

THE THREE R'S OF FINANCIAL FITNESS

DR VINITA GODINHO



Dr Vinita Godinho, shares her wisdom in this edition of Flourish. Dr Godinho is an internationally recognised leader in the world of inclusive finance. She specialises in the design of evidence-based programs to improve the financial lives of those who are most vulnerable to financial stress.

'Stay Home', 'Wash your Hands' and 'Keep your Distance' - these are simple yet practical actions each individual and household can take to protect our physical health and wellbeing during the COVID-19 crisis, and help 'flatten the curve' of infection across the wider community. However, with the threat of infection have come serious financial impacts to individuals, families and entire communities.

Given the worldwide shutdowns, job losses and disruptions to production, a global recession is virtually guaranteed. This could interrupt Australia's nearly thirty years of unbroken economic growth, see our dollar and real incomes fall further and trigger record unemployment.

As well as shoring up our physical and mental resilience at this time, we need to look at our financial fitness and resilience, i.e. the ability to bounce back from financial shocks. This article explores the practical steps that you can take to protect your financial health and wellbeing, and build financial resilience for yourself, your household and the wider community.



Financial Resilience and Wellbeing in Australia

Low financial resilience is a major problem in Australia, with 2 million adults facing severe to high financial stress, which impacts their health and financial wellbeing. Their households struggle to meet living expenses, feel insecure about the future, and lack the freedom to make life choices. Those on low incomes, women, the young, and groups from non-English speaking backgrounds are more likely to face financial stress. Living from pay to pay, and making tough choices is hard enough – yet COVID-19 has amplified this stress for them, and many others.

The mass shutdowns are costing the economy \$4 billion a week and will wipe \$50 billion off the quarterly GDP to June. 3.4 million workers may be out of work, and household consumption could fall by \$38 billion. People who have never faced real financial stress before will experience it for the first time, and in doing so, feel a huge burden on their financial, physical and mental wellbeing.

Federal and State Governments are providing emergency financial relief including the Jobseeker and JobKeeper payments, incentives to keep workers in jobs, and support with household expenses. While helping to keep people afloat for now, these measures are temporary. In order to better prepare for the future, individuals, families and communities need to develop strategies to help them not just survive, but 'build back better' from financial shocks, by playing to their strengths.



Your framework for 'Building Financial Resilience'

Understanding that everyone could do with some help with managing their money, Financial Resilience Australia have designed the 'Building Financial Resilience' framework: a simple series of practical steps that you can take to protect your financial health, and build resilience for yourself and your family. Organisations across all sectors including; government, industry, academia and non-profits can also use this framework to identify practical actions to build the financial resilience and wellbeing of their staff, clients, suppliers and community partners.

Financial resilience is affected by numerous factors (see Diagram 1) such as personal access to finance, individual financial capability, personality traits and behaviours. We're also influenced by external factors, such as the socio-economic characteristics of the household, neighbourhood and community that we live and work in.

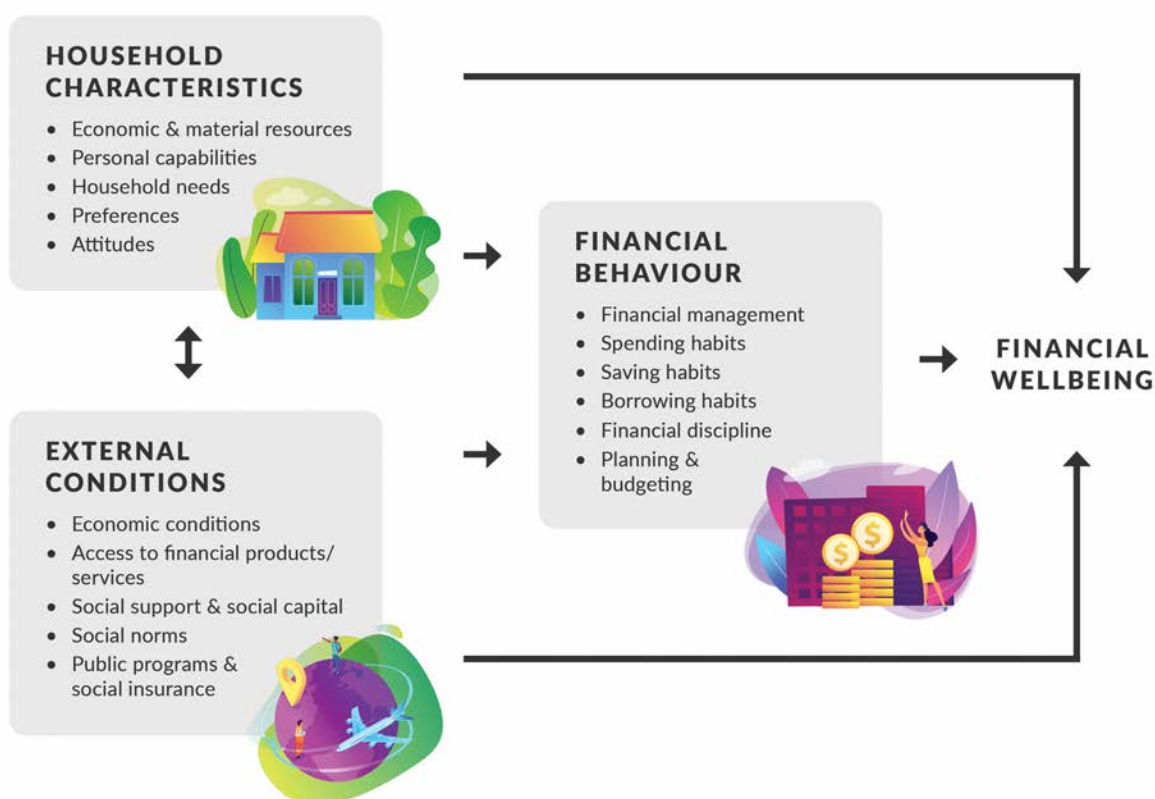


Diagram 1: Adapted from 'Improving the Financial Wellbeing of Australians' 2019, The Melbourne Institute for Commonwealth Bank of Australia.

Your framework for 'Building Financial Resilience'

Everyone responds differently to shocks, however each of us can take three steps: **Refocus, Refresh and Restart.**

These will help you find a path to building financial resilience and improve your chances of recovering from economic shocks, no matter what their origin (see Diagram 2).

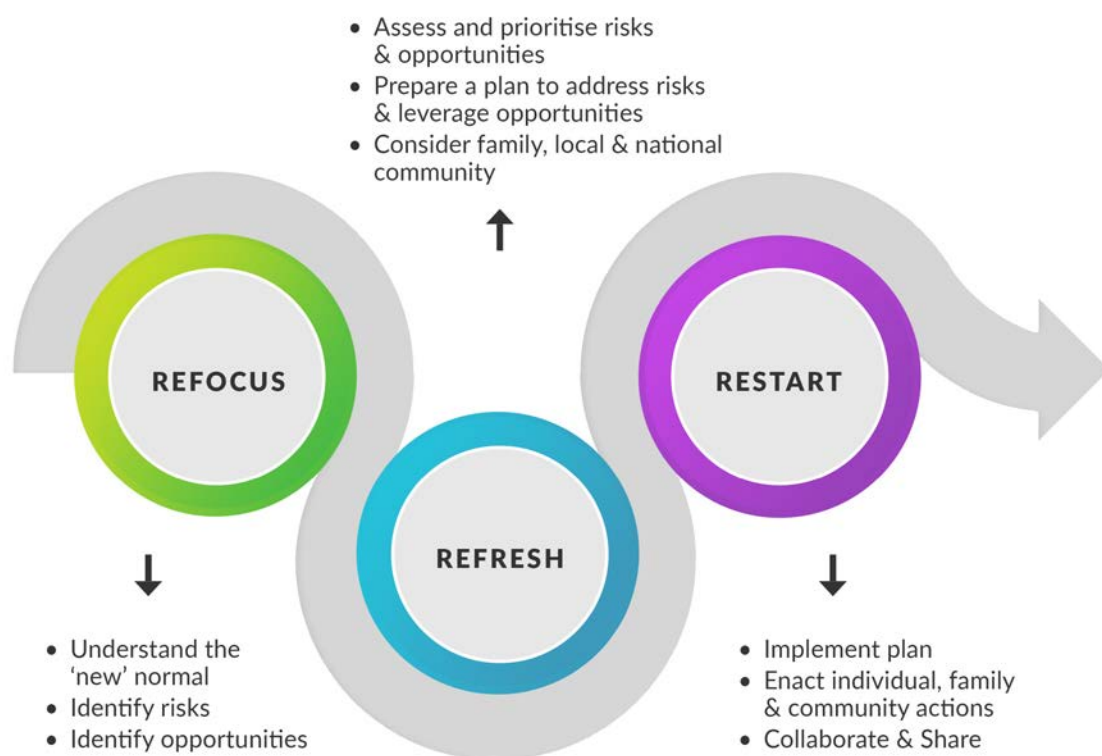


Diagram 2: 'Building Financial Resilience' © 2020, Financial Resilience Australia Pty Ltd.

REFOCUS

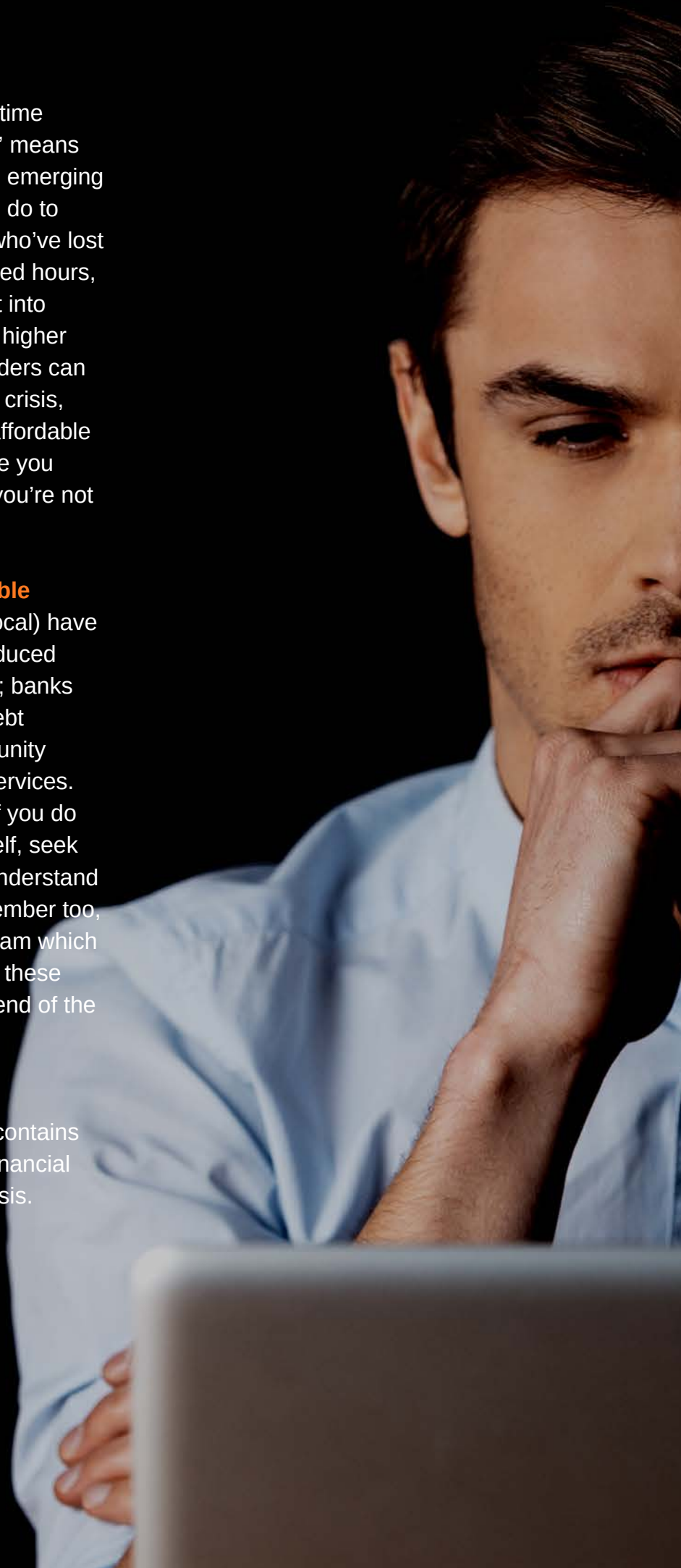
In order to 'Refocus', spend some time reflecting on what the new 'normal' means for you – identify the financial risks emerging from COVID-19, and what you can do to minimise them. For many people who've lost jobs or are working severely reduced hours, the sudden drop in income can eat into savings and push households into higher debt to cover living expenses. Lenders can become more risk-averse during a crisis, making it harder for us to access affordable credit and insurance. If you feel like you can't see a way out, rest assured you're not the only one.

Do your research on help available

Governments (federal, state and local) have increased welfare payments, introduced rent-relief and re-skilling programs; banks and utilities are easing fees and debt repayment options; and the community sector is ramping up emergency services. Review what's currently on offer. If you do not feel confident doing this yourself, seek out a trusted advisor so that you understand what you may be entitled to. Remember too, Converge has a Money Assist stream which can assist in financial coaching for these circumstances. See details at the end of the article.

Other useful resources

The Services Australia website contains the full range of federally-funded financial assistance available during this crisis.



REFRESH

The next step is to 'Refresh' your approach to managing money. Quite simply, this means accepting you have to make financial choices which many of us may not have had to make before. We're talking about everything from what you decide to put in your supermarket basket, to how to save on utilities and other bills. Draw up a list of outgoings, what's necessary and what help is available.

Assess and prioritise the risks that must be reduced, the opportunities to act upon, and prepare a plan for how you may achieve these. Now is the time to become aware of which financial products and services best suit your needs. Instead of thinking "I'll never cope with this" realise that this is an opportunity to develop positive, life-changing financial behaviours, especially disciplined saving, spending and borrowing habits.

Studies show that your financial capability can also depend on how your family, particularly parents, manage money. Can you help a family member with managing money, or can a trusted mentor from your inner circle help you? Proactively reducing any stress in the way in which your household manages money can improve family relationships and build financial resilience.

Research also shows that connecting with others in your local community can improve your financial resilience and wellbeing. The increased flexibility and cooperative networks emerging from COVID-19 have enabled some communities to share and pool resources. Investing in community wellbeing in this manner can improve overall education, employment and health, and reduce government spending on welfare and criminal justice, which benefits us all.

Refresh your plan to address the financial risks and opportunities which are most relevant to your personal situation.

Where to start

The Government's [MoneySmart website](#) is a trusted source of money-related information designed to help you make informed financial decisions during this crisis.

Other useful resources

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RESTART

Activate your plan to 'Restart' your financial life – not just to endure the COVID-19 shock, but to 'build back better' so that you are prepared for the future.

“Taking small steps to change two daily financial habits – regular saving (no matter how small) and not borrowing for daily expenses, has the biggest influence on financial wellbeing.”

Studies show that budgeting (even informally), controlling your spending, planning ahead and being willing to seek advice – whether from a trusted mentor or paid advisor – also significantly improve wellbeing and reduce your stress.

Basic financial products – a transaction account, a small amount of credit and general insurance – cost on average \$1,794 p.a. in Australia. Proactively manage your financial products – compare options and shop for the best deals, check your coverage, set limits and automatic reminders – to minimise your financing costs. Plan for the future, including superannuation, retirement planning and other products to cover costs as you age.

If money is short, you might try what a lot of people are doing - finding a 'side-hustle' or ways to earn extra money. An example of this could be selling unwanted goods on eBay, but not all of us have the temperament or patience for that. If you're good at DIY and your work has slowed down, you could pick up odd jobs like gardening or painting in the neighbourhood through a service like AirTasker. Each little bit of income adds up.

An important priority is to proactively manage debt, so if you can't pay your bills, then you need to negotiate with utility and other providers for extensions. Don't think you're the only one - there are thousands of people in this position. And if you don't ask, you don't get.



**TIME TO
RESTART**

If you're in a position to, start building an emergency fund with whatever is achievable – experts suggest aiming for 3-6 months of household expenses. Studies show that even building your social networks, identifying the support you can access, and knowing where to go to for help, can significantly improve financial wellbeing. Continuing the increased local collaboration beyond the crisis - for example creating community gardens or car-pooling to drop kids to school, will also build a longer-term sense of belonging and with that, resilience.

Where to Start: Australia's National Financial Capability Strategy drives initiatives to help Australians take control of their finances and is full of timely tips and tricks to help you manage money.

If each one of us makes the effort to take these practical steps and act to improve our own financial wellbeing, as well as contribute to improving the financial lives of our families and the communities we live and work in, we can truly turn the COVID-19 crisis into an opportunity to build better financial resilience across Australia.

If you would like to speak to a financial counsellor in confidence, remember that **Converge offers Money Assist**, free and confidential support from the convenience of your own home. Book through our main phone number **1300 687 327**.

