. Mandell, L (2006), Financial literacy: Improving education: 2006 national Jump\$tart Coalition survey, Jump\$tart Coalition for Personal Financial Literacy, Washington (DC)
 23. Shafir E., Gennetian, L. (2015) The persistence of poverty in the context of financial instability: A behavioural perspective, Journal of Policy Analysis and Management, Volume 34, No 4, 904-936

Other literature²⁴ has similarly suggested a more holistic approach to financial education program design, such as tying information to a particular decision, via a 'just-in-time' approach, to enhance relevance and to minimise forgetting the lessons learned. The Centre for Financial Inclusion also emphasises this, stating that a behaviourally-informed approach to financial capability initiatives 'will require creativity beyond the traditional modes of financial education that dominate the scene, and it will require greater involvement by providers, who are uniquely placed to meet clients at those critical decision moments.'²⁵

Broadly, this evidence indicates the potential benefits of embedding more targeted ongoing support systems into the microfinance loan process, in the medium and long term. Literature²⁶ suggests that non-monetary rewards, messages and reminders, directed media, commitments and/or prompts are particularly effective. Behavioural economics research²⁷ also finds that well-timed text messages can increase savings and loan repayment rates.

We found that some NILS providers do offer ongoing support to their clients in the form of text messages, reminder calls about lapsed payments and milestone letters. However, there are no network-wide policies, resources, or tools in place, which currently provide guidance and advice about how best to maximise the impact of such initiatives.

Changes in spending habits

Finally, although the above analysis shows the impact of the financial conversation waning over time, over a quarter (27%) of applicants report changing their spending habits three months after their financial conversation. These applicants describe the changes in their spending habits as below. Recommendation five incorporates all of these insights.

I don't waste as much as I used— like the lotto or the horses. I've cut right back.

Been saving up and making sure I have emergency funds available, just in case.

I just sat down and thought "s@!#", this is what I'm spending, I could be saving money on something else.



Recommendation Five

Develop new resources and tools, particularly technology-led solutions for scale, grounded in a behaviourally-informed approach, to sustain the impact of the financial conversation

Sustain the impact of the financial conversation over the term of the microfinance loan and beyond, by developing client-centred resources and tools that can simultaneously inform, prompt, and encourage NILS applicants to maintain good financial habits.

24. Fernandes, D., Lynch, J.G., & Netemeyer, R.G. (2014). Financial literacy, financial education, and financial behaviours. *Management Science*, 60(8), 1861-1883.

25. Centre for Financial Inclusion (2016) *A Change in Behaviour: Innovations in Financial Capability*

26. Australian Securities and Investments Commission (2011), Report 230: Financial literacy and behavioural change

27. Shafir E. & Gennetian, L. (2015), The persistence of poverty in the context of financial instability: A behavioural perspective, *Journal of Policy Analysis and Management*, Volume 34, No 4, 904-936

4.2 THE IMPACT OF THE FINANCIAL CONVERSATION VARIES

This research shows that the financial conversation has different impacts for different applicants and that these can be very broadly categorised into four groups, described in Table 5. To identify these groups, the change in confidence in financial knowledge and skills before and after the financial conversation was analysed.

>
Table 5:
Four impacts from the
financial conversation

Informed and inspired	Savvy and supported	Confidence consolidated	Reality checked
17% of applicants	13% of applicants	55% of applicants	15% of applicants
Much more confident in each area of financial capability, mainly due to very low initial confidence	Much more supported and confident in knowing where to seek help	Slightly increased already high levels of confidence	Initial overconfidence made more accurate via a financial conversation
More likely to be a new applicant (nearly 60%)	More likely to be on Disability Support Payment (nearly 45%)	More likely to be a returning applicant (nearly 60%)	More likely to be on Parenting Payment (including Family Tax Benefit) (40%)

This analysis shows that applicants arrive for a financial conversation with varying levels of confidence and that many leave with a different mindset, influenced by the information that is given and the personalised support that is offered.

These distinct groups emerged as a result of undertaking a 'cluster analysis' of the data, where researchers distilled the significant trends in changes to applicants' confidence, comparing the responses before and after the financial conversation (see section 2.4).

In terms of proactively identifying the financial capability of an applicant before and during the financial conversation, microfinance workers consulted for this research project indicated they often can tell by the level of preparedness of the applicant, as well as their spending habits as demonstrated by their bank statements. These are used as a springboard to discuss budgeting, saving strategies, use of rent-to-buy and payday loans, and referrals to other services. Many NILS applicants, particularly returning clients, arrive with all of the documentation ready, and need little support to successfully apply for a NILS loan, while other applicants require considerable assistance.

These findings were further validated via discussions held with microfinance workers in two workshops during the annual NILS conference held in Adelaide in June 2016. The participants broadly agreed with these groupings created from the data gathered over the course of our research and made many suggestions for how these findings can inform the microfinance networks.

This is an important insight that will be used to guide the development of new resources for microfinance workers to maximise the impact of the financial conversation, as well as informing future program design for NILS as well as other Good Shepherd Microfinance programs. Each of these groupings is discussed in more detail in the sections that follow.

4.2.1 Informed and inspired

This research shows that applicants who have particularly low confidence before their NILS interview can experience a significant positive impact from just one financial conversation with a microfinance worker.

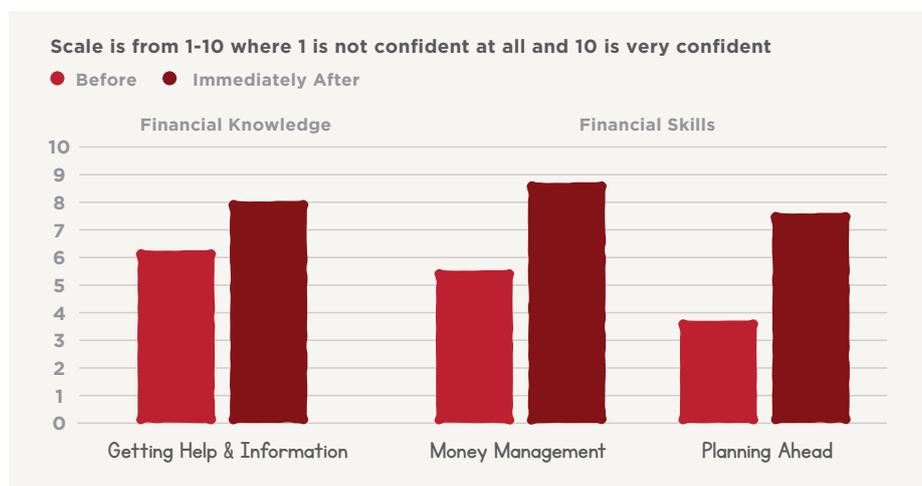
Seventeen per cent of NILS applicants had the lowest confidence in each of the three domains of financial capability (financial knowledge, skills and behaviour), before taking part in a financial conversation. Their low confidence was influenced in part by their own feelings of shame and embarrassment regarding their financial situation and/or a fear of rejection.

Financial knowledge and skills

After the financial conversation, this group of applicants reported significant increases in their confidence relating to their financial knowledge and skills, as evidenced by Figure 21 below. These levels of confidence are also the highest when compared to the other applicant groups.



Figure 21:
Informed and inspired –
Mean scores for financial
self-efficacy in financial
knowledge and skills



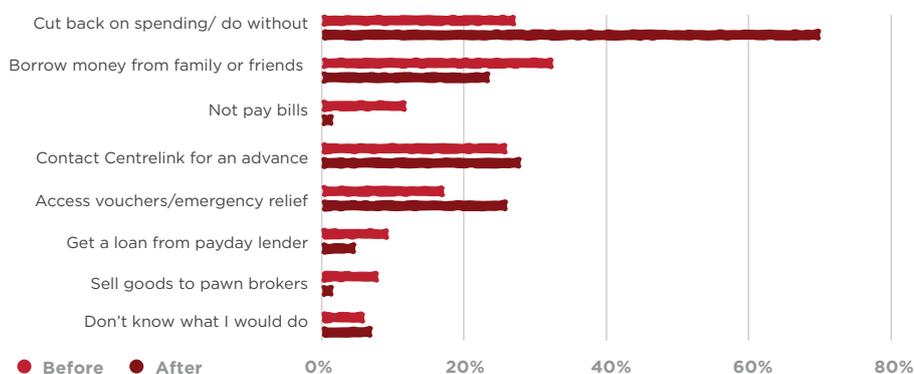
This suggests that these applicants are the most receptive to the support offered through the financial conversation and the most likely to be buoyed by the process.

Financial behaviour

In addition to increased levels of confidence in their financial knowledge and skills, this cohort also reports improvements in their financial behaviour, as shown in Figure 22 below:



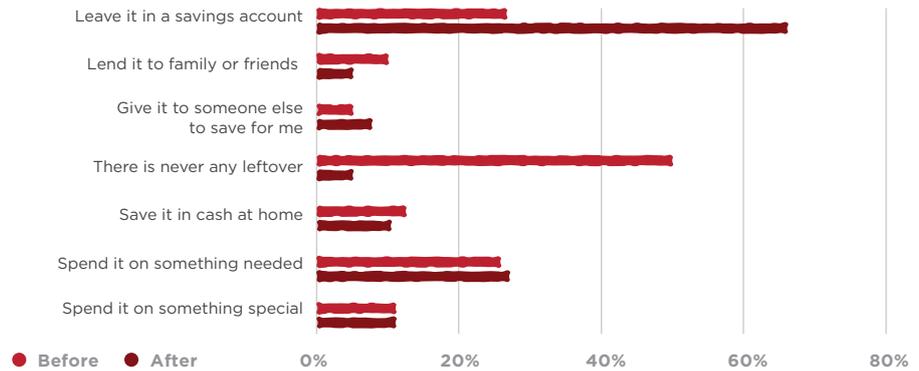
Figure 22:
Informed and inspired – % of
responses to strategies when
money is short



This suggests that the 'Informed and inspired' group leave the financial conversation relieved, optimistic and making promises to themselves, which they are motivated and inspired to keep in the coming months. For example, Figure 23 shows that the number of applicants who intend to save any leftover money in a bank account more than doubled after the financial conversation and the number of applicants who felt that they never had money left over, fell dramatically.



Figure 23:
Informed and inspired — % of responses to strategies for what to do with leftover money



Demographic analysis reveals that these applicants are more likely to be new to NILS — thus, the financial conversation may have been their first opportunity to have a positive interaction about their finances. Qualitative feedback from the focus groups corroborated this finding, as evidenced by the following statements from participants:

'Cut back on a lot of things. It is scary to see your expenditure on paper'

'I was truly amazed by the financial plan printed by the microfinance worker and since then I've been actually trying to stick to a budget. I remember feeling so fantastic because I'd never heard of NILS before.'

Microfinance workers who contributed to the subsequent workshops held at the NILS conference in June 2016, expanded on this applicant group, suggesting that perhaps these applicants were more likely to spread the word about NILS to their close networks:

“ These clients are often the ones who recommend NILS to family and friends ”



This insight could potentially inform the development of innovative new tools and resources that can be easily shared and therefore capitalise on the opportunity to spread the word about NILS.

4.2.2 Savvy and supported

Before applying for a NILS loan, many people on a low income report feeling confident in dealing with their money on a day-to-day basis but isolated and unsure about where they can go for further help and information. The financial conversation and the NILS application process offers a new and safe option to these applicants — they leave feeling more supported and knowing where they can find help if they need it, whether that is NILS or another service recommended by the microfinance worker.

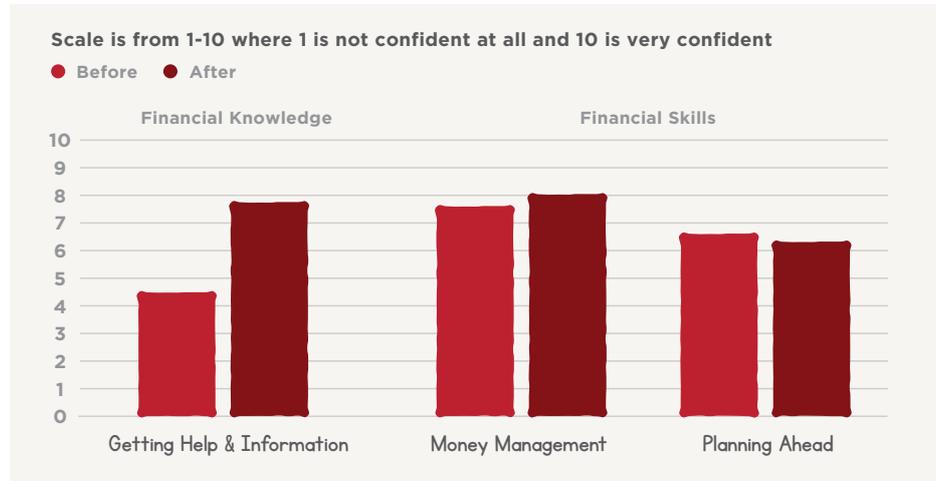
The 13% of NILS applicants who fall into this category report that before applying for NILS, they did not know where they could get help and information about money matters. Although they are confident in their ability to keep track of their money and being able to get by day-to-day, they can feel isolated and unclear about their financial options, including feeling intimidated by mainstream banks. The financial conversation provides a safe option for these clients, who leave feeling much more positive because they have somewhere they can go for assistance and information, even if they do not proceed with their application.

Financial knowledge and skills

Figure 24 illustrates that in particular, this cohort feels they have increased financial knowledge as a result of having participated in the financial conversation.



Figure 24:
Savvy and supported:
Mean scores for financial
self-efficacy in financial
knowledge and skills

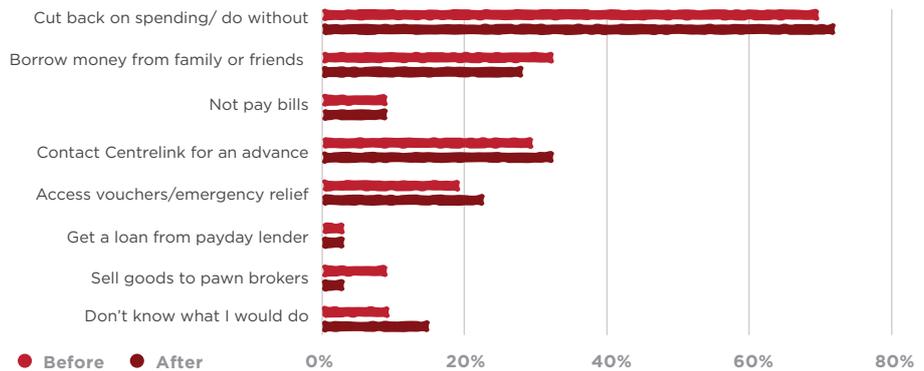


Financial behaviour

Figure 25 below shows that clients in this 'savvy and supported' group also report making positive changes to their financial behaviour in the months following the financial conversation.



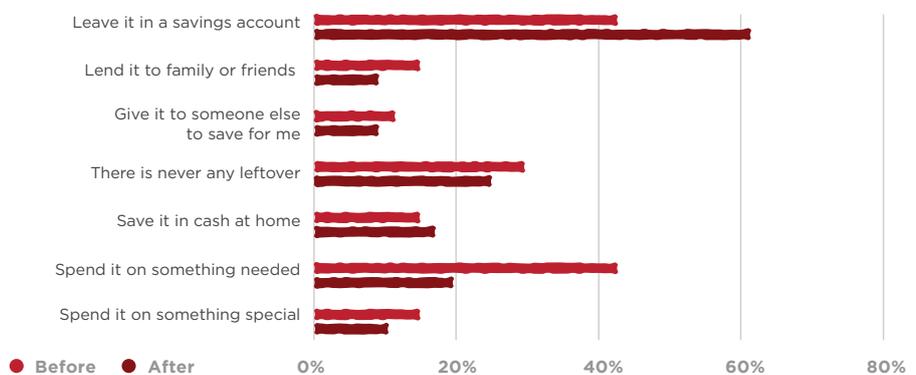
Figure 25:
Savvy and supported — % of
responses to strategies when
money is short



These applicants are more likely to leave any leftover money in a savings account, after attending the financial conversation, as illustrated in Figure 26 below.



Figure 26:
Savvy and supported — % of
responses to strategies for what
to do with leftover money



Demographic analysis shows that almost half of the applicants in this group are on the Disability Support Pension (DSP), which may limit their ability to increase their income at this stage in their life. The existence of safe and affordable financial options is even more pertinent to those on fixed incomes, who cannot increase their income and therefore have fewer opportunities to improve their financial situation.

This increased confidence in their ability to get help and information is in part likely due to the fact that the applicants feel that NILS, the microfinance worker, and provider organisation are now seen as a reliable and trusted source of information and help with money matters. An applicant from this group says:

'I had felt embarrassed about applying for this loan. The interviewer assured me that even though I had enough savings to cover the cost of the appliance I needed to replace, it was sensible to apply for the loan rather than deplete my emergency funds.'

Other feedback from the qualitative focus groups supports this notion of increased trust— participants also point to increased trust in referrals to other money-related services, like financial counsellors, received during the financial conversation. Such as this microfinance worker:

'Clients have said they wish they knew of the program earlier (before they used payday loans), and often utilise NILS again instead of going back to high interest payday lenders.'

4.2.3 Confidence consolidated

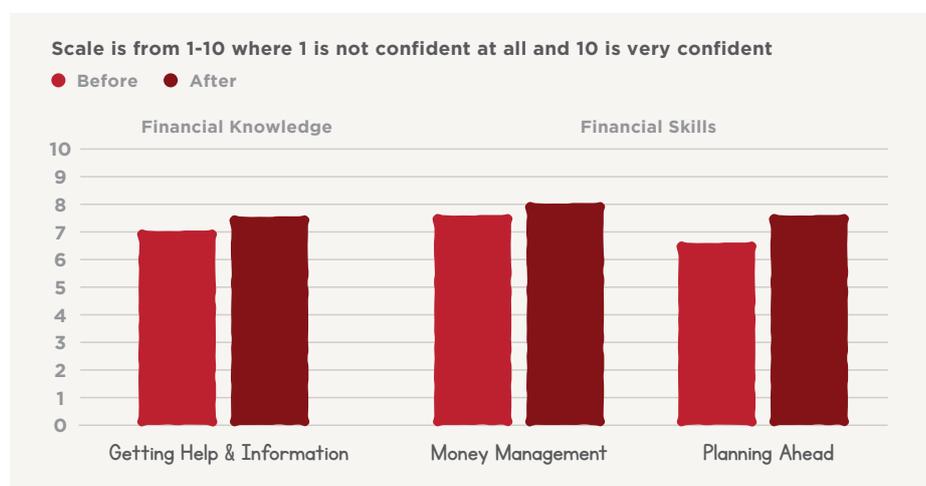
Many NILS applicants are already quite savvy and confident with their money before they participate in the financial conversation, yet they cannot access mainstream credit. They are also well aware of the high cost of payday loans and rent-to-buy contracts when they begin their financial conversation. The financial conversation reinforces their confidence and gives them the opportunity to learn about different options and consider new ideas for making the most efficient use of their low income.

Financial knowledge and skills

Fifty-five per cent of the NILS applicants included in this research feel confident with money matters, both before and after the financial conversation, echoing national financial literacy statistics.²⁸ Many of these applicants are already sticking to a budget to manage their bills and living expenses before coming to NILS, even if this is in an informal way — for example, maintaining a budget in their head or on the back of an envelope. Figure 27 below shows that these applicants have the largest boost in their confidence to plan future spending.



Figure 27: Confidence consolidated — Mean scores for financial self-efficacy in financial knowledge and skills



28. Australian Security and Investments Commission (2015), Australian Financial Attitudes and Behaviour Tracker, Wave 3

For this group, who are more likely to be returning clients, the financial conversation consolidates their confidence in being able to manage their own financial situation and is an opportunity to learn about other financial inclusion initiatives.

Financial behaviour

As Figure 28 below shows, this cohort also experiences minor changes in a range of financial behaviours, including a decrease in the number of people willing to borrow from family or friends.



Figure 28:
Confidence consolidated – % of responses to strategies when money is short

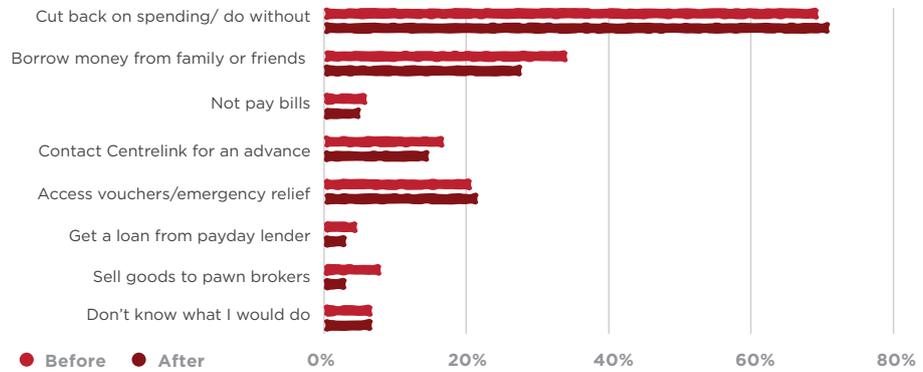
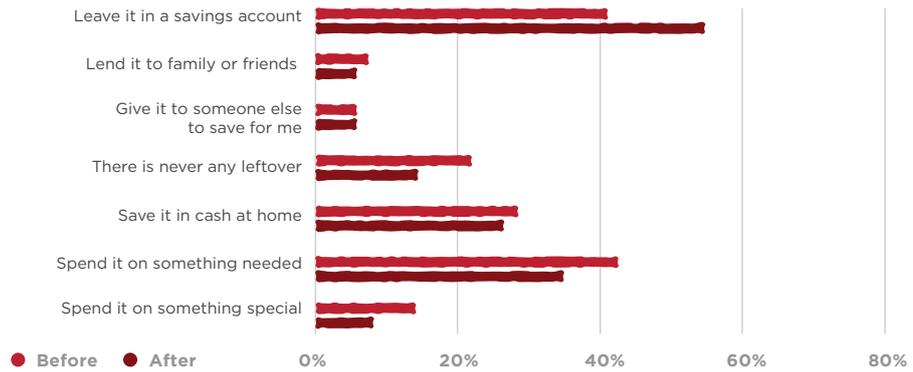


Figure 29 below illustrates that these clients are more likely to leave any leftover money in a savings account after the financial conversation, as well as less likely to feel like they had no money leftover at the end of their payment period.



Figure 29:
Confidence consolidated – % of responses to strategies for what to do with leftover money



Qualitative evidence provides a richer description of this group, with both NILS applicants and microfinance workers suggesting that many arrive at NILS with high levels of financial capability.

Applicant

‘I’m strict with my budgets because I have three little kids so I have to be. I’m reasonably good with money, my husband lets me take control of the money and I budget it all out.’

Microfinance worker

‘Some clients are incredible with their knowledge of their own financial situation and how they make it work, the financial conversation is a great opportunity to acknowledge their efforts.’

These applicants appreciate the professional and understanding approach of the microfinance workers and volunteers that work within the microfinance network, as they often feel judged by mainstream banks. The research shows that these applicants find the information they receive about other safe and affordable options particularly valuable, including Good Insurance, AddsUP, SaverPlus and StepUP.

‘I knew how to budget and stuff like that already, but it helped me because it’s saving me money that can actually help me budget. Also, I heard about insurance and SaverPlus so I’m going to look into those.’

The qualitative evidence suggests that the smaller impact of the financial conversation is likely due to the applicants in this group knowing that their choices are limited due to their low income. Without NILS, they know their credit options are largely limited to a payday lender or rental company. For these applicants, financial capability is as much about access as it is about financial literacy and confidence. Applying for a NILS loan is a wise financial decision for them and means that they can make their money stretch further.

Applicant

'I realise that with paying back a loan on time that it opens the door for me to be able to have the things I want, not just make do.'

Qualitative feedback from microfinance workers suggests that one way these applicants demonstrate their existing financial capability is to arrive at their financial conversation well-prepared for a loan application and this is particularly so for repeat NILS clients.

Microfinance worker

'The financial conversation can validate existing skills for a person. Those who come for NILS loans are often very organised, as shown by the documents they have gathered.'

4.2.4 Reality checked

Some applicants gain a more accurate picture of their financial situation and the things they can change to improve it, through the financial conversation. Their confidence dips after the financial conversation, due in part to this 'reality check.' The financial conversation is an eye-opener, encouraging them to seek help and alter their spending in the months after.

Fifteen per cent of NILS applicants arrive at a financial conversation feeling very confident about their financial capability. However, during the conversation many of these applicants realise they have likely overestimated their ability to manage their financial situation, having found the experience a 'reality-check.' The impact of a financial conversation is an important self-correction of their initial overconfidence, meaning in many cases they no longer have their head in the sand about the reality of their financial situation.

Financial knowledge and skills

As Figure 30 below illustrates, confidence in financial knowledge and skills decreases following the financial conversation, however the initial confidence levels are very high compared to the other groups.



Figure 30:
Reality checked — Mean scores for financial self-efficacy in financial knowledge and skills



Financial behaviour

Meanwhile, Figure 31 shows how strategies for dealing with a money shortfall change during the financial conversation, with more applicants planning to cut their spending and fewer applicants resorting to not paying bills or selling goods to pawn brokers.



Figure 31:
Reality checked—% of responses to strategies when money is short

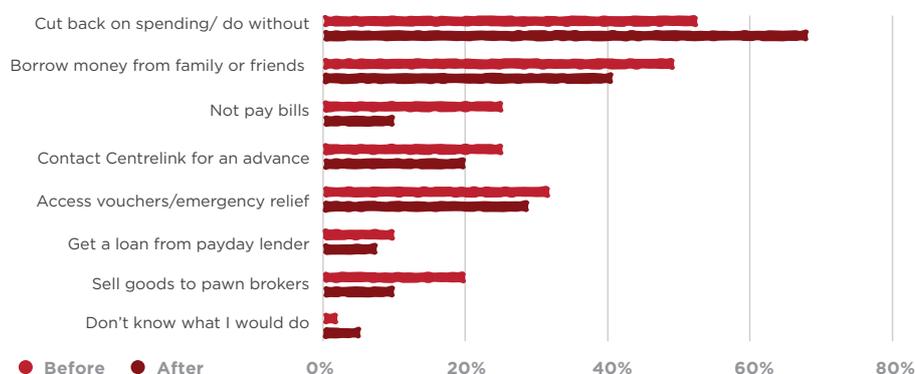
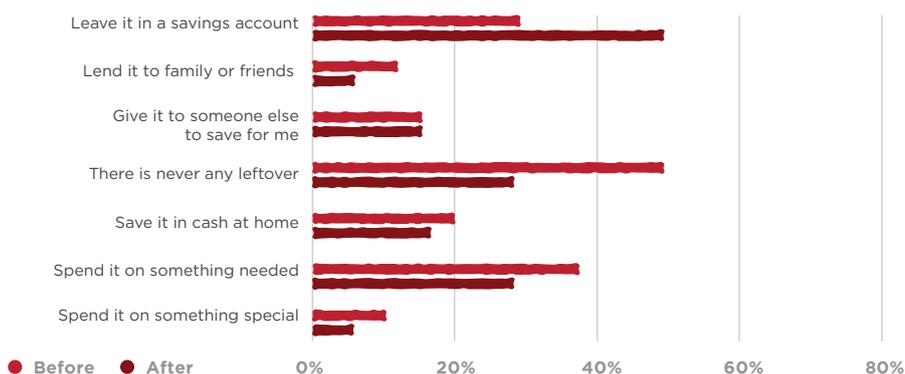


Figure 32 shows how preparedness to take on board a number of strategies for using leftover money changes, with a large increase in applicants planning to leave leftover money in the bank (29% to 49% of applicants), and a large fall in applicants feeling like they have never have any leftover (from a high starting level of 49% to 27% of applicants).



Figure 32:
Reality checked—% of responses to strategies for what to do with leftover money



Applicants in this group say they realise they have less disposable income than they thought they did, which means they have less money to cover their normal living costs or to save for a rainy day. The financial conversation helps these applicants see a more accurate picture of their financial situation.

Applicant: 'The financial conversation showed me how badly I was doing before I came to NILS and how much I needed to get my budgeting together. It made me look at what I was spending; it did help me.'

The initial overconfidence reported by these NILS applicants reflects other research in Australia and overseas, including research from the Organisation for Economic Co-operation and Development (OECD).²⁹ This literature suggests overconfidence regarding financial knowledge is a significant issue, which can stop people seeking financial information and advice, resulting in bad financial decisions including a greater likelihood for risk-taking behaviour.³⁰

29. OECD (2005), *Improving Financial Literacy: Analysis of Issues and Policies*, OECD Publishing, Paris

30. Australian Government Financial Literacy Foundation (2008), *Financial literacy: Women understanding money*

From a behavioural psychology perspective, this overconfidence has been recognised as a cognitive bias, often associated with financial literacy, and has been termed the Dunning-Kruger effect.³¹ Studies conducted in the US show that those with the lowest financial literacy are more likely to give themselves the highest ratings.³² As the following respondents stated:

Microfinance worker

'The financial conversation is confronting for these clients as well as empowering them and challenging them. They are updated in the reality of knowing their financial situation is tight.'

'I had one situation where a single father came in and you could just see where the penny dropped because he suddenly could see the situation that he was in, it was a real shock for him.'

Applicant

'I realise I earn too much for a NILS loan which means other people are able to raise their children on the amount of money I earn. I guess I am terrible at budgeting. Kind of an eye opener.'

'I knew a lot of the stuff the lady told me, but for the last few years I went out and squandered my money.'

4.2.5 Different pathways towards resilience

The previous sections described how the financial conversation has four different impacts based on analysis of the change in confidence. Further analysis highlighted that applicants have these different experiences based on a number of factors, including their initial level of financial capability, their circumstances, and their access to resources. This finding represents a key contribution of this research, to promote a better understanding of the financial capability of people on low incomes in Australia. In particular, microfinance workers can use these insights to better tailor the financial conversation to the specific needs of the NILS applicant. To do this however, a key prerequisite would be an ability to gauge the applicants' level of capability and confidence before they begin the conversation.

When the researchers investigated this further through qualitative focus groups and workshops, we found that many microfinance workers within the NILS network already use available resources and their own personal expertise to informally tailor financial conversations to the applicants' financial capability. This research offers us an opportunity to consistently provide all microfinance workers in the NILS provider network with evidence-based training and resources, which can better support the thousands of financial conversations being undertaken.

Microfinance workers consulted for this research indicate they can often gauge the financial capability of the applicant by their level of preparedness for the interview, as well as their spending habits as evidenced by their bank statements. Workers use these indicators to discuss targeted strategies including budgeting, saving, explaining rent-to-buy contracts and payday loans, as well as to provide referrals to other services. The development of specific resources and tools to assist this process will be a welcome support.

Recommendation Six

Develop resources and tools to better support microfinance workers' efforts to tailor the financial conversation based on an understanding of these four distinctive types of experiences

Resources and tools to be developed could include a diagnostic tool to assess initial financial capability, which can inform a more targeted conversation (see recommendation in section 4.1.2), as well as specific training modules for the microfinance network.

31. Kruger, J. & Dunning, D (1999), Unskilled and unaware of it: how difficulties in recognizing one's own incompetence lead to inflated self-assessments." *Journal of personality and social psychology* 77.6

32. Smallwood, C (2016), *The Library's Role in Supporting Financial Literacy for Patron*

4.3 **UNDERSTANDING FINANCIAL CAPABILITY: ATTITUDE TO GOODS RENTALS RELATIVE TO PAYDAY LENDING**

An unintended finding from this research is that many NILS applicants are more likely to be willing to enter a rent-to-buy contract than a payday loan.

This finding is supported throughout this report whenever payday loans and rent-to-buy contracts are mentioned, for example, before arriving for a financial conversation 35% of applicants would consider using rent-to-buy while 26% would consider a payday loan.

This suggests that there is a general perception among applicants that payday loans are more expensive and 'worse' than goods rentals, an observation that was supported by focus groups.

This finding echoes a recommendation included in the evaluation of NILS conducted by the Centre for Social Impact in 2013³³, that goods rental services should be recognised as prevalent and predatory fringe credit and that further investigation into the role of a NILS loan in deterring individuals from using fringe credit and goods rental schemes would be beneficial.

This knowledge gap among our applicants is an ongoing challenge for our programs; previous studies have demonstrated that goods rentals are usually more expensive than payday loans and they lock-in users for a longer term.³⁴ Our ongoing efforts to improve users' knowledge in this space may be assisted in the near future, when recommendations from a recent review of legislation relating to small amount credit contracts are enacted.

Regardless, the financial conversation is an important vehicle to deliver this type of information to applicants and should communicate an accurate reflection of the comparable costs of other lending options.

>

Robert, NILS client Good Money
Collingwood



Recommendation Seven

Financial conversations should provide information about the comparable costs of payday loans and goods rentals to combat the overall perception that goods rentals are safer and less expensive

33. Bennett, S. Georgouras, M. Hems, L. Marjolin, A. and Wong, J. (2013). Life Changing Loans at No Interest: An Outcomes Evaluation of the Good Shepherd Microfinance's No Interest Loan Scheme (NILS), Centre for Social Impact (CSI), University of New South Wales, for Good Shepherd Microfinance

34. The Australian Government (2016), Review of the small amount credit contract laws: Final Report

4.4 **UNDERSTANDING FINANCIAL CAPABILITY: PLANNING FUTURE SPENDING AND SAVING IS CHALLENGING**

The quantitative findings from this research clearly show that applicants are more comfortable with budgeting and keeping track of their money on a daily basis than in planning future spending and saving. This trend can be seen in each chart describing the responses relating to managing money and planning ahead, e.g. Figure 8. This insight echoes other research, which shows that the ongoing pressure of juggling the costs of living with a low income is a cognitive barrier to planning future spending.³⁵

Although this difficulty directly relates to managing low incomes, both the quantitative and qualitative data show that the financial conversation can help people see where they can save money and that with careful budgeting it may be possible to have a surplus income to save for future use or for larger spending priorities. For instance, immediately after the financial conversation, the number of applicants who felt they had no money left over after a payment period fell by 45%.

This insight can feed directly into future program development, particularly micro-savings programs, which can encourage applicants to save and plan future spending.

>
Cherryl, NILS client Good Money
and her daughter Chante



Recommendation Eight

Explore client-centred approaches, for example, micro-savings programs and targeted support, through which financial conversations can encourage NILS applicants to save and plan future spending

35. Shafir, E. & Gennetian, L. (2015) The persistence of poverty in the context of financial instability: A behavioural perspective, Journal of Policy Analysis and Management, Volume 34, No 4, 904-936



Damien, Quality Assurance Officer,
Good Shepherd Microfinance and
Norma, NILS client Marrickville



4.5 **IMPROVING NILS PROCESSES: ‘ONE LOAN AT A TIME’ AND FINANCIAL CAPABILITY**

Another unintended finding emerging from this research is that some applicants could benefit from the introduction of concurrent loans i.e. the ability to apply for an additional NILS loans while currently repaying one, should this be serviceable within the applicants’ budget.

Qualitative feedback suggests that many NILS applicants are very aware that while they are repaying a NILS loan, they are ineligible for another one. This could lower their financial capability and confidence if they feel they have fewer safe options. They may also be more likely to not know where to seek help, should they need it. When asked what they would do if their fridge broke down while they were still repaying a NILS loan, this is what some applicants had to say:

‘Couldn’t get it with NILS because I’ve already got one so I’d wait. If I could get a NILS that would be my first option.’

‘Wait until I have enough, as I already have a NILS loan out, so can’t get another one’

‘Not having an option for the NILS actually puts them in a more difficult situation as they have to take a payday/ rent-to-buy.’

In some cases, applicants stated that they had entered into rent-to-buy or payday lender contracts in these circumstances because they felt they had no other option.

The current limit of one NILS loan at a time appears to be a particular concern for returning applicants who use repeat NILS loans, for instance to build assets or to pay for ongoing medical treatment, as well as those who refrain from using NILS, preferring to keep this as an option in case of a future emergency.

Recommendation Nine

Explore the potential to provide further microfinance options to eligible returning clients under certain circumstances, including concurrent loans and/or increasing the loan limit



Cynthia and Rosemary, volunteers at Starting Point Neighbourhood House, Launceston



Learnings

The final section of this report relates to the learnings from the research process and will be useful for researchers who may want to replicate this research, or parts of it, in the future.



MEASURING FINANCIAL SELF-EFFICACY

This research represents Good Shepherd Microfinance's first attempt to measure our clients' financial self-efficacy using their self-assessed confidence as a proxy. We believe this has enabled us to draw valuable and unexpected results not achieved in previous studies, including the ability to directly compare changes in confidence over time.

Given this was our first attempt, we would strongly support further research to verify our initial findings and extend our understanding of this important aspect of financial capability. We would also recommend that future research tests a new scale to measure financial self-efficacy, which has emerged in the global literature³⁶, yet was not used in this study due to a commitment to validate and extend the findings of previous research using an existing questionnaire.

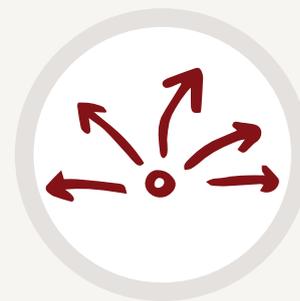


DELIVERY OF THE SURVEY QUESTIONNAIRE

Qualitative feedback from focus groups revealed that microfinance workers were concerned that despite explicit statements to the contrary, some applicants may have linked the survey questionnaire, which was delivered at the premises of the provider, to the loan application process. Potential concerns about anonymity and/or a fear that their responses could influence the loan outcome, may have inflated their initial self-assessment of financial capability, taken before the financial conversation. Some applicants agreed that this might have occurred.

To reduce these risks, future research could consider restricting the delivery of the survey questionnaires to an online, secure site or provide applicants with stamped, self-addressed envelopes to post completed surveys back. Researchers would of course need to carefully assess whether these options are realistic in practice.

36. Lown, J. (2011), *Journal of Financial Counselling and Planning* 22.2



TIMING OF RESEARCH

The time period over which this research was conducted coincided with a period of uncertainty, when funding contracts were still being negotiated with the microfinance network. This may have had some bearing on the overall level of support given to the research program, including the initial negotiations with providers, which proved to be more time-consuming than planned.

Also, as mentioned previously in this report, focus group participants highlighted that the third phase of this research straddled Christmas, school holidays and return to school. This is a period of particular financial stress for people on low incomes and likely had some bearing on the responses to this round of research in terms of response rate as well as the self-assessment of financial capability.

In addition, tight timelines meant we were restricted to conducting follow-up surveys three months after the financial conversation. Future research could attempt to conduct more longitudinal research to expand our knowledge of our impact over time, as well as conduct research at an earlier stage in the application process.

MIXED METHODS – THE ADDITION OF QUALITATIVE ENQUIRY

The findings and insights gleaned from this research would not have been possible without adopting a mixed-methods approach, which combined quantitative survey data with qualitative feedback obtained via focus groups and conference workshops. The opportunity to explore emerging insights with NILS applicants, microfinance workers and volunteers proved to be invaluable, offering much richer data and deeper analysis than simply administering surveys could have yielded.

The researchers were able to investigate the impact of financial conversations as well as consider how we might better tailor them to sustain our impact over time. The use of qualitative enquiry techniques including focus groups, workshops and interviews is therefore highly recommended for future research in this important area of study.

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APPENDIX

NILS Life changing chats - Survey 1

Thank you for agreeing to fill out this survey! Please complete it as best you can.

We are interested in who you are and what you might gain here today from your financial conversation.

You may choose to provide your name or remain anonymous. All questions marked with * must be answered.

All responses are confidential and in no way affect your loan application

Please tell us more about yourself	
* Please enter the FIRST letter of your FIRST name (1 letter)	
* Please enter the FIRST letter of your SURNAME (1 letter)	
* Please enter your postcode (4 numbers)	
* Are you a returning NILS client?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Not sure <input type="checkbox"/> Other (please specify)
Gender	<input type="checkbox"/> Male <input type="checkbox"/> Female <input type="checkbox"/> Other
Are you of Aboriginal or Torres Strait Islander origin?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> n/a
Is English your mother tongue/preferred language?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> n/a
Age	<input type="checkbox"/> 0 – 17 <input type="checkbox"/> 18 - 24 <input type="checkbox"/> 25 - 34 <input type="checkbox"/> 35 - 44 <input type="checkbox"/> 45 - 54 <input type="checkbox"/> 55 - 64 <input type="checkbox"/> 65+
* Where does your MAIN INDIVIDUAL INCOME come from?	
<input type="checkbox"/> Disability Support Pension (Centrelink) <input type="checkbox"/> Newstart <input type="checkbox"/> Parenting Payment-Single <input type="checkbox"/> Parenting Payment-Couple <input type="checkbox"/> Age Pension (Centrelink) <input type="checkbox"/> Age Pension-Veterans Affairs <input type="checkbox"/> Partner Allowance <input type="checkbox"/> Sickness Allowance	<input type="checkbox"/> Widow Allowance (Centrelink) <input type="checkbox"/> Youth Allowance <input type="checkbox"/> Wife Pension <input type="checkbox"/> Carers Payment <input type="checkbox"/> Family Tax Benefit <input type="checkbox"/> Full-time work <input type="checkbox"/> Part-time/Casual work <input type="checkbox"/> Self Employed
What is your fortnightly income?	
<input type="checkbox"/> \$0-\$399 <input type="checkbox"/> \$400-\$799 <input type="checkbox"/> \$800-\$1199 <input type="checkbox"/> \$1200-\$1599	<input type="checkbox"/> \$1600-\$1999 <input type="checkbox"/> \$2000-\$2999 <input type="checkbox"/> \$3000+ <input type="checkbox"/> Not Sure
* Who do you live with?	
<input type="checkbox"/> Single no children <input type="checkbox"/> Single with children under 15 and/or dependent students <input type="checkbox"/> Partnered no children <input type="checkbox"/> Partnered with children under 15 and/or dependent students	<input type="checkbox"/> Multi adult household no children <input type="checkbox"/> Multi adult household with children under 15 and/or dependent students <input type="checkbox"/> Other (please specify):

Thanks for the information about yourself, now can you think about...

NILS Life changing chats - Survey 1

DEALING WITH MONEY

*** 1A. How OFTEN do you?**

	Never			Sometimes				Always				n/a
	1	2	3	4	5	6	7	8	9	10		
Keep to a weekly budget	<input type="checkbox"/>											
Keep track of living expenses	<input type="checkbox"/>											
Check bank statements for fees and expenses	<input type="checkbox"/>											
Plan for large expenses (e.g. car registration)	<input type="checkbox"/>											
Put money aside for an emergency (e.g. medical emergency)	<input type="checkbox"/>											
Put money aside for something special (e.g. a birthday treat)	<input type="checkbox"/>											
Put money aside to achieve goals (e.g. a holiday)	<input type="checkbox"/>											

*** 1B. How CONFIDENT do you feel when you....?**

	Not confident at all						Very confident				n/a	
	1	2	3	4	5	6	7	8	9	10		
Keep a weekly budget	<input type="checkbox"/>											
Keep track of living expenses	<input type="checkbox"/>											
Check bank statements for fees and expenses	<input type="checkbox"/>											
Plan for large expenses (for example, car registration)	<input type="checkbox"/>											
Put money aside for an emergency (e.g. medical emergency)	<input type="checkbox"/>											
Put money aside for something special (e.g. a birthday treat)	<input type="checkbox"/>											
Put money aside to achieve goals (e.g. a holiday)	<input type="checkbox"/>											

*** 2. What PREVENTS you from dealing with money.....? (You can tick more than one box)**

- I do not have enough money
- Things are getting more expensive
- It feels overwhelming
- There is too much information
- I don't have enough time
- There is no-one I can ask
- I don't know where to go
- I have had a bad experience in the past
- I don't need any more information
- Other (please specify):

GETTING HELP AND INFORMATION ABOUT FINANCIAL SERVICES

*** 3A. How OFTEN do you?**

	Never			Sometimes				Always				n/a
	1	2	3	4	5	6	7	8	9	10		
Deal with banks and understand your options	<input type="checkbox"/>											
Get information or assistance with questions about money	<input type="checkbox"/>											
Make sure you are getting your correct payments (e.g. Centrelink)	<input type="checkbox"/>											
Get information about your credit file and credit history	<input type="checkbox"/>											
Address issues about a default listing (due to missing loan repayments, you can be listed and not get access to any financial services until the default listing is cleared)	<input type="checkbox"/>											

NILS Life changing chats - Survey 1

***3B. How CONFIDENT do you feel when you....?**

	Not confident at all										Very confident
	1	2	3	4	5	6	7	8	9	10	n/a
Deal with banks and understand your options	<input type="checkbox"/>										
Get information or assistance with questions about money	<input type="checkbox"/>										
Make sure you are getting your correct payments (e.g. Centrelink)	<input type="checkbox"/>										
Get information about your credit file and credit history	<input type="checkbox"/>										
Address issues about a default listing (due to missing loan repayments, you can be listed and not get access to any financial services until the default listing is cleared)	<input type="checkbox"/>										

*** 4. What PREVENTS you from getting financial information? (You can tick more than one box)**

- I do not have enough money
- It feels overwhelming
- There is too much information
- I don't have enough time
- There is no-one I can ask
- I don't know where to go
- I have had a bad experience in the past
- I don't need any more information
- Other (please specify):

THINKING ABOUT YOUR MONEY HABITS

*** 5. What do you do with LEFTOVER MONEY? (You can tick more than one box)**

- Leave it in a savings account
- Lend it to family or friends
- Give it to someone else to save for me
- Leave it in a savings account
- There is never any left over
- Save it in cash at home
- Spend it on something needed
- Spend it on something special
- Other (please specify):

*** 6. If you RUN OUT OF MONEY what do you do? (You can tick more than one box)**

- Cut back on spending/do without
- Borrow money from family or friends
- Not pay bills
- Contact Centrelink for an Advance payment
- Other (Please specify):
- Access vouchers/emergency relief
- Get a loan from a payday lender
- Sell goods to Cash Converters/Pawn Broker
- Don't know what I would do

*** 7. Which ONE option would you choose if your FRIDGE DIED TODAY?**

- Buy another fridge with savings
- Buy another fridge through store finance
- Buy another fridge with money borrowed from friends or family
- Buy another fridge using a credit card
- Other (Please specify):
- Buy another fridge with a loan from a payday lender
- Buy another fridge with a NILS loan
- Rent a fridge with an option of purchasing it later
- Wait until you had enough money
- Not sure

NILS Life changing chats - Survey 1

8A. Have you used OTHER LOANS?

	Yes	No
Have you purchased goods through a rent-to-buy contract (e.g. Radio rentals)?	<input type="checkbox"/>	<input type="checkbox"/>
Have you had a payday cash loan (e.g. Cash converters)?	<input type="checkbox"/>	<input type="checkbox"/>

8B. WOULD you use other loans?

	Yes	No	Perhaps
Would you use a rent-to-buy contract in the future (e.g. Radio rentals)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Would you take out a payday cash loan in the future (e.g. Cash converters)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

9. Please add anything you think we have missed

Thank you! We hope your interview goes well!

Once your NILS loan interview is completed, there is a short follow up survey to do.

To thank you for your time, the NILS microfinance worker has a \$10 Coles Gift card for you when you have completed **both Survey 1 and 2.**



Good Shepherd
Microfinance

Good Shepherd Microfinance

11th Floor, 350 Queen Street
Melbourne, Victoria, 3000
Australia

Phone: 03 9495 9600
goodshepherdmicrofinance.org.au

ABN 36 151 124 408

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Edited by

Vinita Godinho, General Manager, Advisory
Lauren Thomas, Manager, Program Design & Advisory Services

Report Availability

This report is available on the following websites:

goodshepherdmicrofinance.org.au

finlit.org.au

Citation

Randrianarisoa, A. & Eccles, K., (2016) Pathways to resilience:
The impact of financial conversations on the financial capability
of NILS applicants, Good Shepherd Microfinance, Melbourne

Contact

Advisory Services
Good Shepherd Microfinance
Level 11, 350 Queen Street
Melbourne, Vic, 3000
Australia

advisory@gsmicrofinance.org.au

(03) 9495 9600