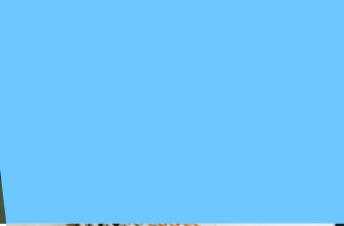
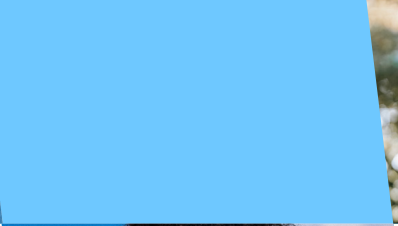
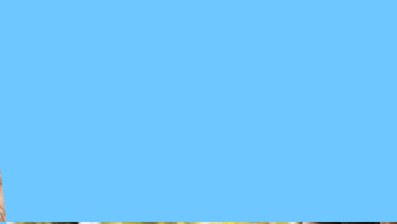
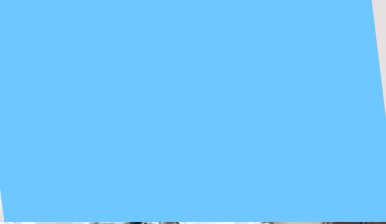
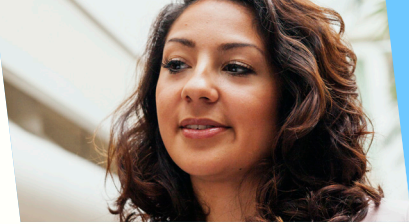


MARCH /  
APRIL  
2022



LEADERSHIP PIECE



# Unlocking financial literacy through **BUDGETING**

Hall & Partners



# Introduction

Budgeting is a key component of being financially literate. However, budgets are as varied as the people who set them - they come in many sizes, shapes, and forms. People employ a range of tips, tricks, and tools to help them budget, some which might surprise you!

We explored the financial literacy of budgeters and how different tools can help them meet their budgeting needs.

## **5 things you need to know**

- People that budget exhibit greater financial literacy than those that do not.
- Budgeters are more involved with investing and have a greater appetite for risk.
- All budgeters understand that debt can be a valuable financial tool, however advanced budgeters (i.e. those that use a tool to budget) are better wielding it to their advantage.
- BNPL can help people meet their budgeting needs through helping to manage cash flow, control spending, complementing budgeting goals and increasing budget flexibility.
- The savvy use of BNPL services is a powerful way to increase overall financial literacy.

Australians make financial decisions every day. Therefore, it is no surprise that financial literacy – having the skills and knowledge needed to make sound decisions about money – is a hot topic. The interest in financial literacy is driven by its ability to improve one’s wellbeing, through increasing wealth accumulation, retirement savings and outlook on life<sup>1</sup>. MoneySmart supports this proposition, believing that control over finances is essential to a flourishing life<sup>2</sup>. However, a study by HILDA<sup>3</sup> estimates that only just over half (55%) of Australians are financially literate<sup>4</sup>.

**This raises the question:**

# How do we become more financially literate?

1 [https://api.research-repository.uwa.edu.au/ws/portalfiles/portal/73668586/Financial\\_Literacy\\_in\\_Australia.pdf](https://api.research-repository.uwa.edu.au/ws/portalfiles/portal/73668586/Financial_Literacy_in_Australia.pdf)  
2 <https://moneysmart.gov.au/about-us>  
3 Household, Income and Labour Dynamics in Australia (HILDA) Survey (HILDA)  
4 Ibid



# Financial literacy

There are different aspects to financial literacy: earning, saving and investing, spending, borrowing, and protecting.

Budgeting is a critical tool in helping people to achieve their financial goals and enables people to take control of their spending, saving and investing. As MoneySmart states ‘budgeting helps you feel in control of your money’<sup>5</sup>. As such, it comes as no surprise that whether a person has a budget (or not) is an indicator of financial literacy. In a study conducted with over 4,000 Australians<sup>6</sup> it was found that:

**41%**▲ of budgeters set long term financial goals, compared to only 21% of non-budgeters

**33%**▲ of budgeters are confident in using their knowledge to grow their wealth, compared to 18% of non-budgeters

**41%**▲ of budgeters really learn from a financial setback or hurdle, compared to 24% of non-budgeters

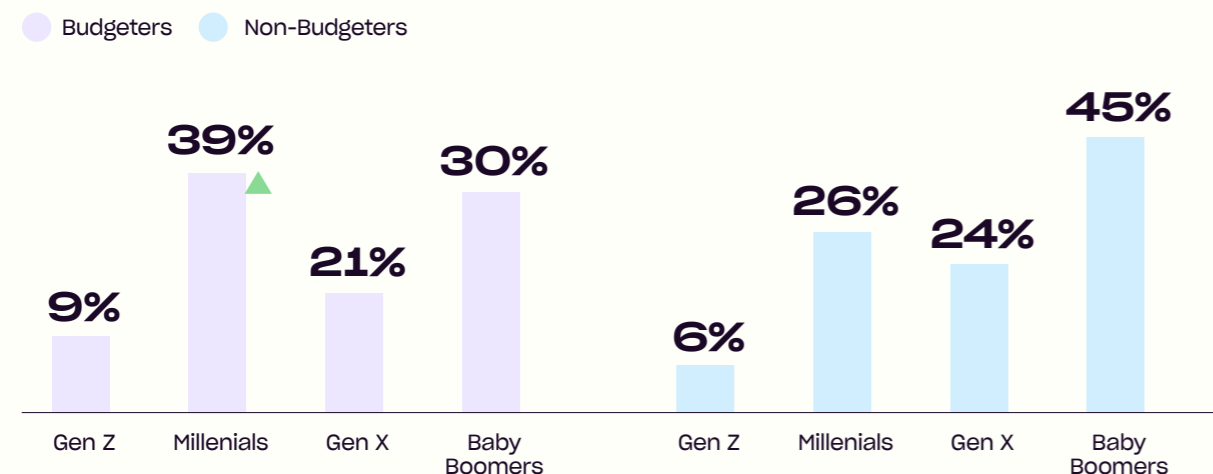
5 <https://moneysmart.gov.au/budgeting>  
6 Source: Hall & Partners Zip Customers of Tomorrow Research. Base: Budgeters (3,424), Non-Budgeters (640)

**SNAPSHOT**

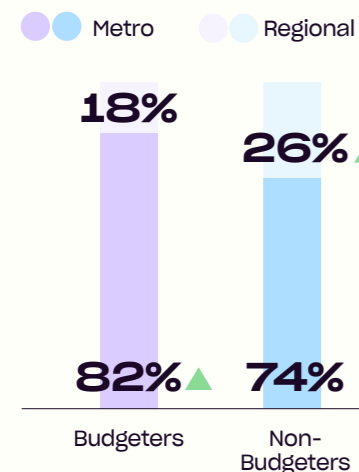
# Who budgets?

There is no gender skew among budgeters, however they do tend to be younger (skewing to Millennials), reside in the inner city/CBD, are more likely to have kids living at home, and in a couple.

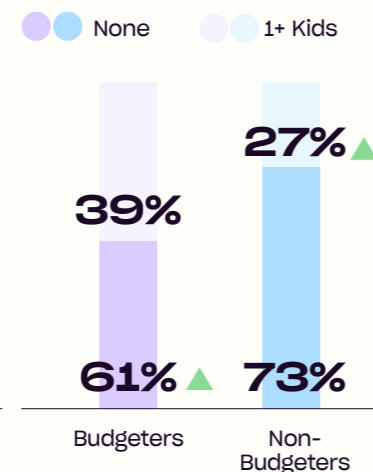
## BUDGETING APPROACH BY GENERATION



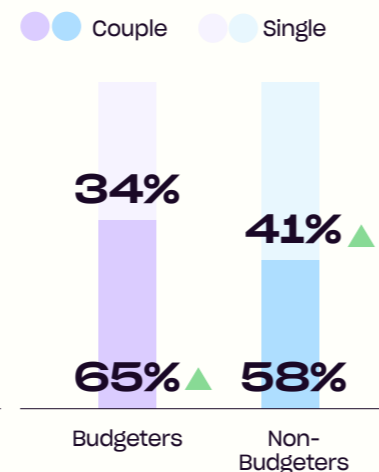
### BUDGETING APPROACH BY REGION



### BUDGETING APPROACH BY NUMBER OF CHILDREN



### BUDGETING APPROACH BY RELATIONSHIP STATUS



Base: Budgeters (3,424), Non-Budgeters (640)  
 Q - Age, Location, Children, Relationship, Gender  
 ▲ ▼ Significantly higher or lower than Non-Budgeter



**“BUDGETING MEANS I CAN NOT WORRY SO MUCH ABOUT MONEY! IT’S MENTALLY FREEING TO KNOW YOU HAVE IT UNDER CONTROL AND YOU’RE PREPARED FOR ANY FINANCIAL HURDLES THAT INEVITABLY CROP UP.”**  
 Millennial



## ELEMENTS OF FINANCIAL LITERACY

# Savings

## BUDGETERS ARE FAR MORE LIKELY THAN NON-BUDGETERS TO SET FINANCIAL GOALS

The act of saving plays an emotional support role for half of all Australians, where having a financial safety net helps them to feel less stressed about unexpected emergency expenses that may arise.

**“I FEEL POSITIVE WHEN I HAVE MY BUDGET IN PLACE - IT MEANS I ALWAYS HAVE ENOUGH ASIDE FOR AN EMERGENCY, I CAN PAY FOR EVERYTHING I NEED TO, AND THAT I AM MAKING SMALL STEPS TOWARDS THE LARGER FINANCIAL GOALS I’VE SET FOR MYSELF.”** Gen X

**1 in 2 Australians say that not having money aside for emergency expenses causes a lot of stress.**

Despite this, there is a clear disparity between those who budget and those who do not when it comes to financial goal setting.

The ability to set and stick to financial goals is the determinative factor in effective saving. Budgeters are significantly more likely to set short-, medium- and long-term financial goals;

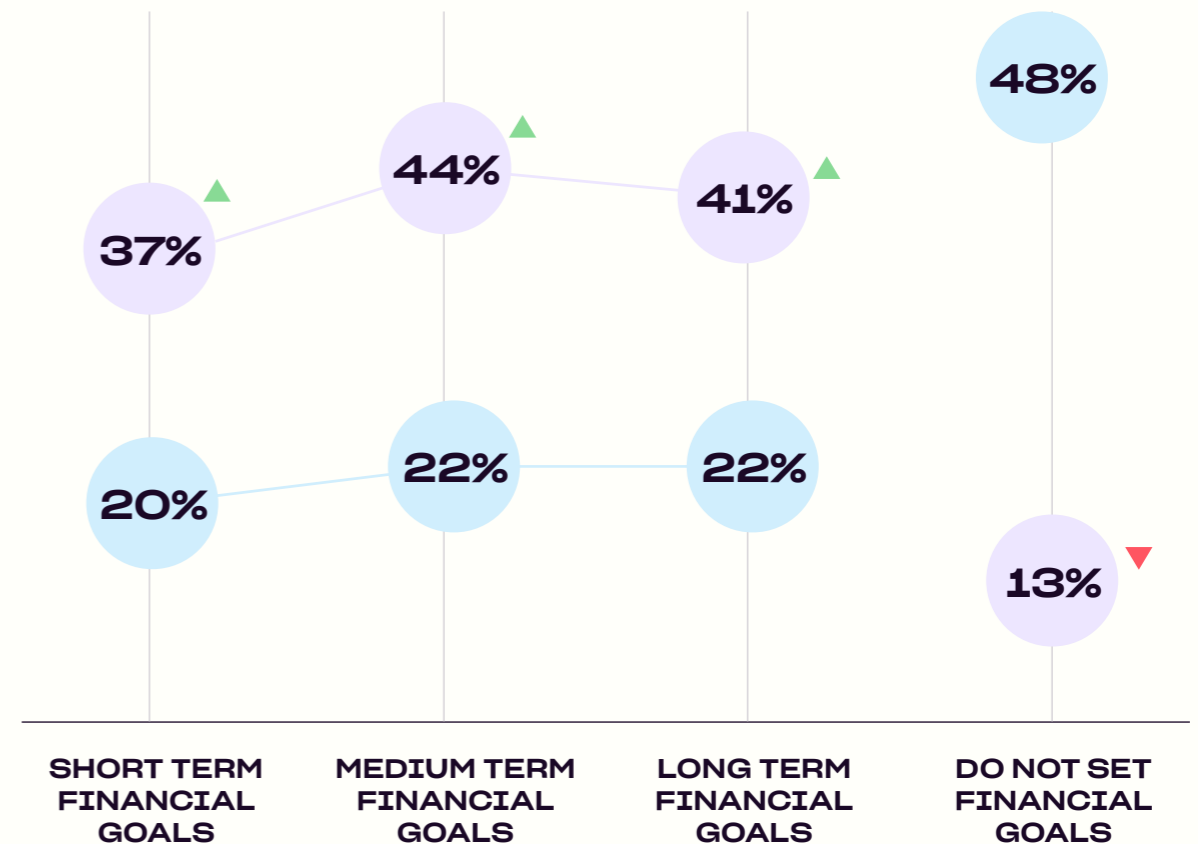
**37%** set short term financial goals (compared to 20% non-budgeters);

**44%** set medium term financial goals (compared to 22% non-budgeters); and,

**41%** set long term financial goals (compared to 22% non-budgeters).

## GOAL SETTING BY BUDGETING APPROACH

● Budgeters ● Non-Budgeters



Base: Budgeters (3,424), Non-Budgeter (640)  
Q - What type of financial goals do you currently set for yourself?  
▲ ▼ Significantly higher or lower than Non-Budgeter

Budgeters get detailed understanding of their spending habits, both in real time and often forecasted. This puts them directly in control of their money, empowering them to better smooth income and expenditure flows and juggle not only their everyday financial commitments, but work towards their longer-term financial goals at the same time.

**“BUDGETING IS ABOUT COMPARTMENTALISING MY MONEY AND ALLOCATING IT TO DIFFERENT ACCOUNTS SO I HAVE ENOUGH FOR ALL THE THINGS I NEED (AND WANT!) TO DO.”** Millennials



**ELEMENTS OF FINANCIAL LITERACY**

# Invest

**BUDGETERS ARE MORE INVOLVED WITH INVESTING AND HAVE A GREATER APPETITE FOR RISK**

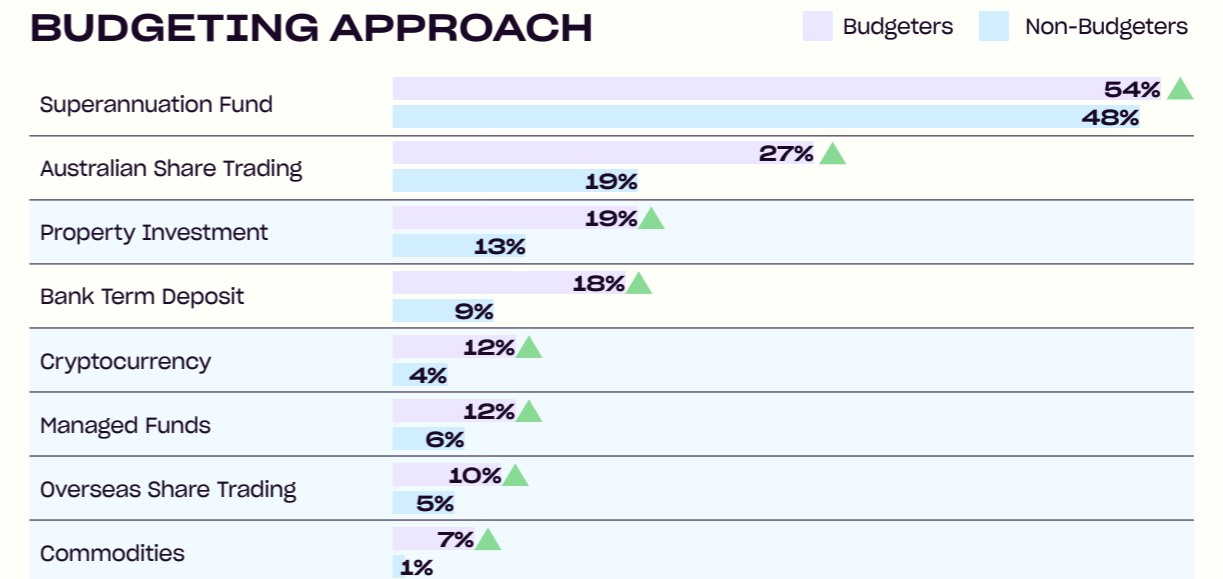
The barrier to accessing various asset classes has dropped significantly with the digitisation of global markets. This has afforded individuals an unprecedented opportunity to take wealth generation into their own hands.

Unquestionably, some of these products are complex and difficult to grasp. However, who is best equipped to make the most of this opportunity?

Findings reveal that budgeters are most likely to be currently undertaking such activities. Greater involvement with higher risk or complex financial instruments (for example cryptocurrency, shares, commodities) among budgeters can be attributed to their:

1. Comfort with various investing platforms and processes
2. Understanding of and ability to mitigate investment risks
3. Desire to be up to date with the latest financial trends

**CURRENT INVESTMENTS BY BUDGETING APPROACH**



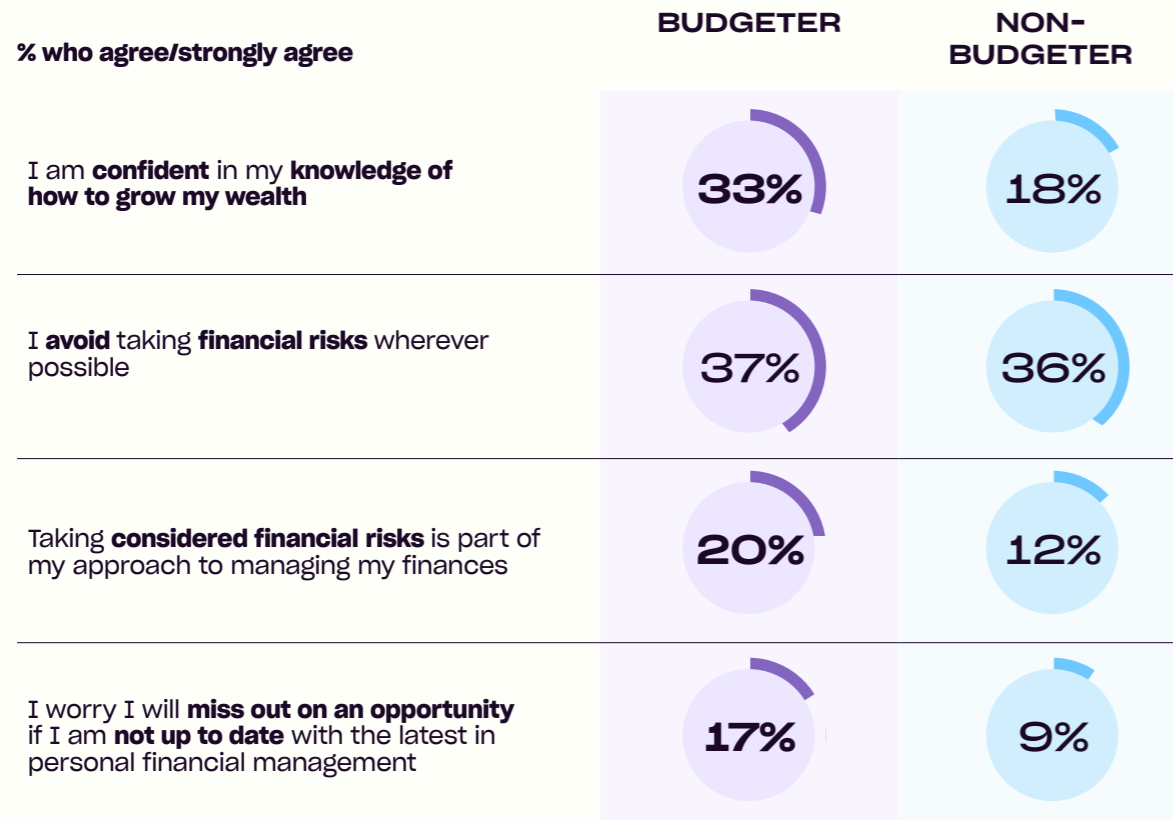
Base: Budgeters currently invest in any of the above (inc. a savings account) (2,716), Non-Budgeter currently invest in any of the above (inc. a savings account) (428) Q - Which of the following do you currently invest in?  
 ▲ ▼ Significantly higher or lower than Non-Budgeters

A measured appetite for risk is an important differentiator when it comes to investing and a key component to financial literacy. Understanding the inherent risk of different financial instruments allows individuals to make smarter and more informed financial decisions that may result in the accumulation of wealth.

Budgeters are more likely to incorporate a level of considered risk into how they manage their personal finances, suggesting that they are not only more confident when it comes to knowing how to grow their wealth but have the discernment to put

that confidence into action through considered investment decisions.

By contrast, non-budgeters take significantly less financial risks as a part of their financial process. This aligns to their inclination towards more conservative investment products and indicates that they lack the understanding and confidence to take on alternative or complex investments. MoneySmart suggests that planning for, researching and diversifying investments is the best way to increase understanding, risk tolerance, and in turn, the inclination to invest <sup>7</sup>.



Base: Budgeter (3,424), Non- Budgeter (640)  
 Q - Please tell us how much you personally agree or disagree with the statement  
 Bold is significantly higher than other Budgeter group

<sup>7</sup> [https://moneysmart.gov.au/how-to-invest?gclid=Cj0KCQjw5-WRBhCKARIsAAId9Fnz8CbWSeGPMgGFUNhDnKErk-MFpIaRD FKrvo3xHIZ5T8yjs4giAaAjE\\_EALw\\_wcB&gclid=aw.ds](https://moneysmart.gov.au/how-to-invest?gclid=Cj0KCQjw5-WRBhCKARIsAAId9Fnz8CbWSeGPMgGFUNhDnKErk-MFpIaRD FKrvo3xHIZ5T8yjs4giAaAjE_EALw_wcB&gclid=aw.ds)



# Borrow

ALL BUDGETERS UNDERSTAND THAT DEBT CAN BE A VALUABLE FINANCIAL TOOL, HOWEVER ADVANCED BUDGETERS (I.E. THOSE THAT USE TOOLS) ARE BETTER WIELDING IT TO THEIR ADVANTAGE

The savvy use (or in some cases avoidance) of debt is central to a flourishing financial outlook. As far too many people appreciate, it is no easy feat to get out from underneath a heavy debt burden. Particularly within the low interest rate environment Australia is currently operating within, there is a high risk of individuals overleveraging themselves in search of investments beyond their means. Having the requisite knowledge about sensible debt levels is vital.

In today's economy, avoiding debt altogether is not the answer. Only 1 in 5 of budgeters believe that all debt is bad with no exceptions, leaving 4 in 5 who comprehend the idea of 'good debt'.

**“IF YOU'RE IN CONTROL OF YOUR DEBT IT CAN HELP WITH YOUR CREDIT SCORE. A HOME LOAN OR STUDENT LOAN IS GOOD DEBT. IT'S HELPING YOU GET AHEAD IN LIFE. CREDIT CARD DEBT IS BAD DEBT AND COSTS YOU MORE IF YOU LET IT GET OUT OF HAND.”** Gen Z

Although similar in their opinions about debt, advanced budgeters are significantly more confident using debt to manage money than budgeters who are not advanced.

**26% of advanced budgeters are confident using debt to manage their money compared to 20% of budgeters in general**

Additionally, advanced budgeters are almost significantly more likely to have used a credit offering in the last 12 months (34%, to 26% budgeters overall); of which the majority are doing so to earn **loyalty rewards**. This suggests that advanced budgeters are savvy in their utilisation of credit, and in turn, as a method to better their management of money.

Although advanced budgeters are taking up more credit offerings they are as disciplined with their repayment behaviours as overall budgeters. They know how to reap the benefits of credit whilst protecting themselves from falling into debt.



## MEETING THE FINANCIAL NEEDS OF AUSTRALIANS THROUGH BUDGETING

Our research identifies five financial needs that budgeting can help meet.

### 1. Control

Having control is about visibility across your financial position, and being poised yet agile to weather the dynamism of one's financial situation.

Budgeting gives people freedom within boundaries, allows them to manage the emotional ups and downs of personal finances, and fosters rational decision making.

### 2. Auto-pilot

Some Australians want to disengage (in part or fully) from managing their personal finances and let it take care of itself.

Budgeting lets them put in the hard yards up front and then sit back and reap the rewards. It frees them up to focus on other things in their life whilst providing reassurance that their financial essentials are taken care of.

### 3. Stability

For many, a sense of stability is

achieved by having a self imposed financial backup or safety net. Budgeting facilitates the accumulation and maintenance of a savings buffer. This translates to peace of mind and enables people to adopt an expansive mindset in relation to their finances.

### 4. Empowerment

The power of budgeting can be inward facing. It offers self-confidence in one's ability to make informed judgments and decisions in relation to their money.

Seeing their budget in action and leading to positive financial outcomes acts as proof of success that further fuels a sense of 'I've got this!'

### 5. Permission to play

Feeling guilty is common among spenders who act on impulse and give into their emotionally driven financial desires.

Budgeting gives people the permission to treat themselves without the emotional downside; they can spend knowing that they are not dipping into money that was intended for something else (such as bills or savings).





# BNPL (Buy-Now-Pay-Later) can help people meet their budgeting needs

BNPL is emerging as a tool that can help people manage their money and aid the budgeting process. When used in a controlled way, BNPL can be an extremely powerful tool.

There are a number of ways, buy-now-pay later users have used BNPL to better manage their finances:

### 1. Managing Cash Flow

BNPL manages cash flow through controlling the outflow of money. Different BNPL brands offer alternative options for payback schedules. For instance, Zip provides individuals the ability to set their own schedule when repaying; effectively allowing people to take control of how much money is leaving their account each month.

### 2. Controlling Spending

BNPL allows people to implement spending limits. This means people can restrict unnecessary spending. Additionally, purchases above the limit will require approval, in turn, ensuring that the purchase is considered.

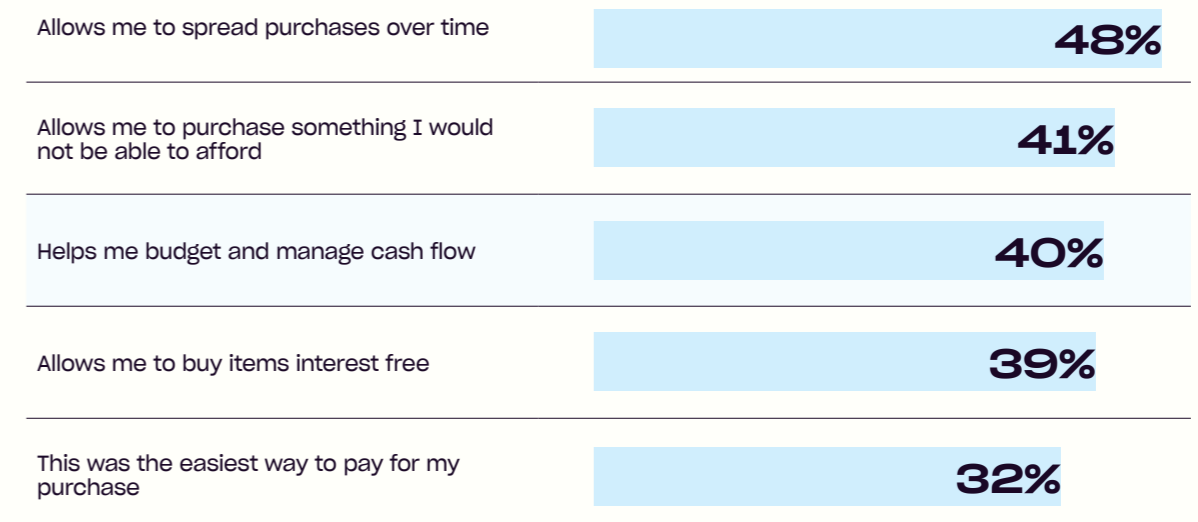
### 3. Complementing Your Budget

Large purchases can undoubtedly impact one's ability to stick to their budget. BNPL services like Zip Pay or Zip Money can help to ease this burden through spreading the load of large purchases across a number of months. This allows users to avoid dipping into their savings. Further, it lets them hold on to their own money for longer (and in-turn earn interest on money in their current accounts)

### 4. Budget Flexibility

Before BNPL, rigid budgeting was often required to obtain expensive items. Nowadays, BNPL affords people the flexibility to purchase emergency or urgent large purchases that may crop up (for example, to replace a broken washing machine). Also, it simply gives people breathing space to figure out how they might re-organise their finances to pay for something.

## TOP 5 MOTIVATIONS FOR USING BNPL



Base: Australian Zip Brand Health Dip of BNPL users (7000)

# This trend is consistent across the globe:

Helping me budget and manage my cash flow as a key motivator for using BNPL:

**32%** #2 motivator in the USA

**35%** #2 motivator in the UK

**39%** #2 motivator in Singapore

**34%** #2 motivator in the UAE

**52%** #3 motivator in NZ

**24%** #5 motivator in Poland

Despite this being a leading motivation for some users, positioning BNPL as a money management tool will require a shift in mindset among the broader population - it is a tool that has the potential to do good and support people's budgeting efforts if integrated, with discipline, into their budgeting toolkit.

**"I THINK THERE ARE TWO TYPES OF PEOPLE WHO USE BNPL, THE FIRST ARE THOSE WHO DON'T HAVE THE FUNDS AVAILABLE TO BUY THE PRODUCT/SERVICE... AND THE SECOND ARE THOSE WHO WANT TO MANAGE THEIR PAYMENTS / SALARIES / INCOME."** Gen X



## EXAMPLES OF HOW BNPL HELPS PEOPLE MEET BUDGETING NEEDS

Now, let's have a look at how real people are currently using BNPL to better manage their money.

### Manage Cash Flows



**"I WAS VERY SKEPTICAL AT FIRST BUT AFTER OPENING AN ACCOUNT I'M SO GLAD I DID... THE PAYBACK AS YOU GO FEATURE HAS HELPED ME OUT A LOT AND I'M ABLE TO PLAN AND BUDGET FOR THESE REPAYMENTS OVER TIME. I ABSOLUTELY LOVE IT"**

Gen Z

### Controlling Spending



**"UNLIKE AFTERPAY YOU GUYS CAN REDUCE THE LIMIT ON YOUR ACCOUNT SO THAT I DON'T HAVE THE TEMPTATION TO USE IT WHEN I DON'T NEED IT AND HOW IT HELPS ME BUDGET A LOT BETTER SO WHEN I DO NEED THE MONEY I CAN USE IT WHEN I DON'T NEED IT I CAN INCREASE IT I LOVE THAT I'M CAPABLE OF DOING THAT WITH YOUR COMPANY IT'S DISAPPOINTING THAT AFTER PAY DOESN'T HAVE THIS OPTION"**

Millennial

### Complements My Budget



**"ZIP GIVES ME THE ABILITY TO PURCHASE THINGS I NEED IMMEDIATELY WHILST CONTROLLING MY ABILITY TO STICK TO MY BUDGET. IT'S BRILLIANT"**

Gen X

### Budget Flexibility



**"THE EASE OF APPLYING FOR ZIP MAKES A MASSIVE DIFFERENCE TO YOUR BUDGET FOR EXAMPLE IF YOU NEED TO PURCHASE A LARGE ITEM LIKE A WASHING MACHINE OR FRIDGE AND THE SMALLER REPAYMENTS AND THE OPPORTUNITY TO ADJUST PAYMENT FREQUENCY AND AMOUNTS IS FANTASTIC SO MUCH BETTER THAN A PERSONAL LOAN"**

Baby Boomer

# What does this mean?

## **BNPL is currently viewed as another form of credit**

In other words, BNPL is spending money that we don't currently have. This can seed some negative perceptions of BNPL, promoting irresponsible consumerism and creating debt amongst those who are financially vulnerable (lower income households, students etc.). However, as BNPL doesn't have interest rates and consumers feel like they are spending their own 'future' money, it doesn't have the same consistently and overtly negative connotations as credit cards.

## **However, BNPL services have the possibility to be used as a powerful money management tool**

As BNPL is viewed within the credit sphere it is not readily associated with being a money management tool at present. Importantly, there are some 'green shoots' amongst the most financially savvy that may become more prevalent in the future; they are using BNPL as a way to manage cash flow, control spending, complement budgetary goals and increase budget flexibility. In doing this, consumers have the chance to maintain savings, earn extra interest and purchase large items that have not been budgeted for.

## **Through leveraging these benefits, people may increase their financial literacy**

In short, BNPL services can help us maintain our savings, limit month on month expenditure, earn interest on current accounts or give breathing space to figure out how to pay for something. All of these benefits improve outcomes in relation to the elements of financial literacy (saving, investing and borrowing).

## **Work must be done to position BNPL as a money management tool to help the masses better understand its usefulness**

The main category challenge is to shift mindsets around BNPL from being a form of credit to a smart money management tool. Communications should focus on how Zip helps us maintain our savings, earn interest on current accounts or gives breathing space to figure out how to pay for something. This will help combat loss aversion amongst those hesitant to trial BNPL and shift current users opinions into a more positive money management mindset.



April  
**2022**

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**Sources:**

The information in this paper is an amalgamation of insights from referenced sources available online as well as those gained through a proprietary Zip insights study in October 2021 of over 6,000 Australians conducted by independent market insights agency Hall & Partners ([www.hallandpartners.com](http://www.hallandpartners.com)) on behalf of Zip.