

Under Pressure

How people prioritise spending in a cost-of-living crisis



way forward 

“

As Way Forward focuses on setting our clients up on long-term arrangements, we want to ensure that the people we support are given the best opportunity to succeed.

David Berry
Way Forward CEO



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1

Executive summary

Way Forward's third annual client survey investigates the way people in financial hardship prioritise their limited financial resources in the face of a cost-of-living crisis, and what knowledge and experience they draw upon when making decisions about money.

The reasons people fall into hardship can be multifaceted, but we've consistently observed that the consequences of debt aren't always considered when taking it on. Debt is seen as a solution to a problem, however, for those in financial difficulty, or on the verge of financial difficulty, the short term solution is masking a longer term problem. There might be food on the table today but they are unable to pay for their insurance tomorrow.

Debt is seen as the answer to any financial roadblock, and if someone is stressed about money, they continue to dig deeper by borrowing more.

We've found that when people are in crisis, they experience a mental fog which prevents them from absorbing information that would help them to understand, learn and use the skills to help improve the difficult situation that they are facing.

What's more, we also know from our research that when times are relatively good, people lack the incentive to learn these new skills.

People who are impacted by financial hardship are from diverse backgrounds. They might be people who are experiencing

intergenerational disadvantage, but they can also be welleducated, high-functioning executives earning good money. However, the common thread is that they struggle to use financial literacy skills, whether owing to stress, or a lack of knowledge or will to do so.

Building on [last year's research about the use of Buy Now Pay Later \(BNPL\)](#), this report also explores the rapidly emerging range of wage advance products. Although payday loans have been available for decades, they are regulated, which is not the case for wage advance products. We have therefore sought to understand how our survey participants use both wage advance products and BNPL services.

In a world of digital money, debt is easier to access than ever before, Buy Now Pay Later (BNPL) and wage advance products continue to grow and still lack the regulation to protect those vulnerable to, or currently experiencing financial difficulty.

Our survey found that

When finances are low, it's what you don't invest in that counts – After ensuring a roof over their head and putting food on the table, closely followed by bills, other expenses like insurance and supporting kids are then being treated as discretionary.

The ability to absorb information can help you out of financial difficulty – Finding the right time to take on financial information can be difficult.

People want to learn but don't know how – There is an appetite for further information around managing money with 50% of respondents wanting to understand how to set a plan.

In 2021, we sought to better understand the potential connection between financial and mental wellbeing. [This client survey culminated in the report “Way Forward: Quantifying the mental toll of debt stress”](#). We found that those who frequently worry about finances see a more significant negative impact on their mental health.

Like our surveys from 2021 and 2022, most respondents to our 2023 survey have savings below \$1,000 while being employed full-time. One third of respondents continue to be renters employed full-time with savings below \$1,000.

The results from our surveys have consistently found that having even a small amount of savings (i.e., \$1000) and, to a lesser degree, budgeting are the greatest safeguards against financial hardship and poor mental health. We know that saving works, and that this is a skill people learn.

86%

**OF PEOPLE
THEIR MENTAL
HEALTH
IMPACTED
WEEKLY**

86% of individuals who worry about money all the time see this impact their mental health at least weekly. We also understand that those who are most worried about money, are least capable of changing their situation.

The report includes findings from our annual survey, supported by observations from what clients have shared with the Way Forward team. We thank them for their generosity in sharing their stories.

About Way Forward

Way Forward is a debt charity offering a free service to people experiencing financial hardship. We support people who have debts across multiple lenders. Since our inception 5 years ago, we have supported and continue to support over 1200 people.

We offer a specialised service providing one on-one support to assist people to understand their financial situation and work through a plan together. We also support the payment negotiation on their behalf with lenders and help them put that plan into action so they can move forward.

Our organisation supports people who have regular income but are experiencing financial difficulty. We represent the voice of middle-income Australians who, for a range of reasons, cannot meet their repayments.

The people we support are going through medium to long term financial difficulty. These challenges can be brought about by a range of circumstances that represent the complexity of life. For individuals, the circumstances can be deeply personal, harmful and embarrassing to talk about. It is Way Forward's duty to give voice to the challenges they face.

We offer free debt help for people in hardship

We entered into this research with the understanding that our clients want to take full responsibility for their debts and pay them back. This is something we hear regularly, and it is also a reflection of the nature of a Way Forward repayment arrangement. We know that people are willing to do the work when they are on-boarded as one of our clients.

For anyone struggling with their finances and trying to understand their options, Way Forward offers comprehensive debt guides, lists of support services and sources of emergency funding in the [debt information](#) section of our website. People can also try our [free budget planner](#) or [debt repayment calculator](#) to better understand their personal circumstances and the impact the debt is having on their finances.

Way Forward helps clients in three simple steps:

1

We evaluate your circumstances and financial situation.

2

We take over negotiations with creditors and act your behalf.

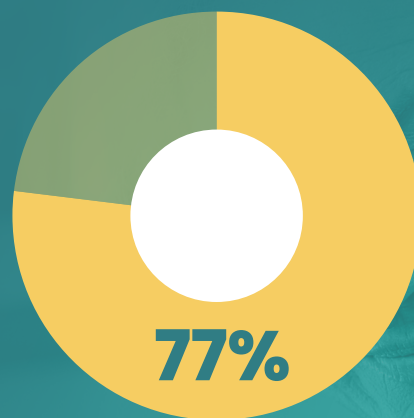
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Together, we devise a workable plan. You pay us, and we distribute to your creditors, all going toward debt reduction.



Introduction

This report examines the effect of a cost-of-living crisis on financially vulnerable individuals.



Survey by Uni Melbourne, percentage of population who have money regrets.

Unsurprisingly, [money worries have escalated](#). As recently as 2021, [a Families in Australia Survey found](#) that 70% of people were concerned about their financial future, and 20% had asked family or friends for financial help.

While asking for help with an acute financial problem can work in the short term, our observations are that the best way to improve someone's longer-term quality of life is to support them in developing better money habits by budgeting, saving, prioritising and reflecting. For the purposes of this report, we will refer to this set of skills as a form of financial literacy.

By the time someone has reached our service, they have usually experienced prolonged financial hardship. By then, it's usually a significant challenge to independently improve their situation, which means they can only repay their debts with a repayment plan that involves some level of waiver negotiated.

As a way to achieve this, each client Way Forward onboards is provided with a comprehensive budget that offers them a

dignified life. It's also suggested to our clients that they close their credit card, wage advance and BNPL accounts while on a debt repayment plan. Although closing all credit facilities is seen as "good medicine" (i.e., best practice to get out of debt), the reality of closing these facilities, along with sticking to a budget, can be challenging for many who have spent a significant number of years living off debt.

[According to a 2019 study by the University of Melbourne](#), 77% of the population have regrets with regards to their finances, with the top three of these regrets being related to behaviours – for example, not saving, investing or budgeting, while the fourth most common regret was "not learning more about finances and money".

It's not just a retrospective wish; [a 2021 survey by Australian Securities and Investments Commission \(ASIC\)](#) – Australia's financial markets conduct regulator – found that many young people want to know how to get the most from their money.

Over 50% of the people we surveyed expressed a clear interest in learning how to:



**INVEST
MONEY**



**SAVE
MONEY**



**MANAGE
MONEY WELL**



**FILE A
TAX RETURN**



**SET FINANCIAL GOALS
AND ACHIEVE THEM**



**LIVE OUT OF HOME
INDEPENDENTLY**

Given these findings, it would be surprising to learn that there is already a plethora of financial literacy support and programs that exist in Australia, many of them aimed at younger people.

In Australia, there are many effective, well-structured programs, such as:

- [Talk Money](#) – Estra Foundation
- [Money Managed](#) – Money Smart
- [Wesley Mission](#) – Financial Literacy Education Program
- [Curriculum connections](#) – Consumer and financial literacy
- [MoneyMinded](#) – a flexible education program for adults seeking to build their money management skills, knowledge and confidence
- [MoneyTime](#) – an online financial literacy program for Australian kids ages 10 to 14

While this paper does not serve as a critique of those programs or their efficacy, it's worth asking the question: if there are so many helpful programs and support to make them assessable to all, why are Australians still falling behind in financial literacy and, in turn, getting into such problematic debt?

[According to an ASIC report from 2011](#), while many Australians have a reasonable understanding of financial literacy, young people are particularly vulnerable to falling into problem debt owing to a lack of these skills.

In the current digital age of shopping, where products are constantly marketed to young people via social media and purchasing is instantaneous, there are endless opportunities to make poor spending decisions.

It's important to acknowledge that financial literacy education is typically learned from friends and family in the home environment. This means that without appropriate role modelling it can be difficult to establish good habits early in life, and that once behaviours around money are established they are difficult to change

If this is the case, in our current economic climate many younger people are learning from their parents and friends that borrowing money is the best way to deal with an unexpected expense or an item that can't be paid for using income. This reinforces what we might call a "debt first" approach to spending and normalises impulse buying.

We hope to provide insights into the challenges people are facing and the decisions they are making, as well as offering recommendations as to how we can better support people who are in, or at risk of, financial hardship.

Key Findings and Considerations

How people are accessing funds

The use of BNPL and wage advance products is increasing.

Year on year, Way Forward’s clients are relying more heavily on BNPL and wage advance products to manage debt problems.

Of those who have used the product, 1 in 3 feel trapped in a cycle of using wage advance products while 1 in 4 feels trapped in a cycle of using BNPL products.

1 in 10 have used BNPL or wage advance products to pay off other debts, with the proportion being higher for those with lower incomes. Nearly 50% of people earning under \$50,000 a year have used BNPL to pay for essentials. BNPL masks a problem – either in hardship or close to it.

There is no sustainable way to use wage advance products.

Use of wage advance products when someone is already in hardship compounds their financial difficulties.

Of those Way Forward clients surveyed who use wage advance products, 65% used it for housing utilities and household bills and 55% are used for groceries.

People risk becoming trapped in a cycle of debt through use of wage advance products – if they cannot meet everyday expenses with their usual income. This is particularly problematic given the unregulated nature of wage advance products.

What people are spending money on

Housing comes first.

When funds are limited and people need to prioritise their spending, most people first allocate money to housing.

The cost of housing is concerning for most respondents with 94% holding some level of concern and 41% at least highly concerned.

Housing, food, utilities and debt repayments are the highest priorities for respondents when managing their money. From this finding, we can infer that other items are getting pushed down the priority list behind housing and food. For example, school and extra-curricular expenses could be deprioritised.

People prioritise their debt repayments and cut down on their non-essentials to meet these. This will compromise their quality of life and prevent them learning the skills needed to budget for non-essentials.

Attitudes about material goods shape spending.

The line between needs and wants is increasingly blurred, and people are less willing to wait to purchase goods.

People are borrowing for smaller items and getting trapped into borrowing for essentials or non-essential items.

Consumerist culture is accelerating and the pressure to keep up as well as the ability to buy things online has become greater.

What groups of people are showing signs of financial distress

<p>The profile of Way Forward's clients is shifting.</p> <p>Our clients are getting younger and their debts are getting smaller, but the number of debtors has increased.</p>	<p>The people we support have higher earnings than in previous years. 47% of respondents earn an annual income over \$100,000, and most people (75%) are consistently employed full-time.</p> <p>Over the last three years, the average amount of debt under management per client has reduced from around \$41,000 to \$27,000, and the average total number of debts has increased from 4.9 to 5.3.</p>
<p>Young people lack confidence when it comes to financial management .</p> <p>Young people in financial difficulty seem most challenged, and they lack formal financial literacy education.</p>	<p>There is an urgent need for young people to have better access to existing financial literacy education tools.</p> <p>Only 42% of young Australians aged 14 to 17 feel confident or very confident managing their money.</p> <p>Market research, commissioned by the Treasury in 2021, found that 82% of young people reported that their understanding of financial concepts comes from conversations with parents and carers.</p>

Financial preparedness

<p>Client incomes have increased but savings have decreased.</p> <p>People have less savings but are earning more, meaning they are spending more overall – in part due to cost-of-living pressures.</p>	<p>Most respondents have savings below \$1,000 while being employed full-time, and one third of respondents continue to be renters employed full-time with savings below \$1,000. We have seen a shift to higher numbers of clients in the top income brackets.</p> <p>A lack of savings puts people at increased risk of falling into financial difficulty, especially given the rising costs of living and particularly housing.</p>
<p>People are not prepared for unexpected financial needs.</p> <p>As in previous years, most people surveyed are in a precarious financial situation.</p>	<p>83% of survey respondents do not know what they would do if their income fell by one third, and 13% would take on more credit.</p> <p>A lack of savings leaves people highly exposed to unexpected expenses, income changes and relationship breakdown. This lack of preparedness can result in long-term difficulties.</p>

Positive outcomes of financial literacy

<p>Following a realistic budget yields better outcomes.</p> <p>Having a budget can mean different things for different people. Those people who have better budgeting skills have more savings and demonstrate that they can keep on top of expenses.</p>	<p>Those who have more savings, have a higher tendency to keep on top of their expenses.</p> <p>Those who have less than \$1,000 in savings tend to spend what they earn, in a prioritised way.</p> <p>Only 23% of people use an itemised budget which allocates money to grouped expenses (such as groceries, bills and rent).</p>
<p>Increased financial literacy leads to better wellbeing outcomes.</p> <p>There is a link between financial literacy (savings and budgeting) and better mental health.</p>	<p>Year on year, people who have more savings feel less distressed when faced with an unexpected expense. Most of Way Forward's clients (76%) have their mental health impacted by financial concerns at least every week.</p> <p>Over half (57%) worry about the essentials at least weekly.</p>

Report overview

The insights in this report are based on anonymous survey responses of our clients, independently analysed by an actuarial consultant.

SECTION 1

The overview section includes the executive summary, methodology, external context and overall aims of this report.

SECTION 2

Profile of a Way Forward client.

SECTION 3

Summary of client data and insights on the type of money decisions that people in hardship are making to meet their basic needs.

SECTION 4

Observations regarding BNPL and wage advance products.

SECTION 5

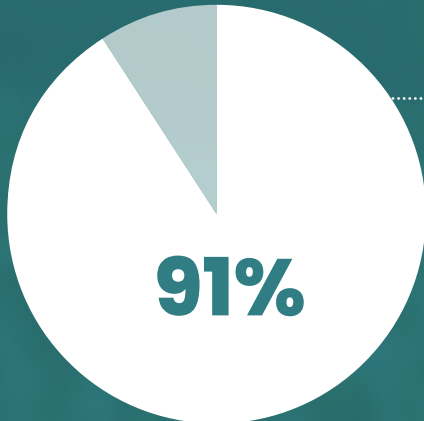
Recommendations for government and industry.

This report aims to

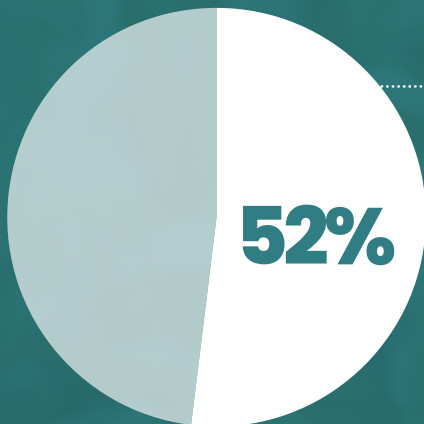
- Offer new insights into the lives of financially vulnerable people, in particular how they feel about their use of – and their perspectives on – money, debt and credit products.
- Provide actionable recommendations to help creditors and unregulated credit product providers to not only better support customers at risk of financial hardship, but to also help educate them about financial literacy.
- Educate people about how to avoid or manage financial difficulty by sharing insights from our clients about dealing with financial challenges and coping with debt stress.
- Demonstrate the benefits of a case manager approach to assisting people in financial hardship.

Methodology

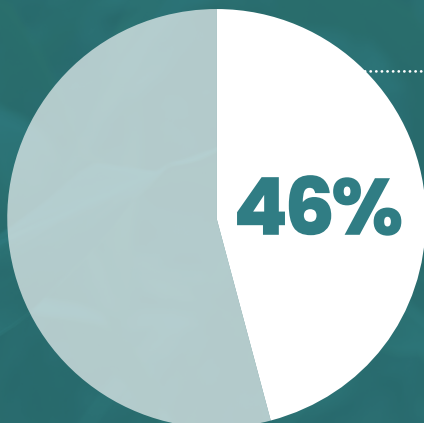
Between December 2022 – January 2023, Way Forward asked our clients to answer a 15-minute survey on their current life situation as well as their thoughts and attitudes about financial literacy. We received 190 responses, which were included for analysis.



**91% ARE AGED
BETWEEN 35
AND 64**



**52% ARE
MARRIED OR IN
A DE-FACTO
RELATIONSHIP**



**46% HAVE
CHILDREN**



We have also drawn on lived experience as observed in our support of people experiencing financial difficulties.

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External context

Cost-of-living crisis in Australia

When the respondents answered the survey questionnaire associated with this report, the cost-of-living crisis had started to hit unprecedented highs.

This crisis has impacted our clients in a range of different ways. Our report aims to explore these changes and provide recommendations for how to keep pace with the new challenges people in hardship are facing.

So what happened?

In recent years, Australia has experienced a perfect storm of post-pandemic job losses and business closures, low wage growth and a housing shortage, which the Australian Government tried to address with a stimulus package that included JobKeeper – payments to working people who could not remain in their jobs owing to lockdowns. While these payments were vital for many, by 2021, Australians had amassed \$240 billion in savings. This then contributed to a huge growth in spending, driving inflation to unsustainable highs. Now, in the post-lockdown world, the demand for goods and services that weren't accessible have been in such high demand that suppliers cannot keep up.

The Consumer Price Index (CPI), which measures the changes in price of a fixed basket of goods and services based on average household expenditure covering capital cities across Australia, [rose 6.8% in the year to April 2023](#).

Meanwhile, wages have failed to keep pace with inflation, with the Wage Price Index (WPI) increasing by only 3.7% over the year, which is about half the rate of inflation. This means that many households are struggling to earn enough to keep up with the rising cost of essentials such as food, utilities, and rent or mortgage repayments.

What's more, debt is easier to access than ever before, and when times are tough people turn to credit to deal with expenses. According to the Australian Bureau of Statistics (ABS), [the average household debt grew by 7.3% to \\$261,492 in 2021–22](#).

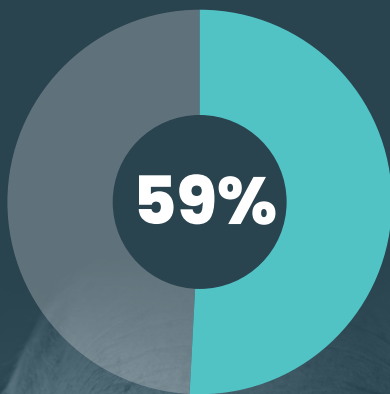
There has also been growth in credit card spending with [APRA \(Australian Prudential Regulatory Authority\) statistics](#) show that from June 2023, total debt from personal credit cards in Australia sits at over \$29 billion. The number of credit card accounts is also on the increase, with close to 200,000 more accounts now than a year ago.

Employment and income

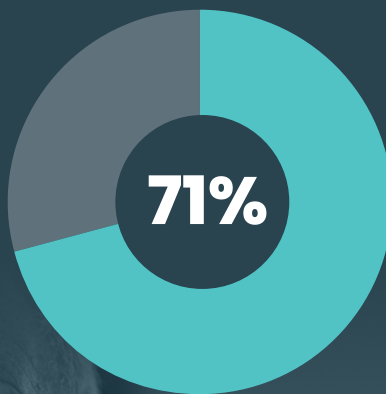
If the survey respondents, 75% are employed full-time. Of these full-time workers, 81% have an annual household income of over \$75,000.

Compared to the overall national average of household gross annual income of \$121,108, Way Forward's clients are earning less.

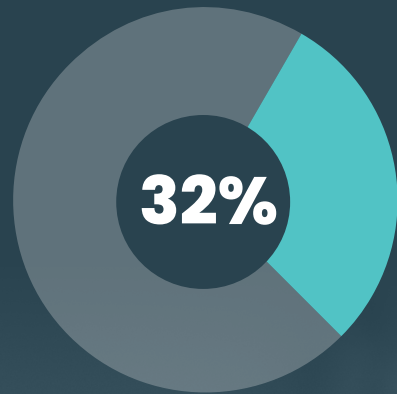
Housing and assets



RESPONDENTS ARE RENTING



HAVE SAVINGS OF LESS THAN \$1,000



RESPONDENTS ARE RENTERS WHO ARE EMPLOYED FULL-TIME WITH SAVINGS OF LESS THAN \$1,000

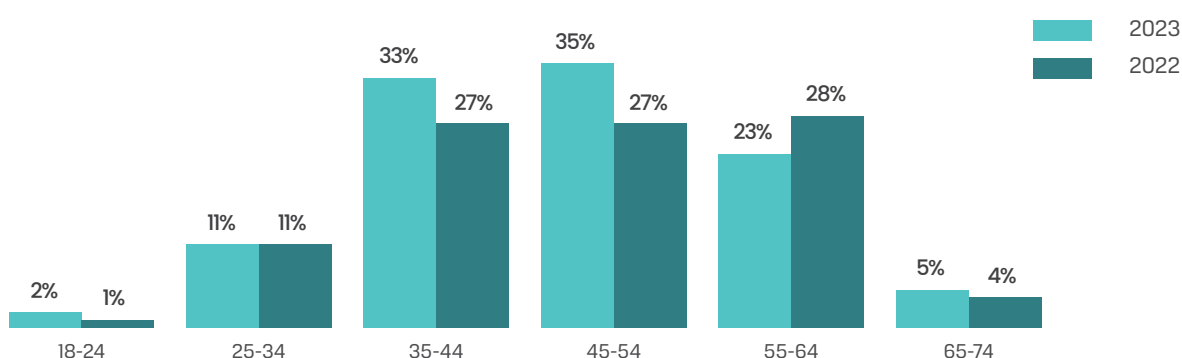


Age, location, relationship and dependents

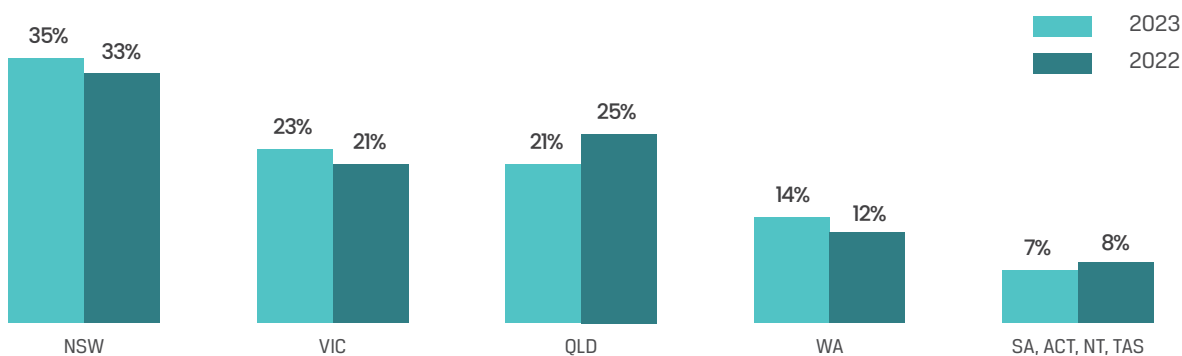
With more people experiencing hardship for the first time and not knowing what to do, households are under greater pressure to make ends meet.

Compared with our previous survey, the respondents for this year are younger in age, with a higher proportion aged between 35 and 54 – 68% in 2023 versus 54% in 2022.

Age



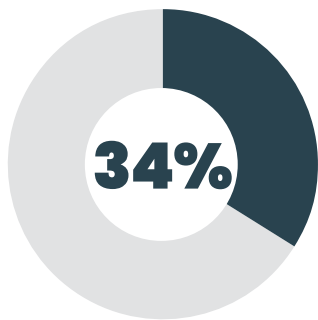
State



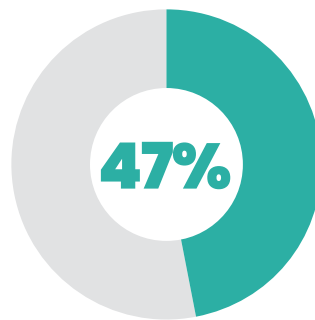
Clients earning more year-on-year

While employment status and savings levels are similar year on year, there was a slight reduction in the number of respondents who are renters.

Looking at average income, this year the people we support have higher earnings than previous years. This year 47% earn over \$100,000 a year versus 34% last year.

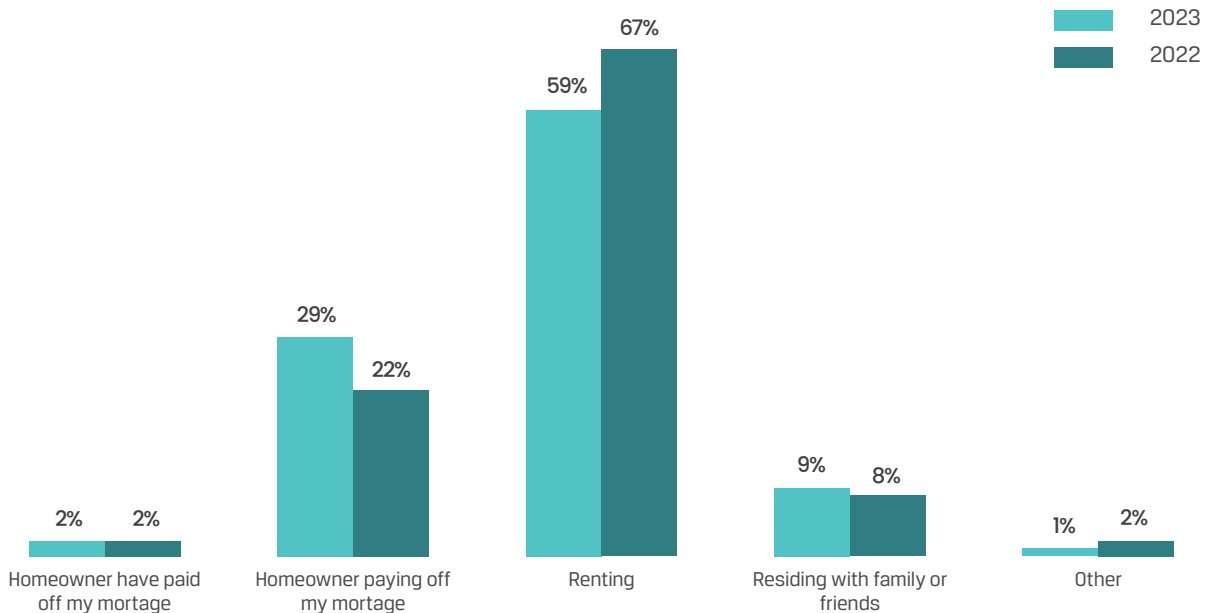


2022 – Earn over \$100,000



2023 – Earn over \$100,000

Housing situation



Year on year, we can see a slight increase of 10% in the number of people with mortgages and fewer people who are renting. This is a profile shift, not only are those who rent more

susceptible to financial difficulty, but so too are those people who are on a tight budget and have a high mortgage.

As was the case in 2022, most respondents have savings below \$1,000 while being employed full-time. There was a slight decrease in the number of people who have between \$1,000 and \$5,000 in savings.

One third of respondents continue to be renters who are employed full-time but hold savings below \$1,000.

3

When in hardship, how does money get prioritised?

How people who are in hardship decide which trade-offs to make when they are making financial decisions can depend on how they reached a point of financial distress. The cost of housing is a concern for most respondents, with 94% holding some level of concern and 41% at least highly concerned.

Those who are most concerned about the cost of housing are more likely to have savings of less than \$1,000 and be renting.

Further, the smaller the amount of savings, the greater the level of concern about homelessness.

Our research provides an evidentiary link between financial literacy and better mental health and those who have a more robust budget have more savings and less stress.

As for how people budget, most respondents passively manage their money, with 60% using automated payments or paying for basic living expenses first and then dispersing the rest.

Those not using budgeting tools were more likely to be aged over 45, have no dependents and a full-time job, and were less likely to be single. They are also more likely to have savings under \$1,000, which could be indicative of their level of financial literacy or appetite for budgeting.

35% of respondents indicated a desire for more information around having an itemised budget. Our observation is that people who are experiencing financial difficulty are likely to experience difficulties in understanding, setting up and using an itemised budget without support.

Some people find it easier than others to plan for rainy days. These plans usually focus on savings and both proactive and reactive measures to reduce expenses. When someone doesn't have a plan for what to do when faced with unexpected expenses, we have observed

that their financial situation deteriorates quickly, often limiting their available options.

So, who is likely to have a plan and who isn't? And what is the difference in outcomes for people who make proactive, conscious choices compared with those who don't?

How do people manage their money?



It's important to note that having a higher income does not equip a person with a greater ability to navigate debt, save or minimise their susceptibility to experiencing financial difficulty.

The way that the people we support manage their money differs depending on their savings and income levels. Those who have more savings, generally have a higher tendency to manage their expenses better, while those with

savings of less than \$1,000 tend to spend what they have, but in a prioritised way.

Overall, most respondents are interested in other methods of managing their finances and would ideally keep to a budget if that were available to them. However, two thirds already do have a budget that they say they've looked at in the last month (at the time of the survey).

OBSERVATION – Better financial literacy strengthens financial health

We wanted to explore further the spending trade-offs people are making when they are facing hardship. The explanation for what choices are made can in part be attributed to their level of financial literacy. “Financial literacy” is a broad term, which [we define as](#)

[having an understanding of how to use money wisely](#). Expanding on this and looking at what financial literacy skills are lacking for people who end up in financial hardship and become Way Forward clients, we have found:

A limited understanding about how interest works and accumulates on certain products, limited to a general acceptance that there will be a charge for using a product and they'll have to pay whatever is charged.

Limited knowledge of other non-debt options available (i.e., bill smoothing, help with utilities bills).

A lack of basic level of numeracy and maths to undertake basic percentage equations.

In October 2020, the OECD Council made recommendations on financial literacy to improve overall outcomes for people across OECD countries. In response, The Australian Government recently delivered a [National Financial Capability Strategy](#), which was delivered in 2022 and includes an action plan for rolling out financial literacy and capability programs.

More support is needed (and wanted!) to where is it best offered? Amidst spiralling living costs and the increasing complexity of financial decision-making, developing money-

management capabilities, which are most effective when established at an early age, has never been more important.

It's well known that someone's financial knowledge is most influenced by education and access to financial advice and support. Financial attitudes may be most affected by someone's community, including their friends and family. As identified by ASIC in their work about financial literacy, institutions such as schools are an important access point for young people to learn these vital skills, as well as family and friends.

As we have already outlined, there are many good programs that exist which are specifically designed to improve financial literacy. Already the Federal Government fund and lead a range of educational programs that include: the ATO's "Paying It Forward" and "Tax, Super + You", and ASIC's "Moneysmart for teachers" programs.

With the vast amount of information available online about how to manage money and save, it can seem overwhelming. What sources of information are trustworthy and most useful, and why aren't the outcomes following the investment of resources?

Findings

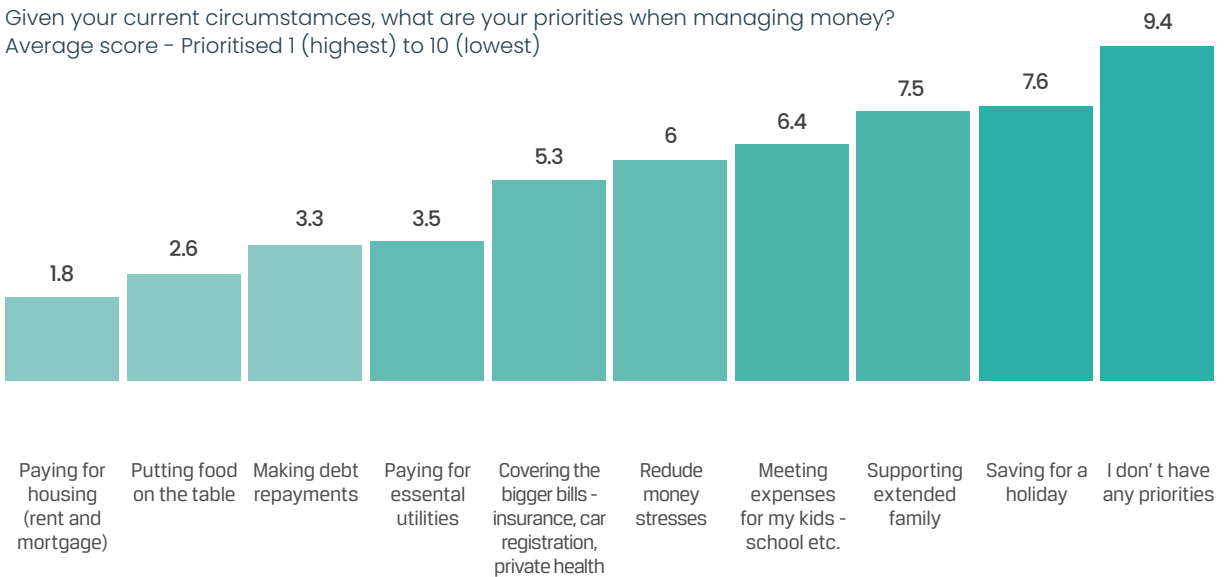
Of the respondents who had less than \$1,000 in savings, 36% are likely to manage finances based on how much is in their account and adjust spending to the balance.

Only 23% of people use an itemised budget which loosely allocates money to grouped expenses (such as groceries, bills and rent).

Respondents who have more than \$1,000 in savings are more proactive in managing their finances and working to a budget of some kind.

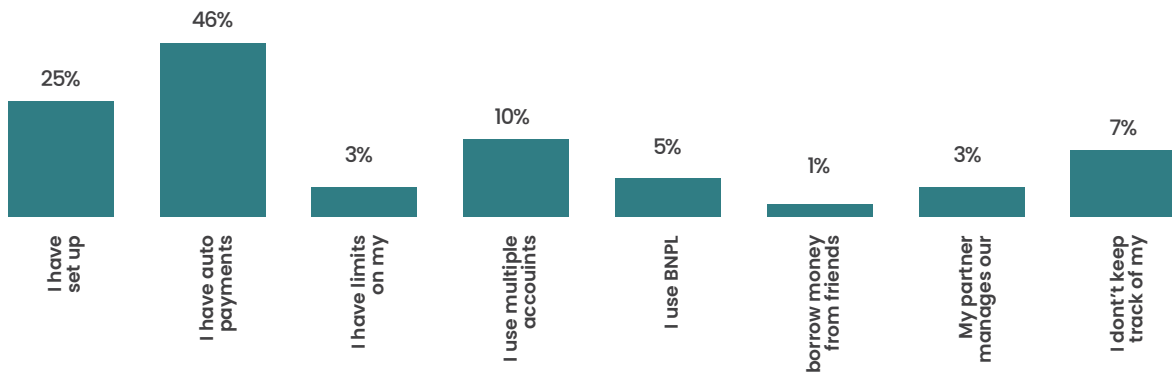
Housing, food, utilities and debt repayments are the highest priorities for respondents when managing their money.

Given your current circumstances, what are your priorities when managing money?
Average score - Prioritised 1 (highest) to 10 (lowest)



69% place housing as their top priority for managing money while 86% place it in their top 3

What tools do you use to keep track of your budgeting?



78% of respondents have a method to ensure they do not miss payments.

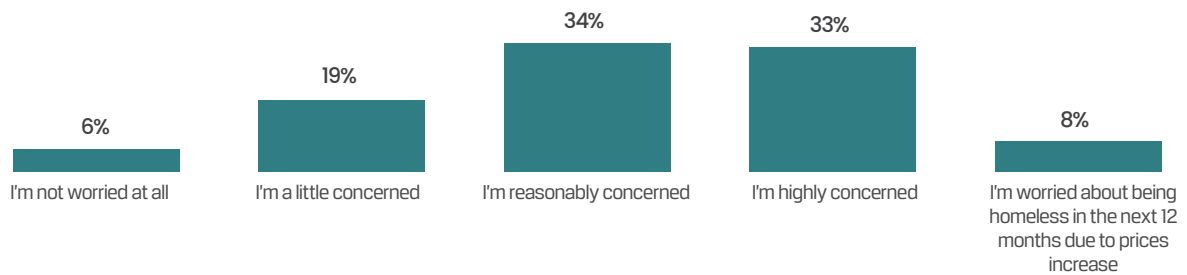
Housing Stress

We wanted to better understand the experiences of our clients who are struggling most with the cost-of-living crisis and the strategies they are using to cope.

Included in the survey is a question about whether they were concerned about

experiencing homelessness. Those who selected the options “highly concerned” or “worried”, which were the two options at the highest end of the scale of concern, are more likely to be pre-retirement age (i.e., 45 - 65 years old).

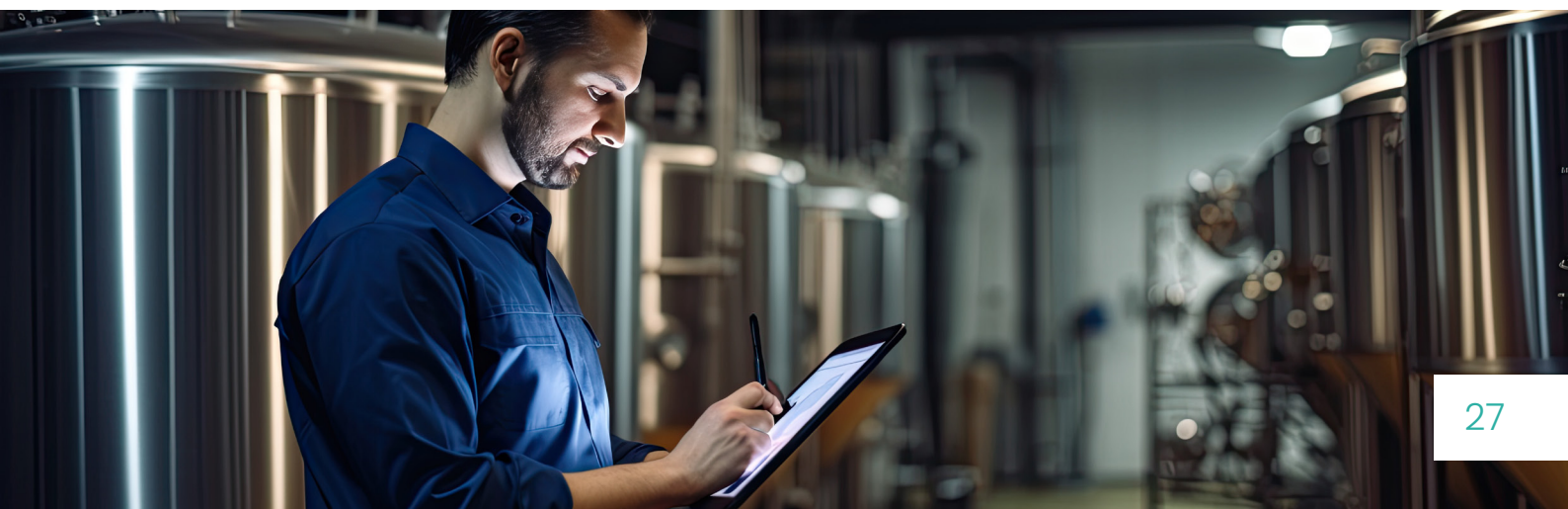
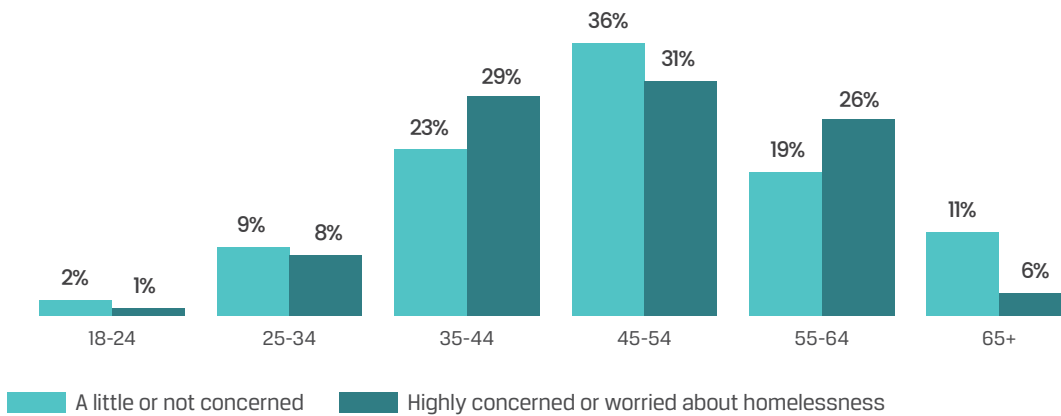
What is your level of concern about the cost of housing?



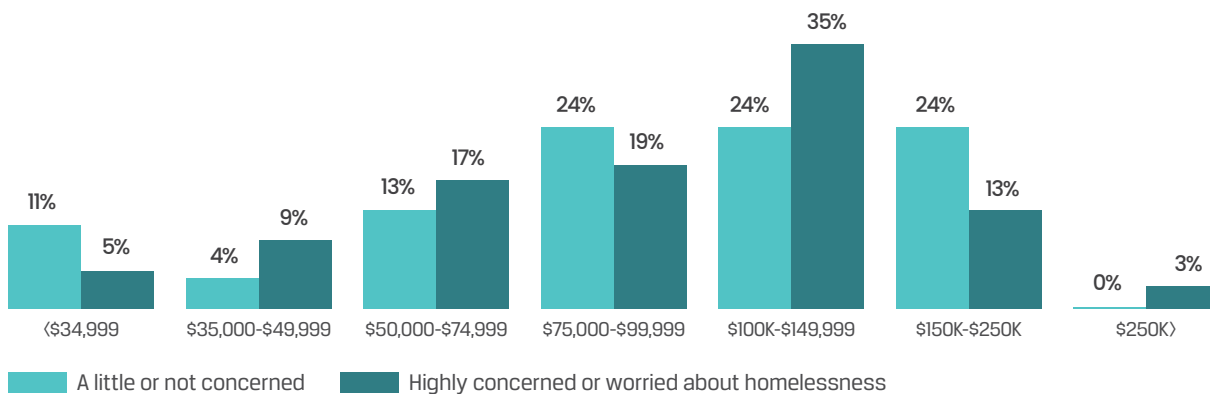
Those who selected “highly concerned” or “worried about homelessness” are more likely to be pre-retirement aged.

Further, those who are highly concerned about homelessness and earning between \$100,000 and \$150,000.

Age

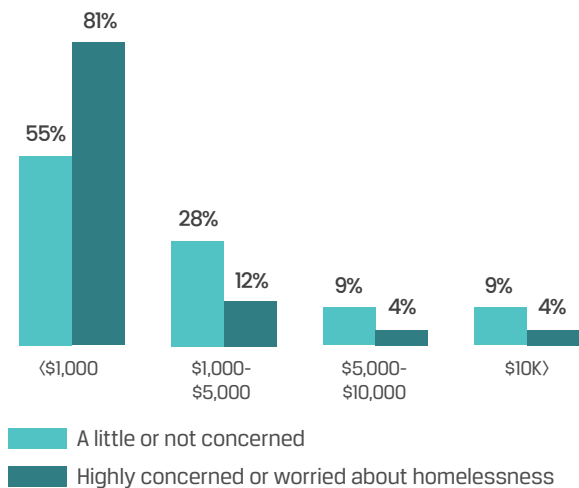


Income



They are also more likely to have a household income of between \$100,000 and \$150,000.

Approximate savings



Those worried about housing are more likely to have lower savings.

They are more susceptible to concerns around housing and fewer have fallback options if their income were to drop.

83% do not know what they would do if their income fell by one third, while 13% would take on more credit.

They worry more frequently about having enough money for essentials, and more than half of them have turned to wage advance products for essential living expenses.

43% of those who use wage advance products worry about having enough for essentials every day. This is double the proportion for the average population. Interestingly, none worry every week but more worry “more than once a month”, which could suggest they consider their finances in line with pay cycle frequencies.

Recommendations

- 01.** A boost to the current national financial literacy programs that are practically based and target high school aged children.
- 02.** Teaching financial literacy in schools as a compulsory subject, in years 10–12. This course can be entirely practical. Setting up healthy habits in high school means by the time students commence tertiary education they can manage their money while studying and working part-time.
- 03.** An awareness-raising campaign to inform people about the programs that exist and the importance of having good financial literacy, as a priority area. Such a campaign needs to be clever and easy to understand. Teaching people from a young age that it's important.
- 04.** In response to the significant number of people who are in hardship because they've taken advantage of the current balance transfer system, customers should be assisted in closing one credit card before opening another with a different lender.



4

Observations regarding BNPL & wage advance products

We asked respondents about their experience with using two types of specific unregulated credit products – Buy Now Pay Later (BNPL) and wage advance products.

For the purposes of this paper, we categorise Buy Now Pay Later as unregulated since the Federal Government is currently undertaking a process to regulate these products but is yet to do so.

Buy Now Pay Later (BNPL)

These products do not require the customer to pay the entire cost upfront, but instead customers pay relatively larger instalments over a shorter time (as compared to other credit products). This means purchases are usually paid off over a few weeks. For bigger purchases, the time period may be longer.

There are no interest repayments on the purchase, but fees can apply.

Observations

- Use of BNPL presents an ongoing problem: people are using it when they are already in difficulty, and it can also push people over the line into hardship.
- When BNPL products are used for essential items such as food and utilities an individual's financial situation deteriorates at an accelerated rate
- BNPL encourages addictive behaviour, including destructive online shopping and gambling.
- There are virtually no barriers to using BNPL.
- Younger people are more likely to use BNPL and do so more impulsively.
- We have noticed a trend for people in hardship to use BNPL to push other problems down the road. For example, it's common for people in hardship to purchase Visa gift cards on BNPL to buy groceries.

Recommendations

- Government regulation under the Credit Act (which is coming).
- Better industry hardship practices and the industry taking more responsibility for how their products are contributing to people falling into hardship.
- A well-funded awareness raising campaign to demonstrate how long term the problems are that are caused by BNPL.
- Restrictions on the use of BNPL for essentials, such as groceries.



Wage advance products

Another unregulated set of credit products experiencing significant growth is wage advance products. These products allow you to borrow money before your next payday. You use the service through an app or online portal, and there is a limit on how much you can access each pay. The money is available to spend immediately. There is no interest on the borrowed money but there is a fee of up to 5% for accessing the service.

Although wage advance products and payday loans seem similar, they operate in different regulatory fields. Payday loans still have protections, but with wage advance products there are none. In terms of how much regulations can protect someone, it's important to recognise that laws are designed to keep providers accountable. However, when it comes to protecting consumers from harm, they are at the mercy of providers.

The wage advance industry has grown exponentially over recent years. It's also concerning that new providers are popping up (and then disappearing) so frequently that it is nearly impossible to make these businesses accountable.

From this research, we found that of the total respondents to the survey, those who've used wage advance products have less certainty around their financial situation, with lower incomes and savings. They may be more likely to have used the product out of necessity, and one in three are stuck in a cycle of doing so (see previous section). They are aware of the challenges of their financial situation, worrying more frequently about affording essentials. However, they are also open to more information and help from Way Forward.

“If you're accessing wage advance, then there's almost always something else going on...no one needs to access their wage early if they're not already in financial hardship.”

Kirsty Robson, National Debt Helpline

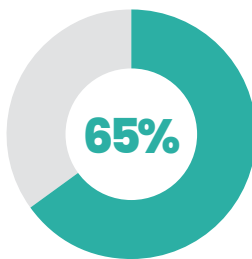
Observations

- People only use wage advance products if they are experiencing financial problems or stress. The product exists for people who are desperate or on a low income.
- Our clients are using wage advance products without a complete understanding of the pitfalls and consequences, or if they see no other option.
- Our clients are also using wage advance products for essentials, like groceries.
- It is unregulated which means providers are beholden to no laws and are basically unaccountable.

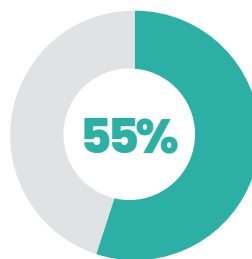


If you use wage advance products you're already in hardship

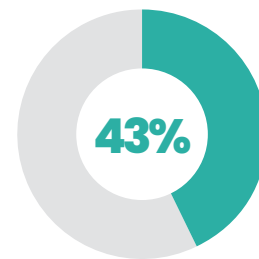
- 65% of wage advance products are used for housing utilities and household bills.
- 55% of wage advance products are used for groceries.
- If you use wage advance products you're more likely to worry about not having enough for the essentials. 43% worry every day compared to 21% of all respondents.
- 1 in 10 respondents have used BNPL or wage advance products to pay off their other debts, with the proportion being higher for those with savings under \$1,000
- Of those who have used the product, 1 in 3 feel trapped in a cycle of using wage advance products whilst 1 in 4 feel trapped in a cycle of using BNPL products



wage advance products are used for housing utilities and household bills



wage advance products are used for groceries



wage advance products you're more likely to worry about not having enough for the essentials

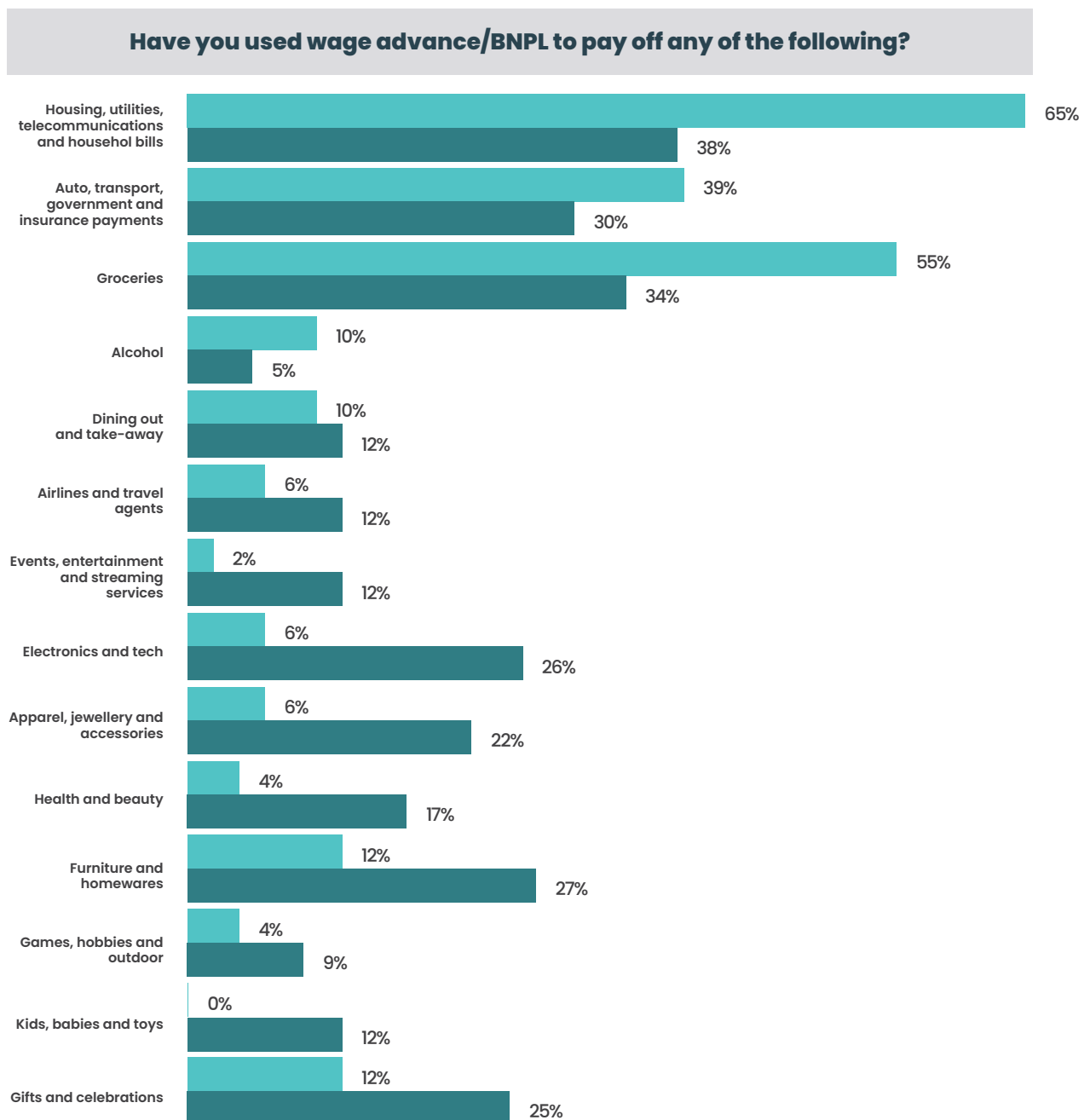
Using BNPL or wage advance products to pay off debt

Wage advance product users are those who have less certainty around their financial situation, with lower incomes and savings. They may be more likely to have used the product out of necessity, while one in three are stuck in a cycle of doing so. They are aware of the challenge of their financial situation, worrying more frequently about affording essentials. However, they are also open to more information and help from Way Forward.

We have seen a consistent increase in the use of BNPL and wage advance products over the last few years.

1 in 10 survey participants have used BNPL or wage advance products to pay off other debts, with the proportion being higher for those with savings under \$1,000.

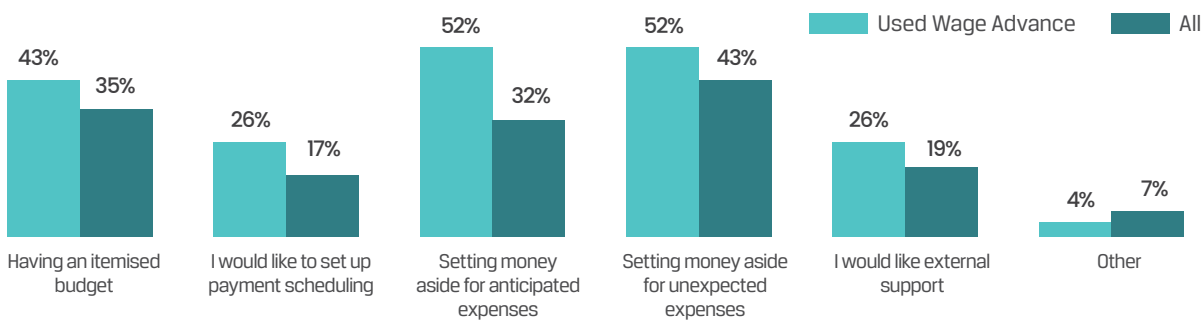
While wage advance products are more likely to be used for essentials, there is a wider variation in BNPL usage. Where wage advance products have been used, they are more likely to be on essentials. While BNPL is also used for essentials, there is also a tendency to use it to purchase goods and non-essentials.



Of those who have used the product, 1 in 3 feel trapped in a cycle of using wage advance products while 1 in 4 feel trapped in a cycle of using BNPL products.

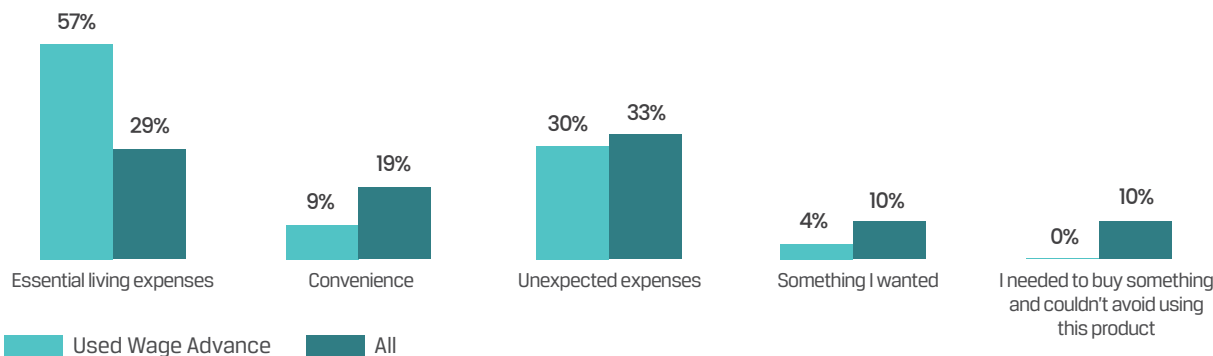


Would you like further information around any of the following



There is a greater appetite to get help with managing finances across all options. Observation - people who use wage advance are asking for more support in relation to financial literacy.

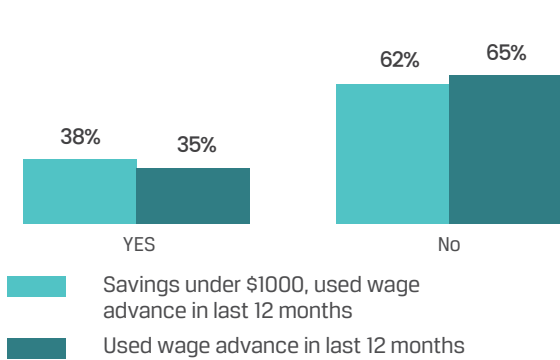
Why do you need to use these products?



More than half used the products for essential living expenses, while 30% used it for unexpected expenses.

While they have tools to ensure they keep on top of payments, they are also keen for more information to help them manage their budget and savings.

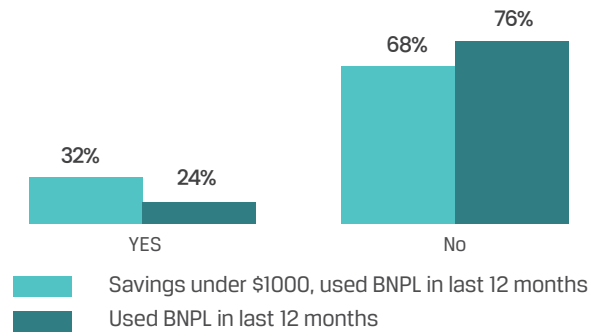
Do you feel trapped in a cycle of using wage advance products?



Of the 23 respondents who have used wage advance products in the past 12 months, over a third of them feel trapped in a cycle of using them. 21 of these respondents have savings of less than \$1,000.

Of the 122 respondents who used BNPL products, 24% felt trapped in a cycle of using them. 88 of these respondents have savings of less than \$1,000.

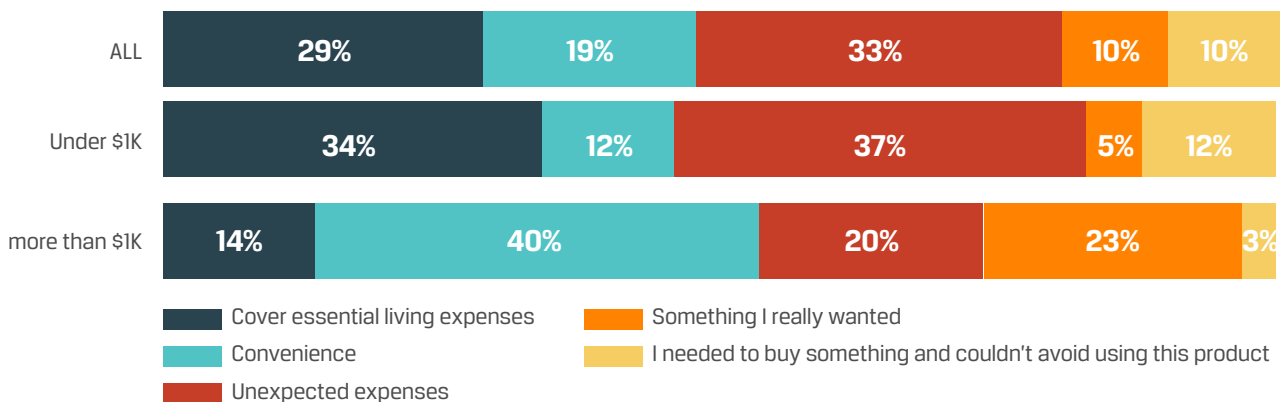
Do you feel trapped in a cycle of using BNPL products?



The reasons for needing to use these credit products vary by income and savings, where individuals with lower income or savings have a higher tendency to use them for essentials.

Those with lower incomes (less than \$50,000) were more likely to use these products for essential living expenses, while those with incomes between \$100,000 and \$150,000 were more likely to use them for unexpected expenses.

What motivated you to use wage advance and BNPL products?



Those with savings below \$1,000 are more likely to use the products for essential living expenses or they could not avoid it. Those with savings above \$1,000 are more likely to use the products for convenience or to buy luxuries ("Something I really wanted").

Findings

- People who use it, are more likely to use it for essentials.
- Their assets and income suggest that they are more likely to be living with less stability and certainty.

- Respondents who used wage advance products over the past 12 months are younger, and are more likely to be single and have no dependents.
- They are more susceptible to concerns around housing and fewer have fallback options if their income were to drop.
- While they have tools to ensure they keep on top of payments, they are also keen for more information to help them manage their budget and savings.

Recommendations

- Regulation of the currently unregulated credit products industry, including a focus on wage advance products.
- The usage of these products be restricted to no more than once every 6 weeks.
- The development of better tools to identify people in hardship.
- Requiring credit checks to open new accounts
- An increasing level of scrutiny of customers situations when more than one BNPL/Wage advance facility is evident.

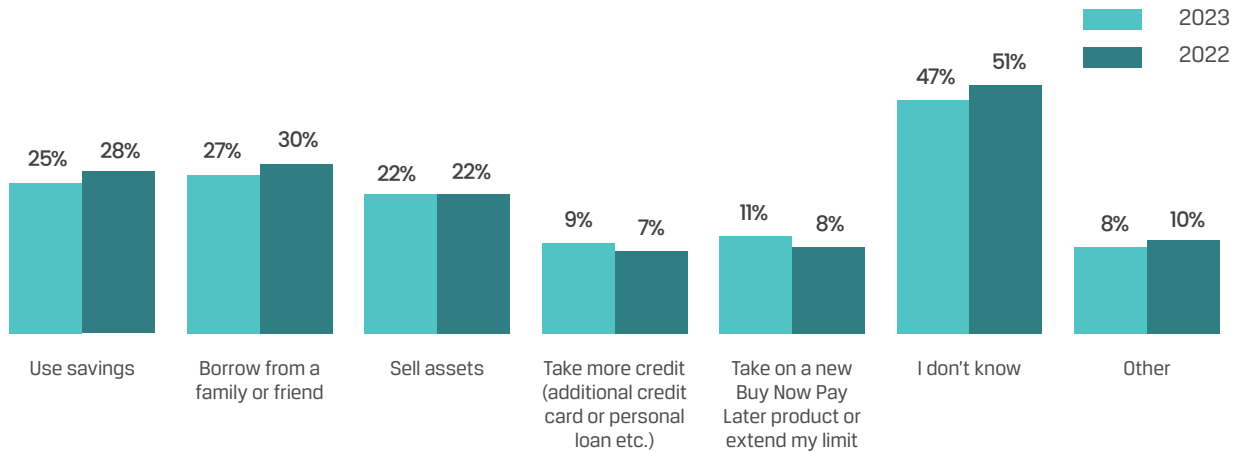
How people are funding their essential needs

At Way Forward, we have supported nearly 1200 people. Most of our clients are millennials (see below) and they have gotten younger over time.



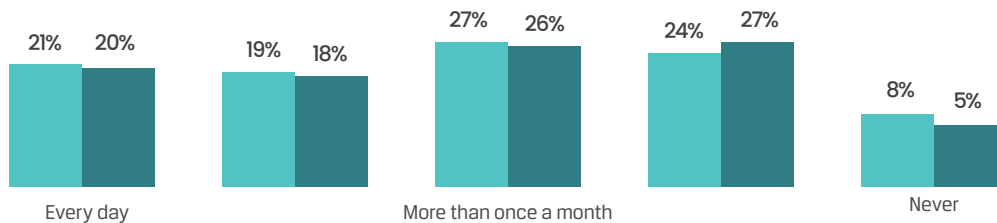
Compared to last year, respondents are just as likely to feel uncertainty about their income meeting their expenses and to worry about having enough for essentials

If your income fell by one-third over the next month, how would you meet all of your expenses?



Almost half of the respondents continue to not know what they would do if their income fell by a third. Those that selected "Other" would get another job, access super, limit purchases

How often do you worry about not having money for the essentials



Worrying about not having enough for essentials continues to be a frequent occurrence for respondents with 40% affected at least every week.

Their assets and income suggest that they are more likely to be living with less stability and certainty.

They are less likely to be employed full-time, with lower incomes and lower savings (most have savings of less than \$1,000).

Case Study

Joseph's problems started with gambling and impulse buying.

"When I was young, I started gambling on pokies. I had what they call the 'phenomenal first win'—bells and whistles go off, and you win dream money for a night. You think that's going to happen all the time."

"I was also undiagnosed with ADHD and it played a big part in impulse control.

"When you start trying to gain control over impulse gambling and shopping, it's almost harder than quitting smoking.

Joseph worked for months to put in place accountability measures to ensure he stopped gambling.

"I'm more honest now than I've ever been in my life. I told everybody because I needed to put a system in place that would guarantee accountability."

When Joseph eventually approached Way Forward for help with his debts, he knew he needed bank statements that showed a track record of no cash withdrawals. He waited several months before asking for assistance.

"You can't just go to Way Forward and expect to be rescued. It must come from within you.

I didn't want someone like Deborah [Way Forward hardship advocate] to put an excellent plan in place and then repeatedly fail on my end."

Buy Now, Pay Later made problem gambling worse

Joseph started using BNPL to purchase everyday items to cover up gambling losses.

"I bought gift cards with Afterpay and Zip, and that accelerated my gambling. Some modern gamblers will be doing things like this.

For example, if you've lost \$400 gambling, you'll do a \$400 shop, but instead of using savings, you use Zip. The deception is that the shopping is done using debt, and the money that's been lost gambling is covered up."

Create a personalised budget

Focusing on daily progress and thoughtful, intentional spending is helping Joseph get where he hopes to go.

"If I want to get to where I want to be, I'm not going to win money gambling. It has never happened in all these years.

"I had to get out of the mess slowly—dollar by dollar. Everything I've done up until this point was chasing a quick win."

Budgeting has also been critical for Joseph's financial recovery.

"I'm a data analyst, so I made a spreadsheet for my budgeting. The budget is set up weekly, but then I'll also be able to look weeks ahead and start prepaying or preplanning for certain bills.

"It's something that works for me.



“

When you start trying to gain control over impulse gambling and shopping, it's almost harder than quitting smoking. It's not just that you lose control of yourself, but your brain is almost a separate entity. It becomes an enemy.

5

Recommendations for a way forward

The report has described the challenges faced by people experiencing financial hardship when it comes to understanding how to make good choices when it comes to managing money, especially when finances are limited.

These challenges are particularly acute when someone has low savings and a history of living off debt to fund their needs.

We have considered how to address this problem, and although it would be easy to say, “save more”, or “earn more”, those actions rarely result in better outcomes.

The answer is not an easy or simple one, and it’s also not quick. Learning long-term habits and changing deeply engrained spending practices is a long-term project.

We also know that people don’t change their habits when they aren’t in hardship and don’t feel forced to change. They also don’t learn new money management skills when they are in a distressed state.

So, what is the answer?

One of the areas we’ve been looking at how to improve overall financial wellbeing is through access to financial literacy training and education and providing access to this as young as possible, considering the long-term detrimental impact of poor financial literacy, especially for young people.

Having inadequate financial literacy skills is a concern for many Australians, and [in particular young Australians and women](#). We know this continues to be upheld as a concern across the community sector, government and industry

According to our research, young people in financial difficulty seem most challenged: they have less savings and feel less optimistic about the future. Further, most (76%) have their mental health impacted at least every week and over half (57%) worry about the essentials at least weekly.

Young people have fewer financial safeguards in the form of assets, such as savings or property, so they feel less in control of their finances and are negatively impacted by big expenses.

Further, young people in financial difficulty are also the most avid users of BNPL and lean on this form of credit to fund many expenses that should be budgeted for.

The findings of [our report into Buy Now Pay Later](#) also highlighted the vulnerability of young women in relation to financial wellbeing. The report found that a typical BNPL user in financial difficulty is female, younger, renting and has under \$1,000 in savings.

While there are endless resources available, how to access and use these to improve someone’s situation is still unclear. Notably, there is a gap in the national education in relation to financial literacy.

[According to a report published by the Productivity Commission](#), Australian adults (aged 16–65) have above-average proficiency in literacy but average proficiency in numeracy. For numeracy, Australia ranked 14th, the UK 17th and the USA 21st.

The non-profit Financial Basics Foundation, a provider of free financial literacy resources for educators, argues that injecting “principles of financial literacy into as many areas as possible across the curriculum” is critical, particularly in the “wellbeing/pastoral care area of the school’s offerings”.

To better prepare young people for the real world and a healthy financial future, the organisation says that a significant rethink is required, starting with governments recognising financial literacy as a core life skill. From there can come the development of a nationally coordinated strategy, with teachers given the support to deliver relevant and engaging standalone financial literacy education.

To better prepare young people for the real world, and a healthy financial future, the organisation says that a significant rethink is required, starting with governments recognising financial literacy as a core life skill. From there, building on the work that has been started with the National Financial Capability Strategy could give parents, carers and teachers the support to deliver relevant, engaging and practical standalone financial literacy education.

In the words of our clients:

“For some people, feeling like a failure or the fear of rejection is a hurdle to seeking help. What if you tell people about your problem, and they can’t help you? Or what if they call you a loser and want nothing to do with you? It’s hard to be vulnerable, but that’s a risk you have to take.” – Joseph

“Way Forward and counselling has taught me that my finances are my responsibility. I’ve never had that before and I’m 47 years old. It’s about time to really knuckle down.” – Sue

“If someone can learn something from my story, please know that a program like Way Forward’s is for anyone in trouble, even if you have a high-level, well-paid job. It’s not beneath you to ask for help. Don’t be deterred that you wouldn’t qualify, just because there are people in a much worse situation to you.” – Dinesh



“

If someone can learn something from my story, please know that a program like Way Forward's is for anyone in trouble, even if you have a high-level, well-paid job. It's not beneath you to ask for help. Don't be deterred that you wouldn't qualify, just because there are people in a much worse situation to you.

– **Dinesh**



Way Forward helps clients in 3 simple steps

1

We evaluate your circumstance and financial situation.

2

We take over negotiations with creditors and act your behalf.

3

We put together a manageable repayment plan and budget. You make one recurring payment to us that we then distribute to all creditors, 100% of which goes towards reducing the debt.

If you're stuck, get help. Call **1300 045 502** or [contact us on our website](#) to see if we can help you get out of debt faster.

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way forward 