

INSIGHTS
& TRENDS

Financial resilience trends in New Zealand

OVERCONFIDENCE AND A
PERFECT (SAVINGS) STORM

FOREWORD

**Rob Flannagan, Independent Chair
& Richard Klipin, CEO**



Welcome to the first in a new series of Insights and Trends Reports from the Financial Services Council, focusing on financial confidence and wellbeing.

These new sector focused reports aim to investigate the consumer research and industry data that the FSC collects on behalf of the industry and identify insights and trends.

This first report has been developed to support the FSC Conference 2022 theme of Growing Financial Confidence and Wellbeing in Aotearoa, and as such looks across the trends in the past two to three years of our financial resilience insights.

The FSC began tracking financial resilience in March 2020, just as the Covid-19 pandemic was becoming a reality in New Zealand. The subsequent data we collected revealed how Kiwis reacted through the pandemic, and how they are continuing to respond during a time of economic uncertainties.

This report highlights that:

1. There remains considerable concern that around half of all Kiwis are experiencing financial issues affecting wellbeing, are reporting poor financial literacy, and low financial preparedness for rainy day funds and retirement.
2. Despite the trends showing an overall growth in perception of confidence in making financial decisions, with 40% not knowing if, or not able to raise \$5,000 in a week and close to half relying on family or friends for financial support if they were suddenly unable to work, there appears to be an overconfidence in our perceptions of financial resilience.
3. Just 44% of respondents report being financially literate, down 6% since March 2020.
4. Worryingly, in January 2022, just under 30% of respondents said they could last for a month or less without earning an income.
5. With financial preparedness being such a concerning issue for some, job security is an important element of financial resilience for those in the workforce.

We hope that you find the trend insights into how New Zealanders have fared over what continue to be turbulent economic times, and we look forward to bringing you future Insights and Trends Reports that shine a spotlight on our areas of focus.



INTRODUCTION

Since March 2020, the Financial Services Council (FSC) has been tracking trends of financial resilience in New Zealand through our **Financial Resilience Index and Money & You** research series.

In March 2020, the World Health Organisation confirmed that Covid-19 was a pandemic and Governments across the globe were beginning to impose border restrictions and lockdowns.

New Zealand was no exception, and in the same month, our borders closed, and the first level 4 lockdown was introduced.

As Covid-19 was becoming a reality, the March 2020 research data revealed a strong link between money and wellbeing with money worries causing stress for most New Zealanders.

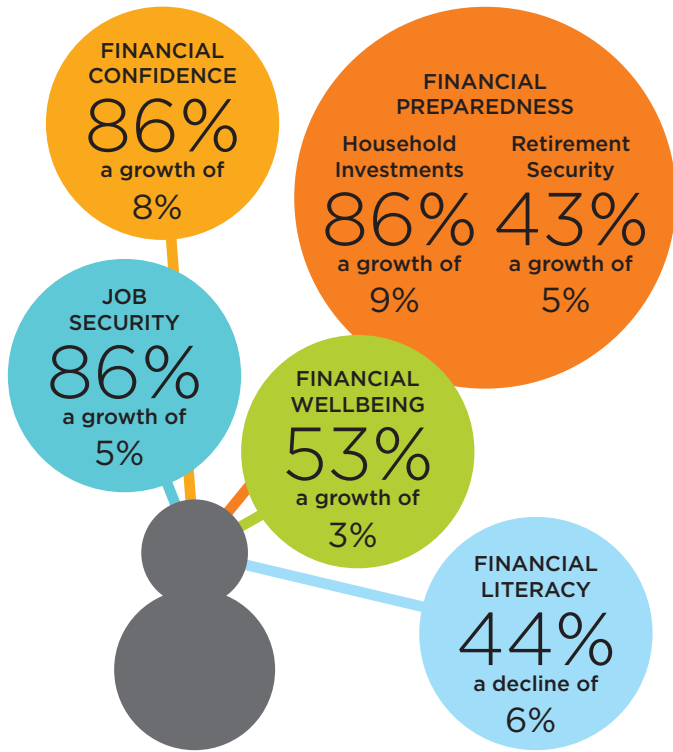
Today, as we live with Covid-19 and face new economic and global challenges, the FSC continues to research financial resilience with a view to using the outcomes to grow the financial confidence and wellbeing of New Zealanders.

This sector report analyses the trends of the key Financial Resilience Index indicators tracked through the four research periods from March 2020 up to and including January 2022. The five indicators are:

- Financial confidence
- Financial wellbeing
- Financial literacy
- Financial preparedness, and
- Job security

OVERALL FINANCIAL RESILIENCE

The overall financial resilience Index is made up of five key indicators and in this section, we look at the change since the first data collection in March 2020 and the last in January 2022.



Although we see a shift and respondents are reporting higher financial confidence, household investments and job security, the devil is in the detail for these indicators.

There remains considerable concern that around half of all Kiwis are experiencing financial issues affecting wellbeing, are reporting poor financial literacy, and low financial preparedness for rainy day funds and retirement.

This report will take each of the five indicators in turn and delve into the data, to see how New Zealanders have fared as we continue to navigate Covid-19 and react to the emerging economic challenges.

1. FINANCIAL CONFIDENCE

This key indicator explores how confident respondents felt they were about making financial decisions. The majority, 86% in January 2022, ranged between reasonably to extremely confident, a growth of 8% over time.

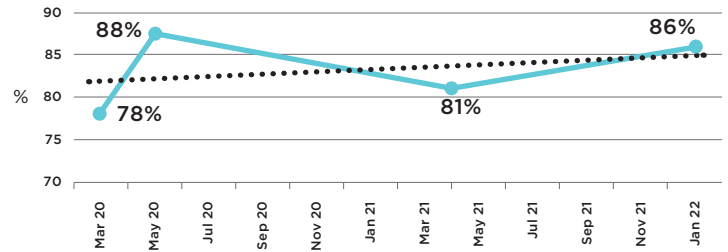


Figure 1: Key Indicator 1 - Financial confidence

This trend is at odds with the decline in financial literacy key indicator, in which the data showed a drop of 6%. This drives a concern that respondents' views indicate potentially misplaced financial confidence.

To explore this further, in January 2022 we asked respondents additional questions to challenge the overall perception of financial confidence.

Firstly, respondents were asked 'If you had to pay \$5,000 for something unexpectedly, could you access the money within a week (without going into debt)?', 59% agreed.

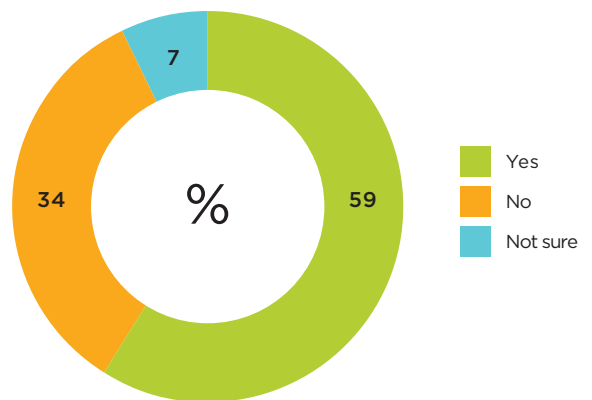


Figure 2: 'If you had to pay \$5,000 for something unexpectedly, could you access the money within a week (without going into debt)?'

In addition, the respondents were asked ‘Which of the following could you rely on if you were suddenly to be unemployed/unable to work for more than three months?’.

45% of respondents said that ‘I would rely on family or friends’ or ‘I’m not sure’, with only 14% indicating risk management strategies through insurance products such as ‘income protection insurance’ and just 45% with emergency funds set aside.

Despite the trends showing an overall growth in perception of confidence in making financial decisions, with 40% not knowing if, or not able to raise \$5,000 in a week and close to half relying on family or friends if they were suddenly unable to work, there appears to be an overconfidence in our perceptions of financial resilience.

This potential overconfidence is likely to be a reason behind New Zealanders generally low use of financial advice and other services to help financial decision making, as we explored in greater depth through earlier Money & You research releases.

2. FINANCIAL WELLBEING

The second key indicator in the financial resilience index explores wellbeing. This indicator shows just over half of all respondents have experienced financial issues adversely affecting overall wellbeing once, twice or several times.

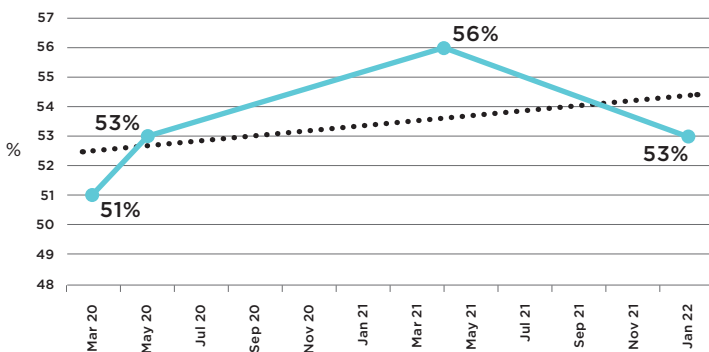


Figure 3: Key Indicator 2 - Financial wellbeing

Despite a slight increase in trend data over the period due to a spike in 2021, overall, this indicator remains worryingly low and is trending back to March 2020 levels.

There is a shift in how often respondents worry about money, with the percentage of respondents worrying about money ‘daily’ and ‘weekly’ reducing over the period with a majority worrying less often.

Delving further, however, by separating out this key indicator, we can see that despite worrying less frequently, the number of those experiencing physical, mental, relationship and overall wellbeing impacts from financial issues have all increased.

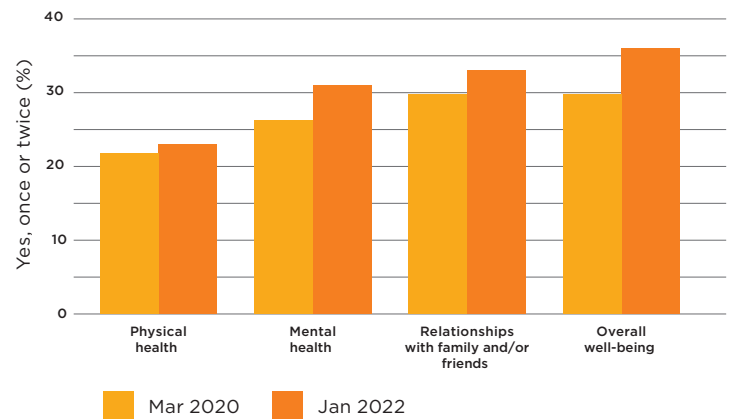


Figure 4: ‘Have financial issues ever adversely affected your.....’

The data shows that there are 7% more respondents now finding financial issues affecting them adversely once or twice, in comparison to March 2020.

3. FINANCIAL LITERACY

Financial literacy in New Zealand continues to trend downwards and as noted in earlier commentary, financial confidence doesn’t appear to be in line with this key indicator, highlighting a potential overconfidence in financial capabilities.

This chart compares the average response of ‘very good’ or ‘good’ ratings across five knowledge areas, which explored the understanding of the relationship between

risk and return, profile of different investments and the importance of diversification, approaches, strategies and current investment market trends and themes.

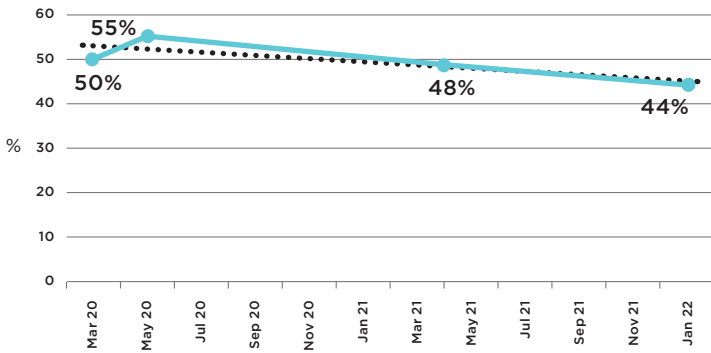


Figure 5: Key Indicator 3 – Financial literacy

The data shows that overall, just 44% of respondents report being financially literate in these areas, down 6% over the period.

Since March 2020, the trends show that when specifically asked, more respondents said they understood the relationship between risk and return, another perception that is at odds with overall financial literacy data.

In addition, respondents reported that confidence was impacted in the early days of the Covid-19 pandemic, with more saying that their confidence in making financial decisions was ‘reduced somewhat’ due to the pandemic, but that reduction in confidence appears to have waned over time.

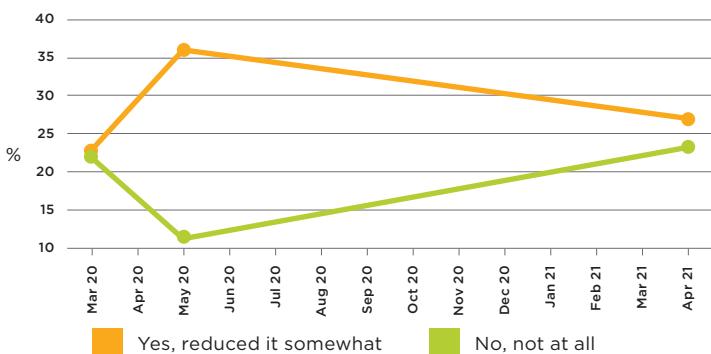


Figure 6: ‘Has the COVID-19 pandemic impacted your confidence in making financial decisions?’

As we have seen previously, this decrease of confidence is at odds with reported financial literacy, where there was a growth in perceived financial literacy in May 2020. This, again, indicates an overstating or potential misunderstanding of the relationship between risk and return and financial decisions.

4. FINANCIAL PREPAREDNESS

This key indicator looks at financial preparedness for those of working age through household investments and those looking towards retirement.

To analyse the responses further, there were additional questions added in the January 2022 survey.

When asked the approximate size of their household’s total amount of investment portfolio (including KiwiSaver but excluding your residential property), 9% more respondents indicated that they have household investments compared with March 2020.

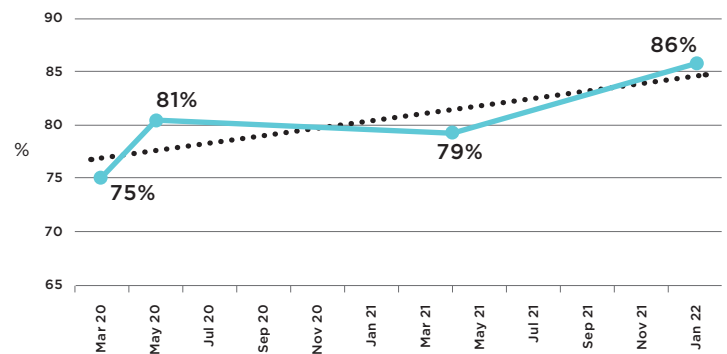


Figure 7: Key Indicator 4(a) – Household investments

The August edition of our Money & You research, further indicated that overall, 80% of Kiwis had investments including residential property and KiwiSaver. There has been a 12% growth in KiwiSaver investments, up from 66% in April 2021 to 78% in January 2022, with shares and managed funds also seeing a rise in the latest data.

This is all positive news, as it shows that Kiwis are investing.

When we look to financial preparedness, however, by asking how long respondents could continue current lifestyles without earning an income, it becomes clear that it is the amount of savings invested for a rainy day or retirement is a concern.

Worryingly, in January 2022, just under 30% of respondents said they could last for a month or less without earning an income.

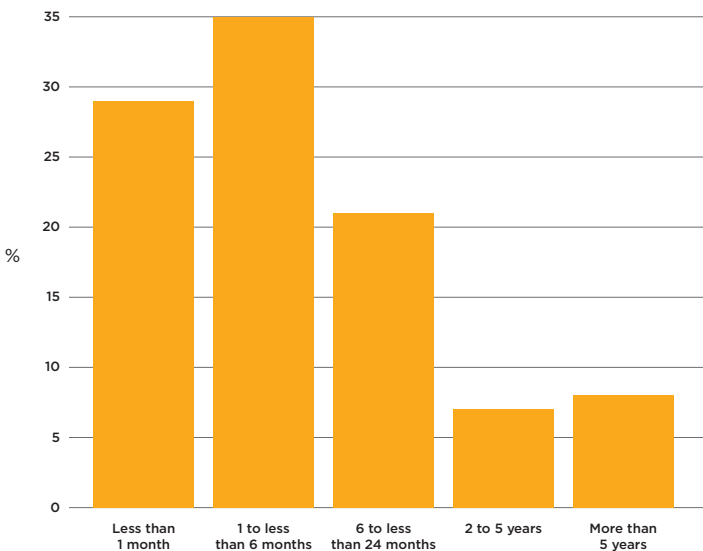


Figure 8: 'How long could you continue your current lifestyle without earning an income?'

There is little doubt that pressures reported by Generation Rent in our research earlier this year, such as cost of housing, wage stagnation, inflation and interest rates are becoming more widespread across other age groups.

Turning to retirement, and on a similar theme, despite the data showing an increase, just 43% of respondents considered themselves very or reasonably prepared for retirement, leaving 35% not particularly prepared and 23% not prepared at all.

Reported retirement preparedness is also lower among certain groups of the population, including women, etc., as our December edition of our Money & You research revealed.

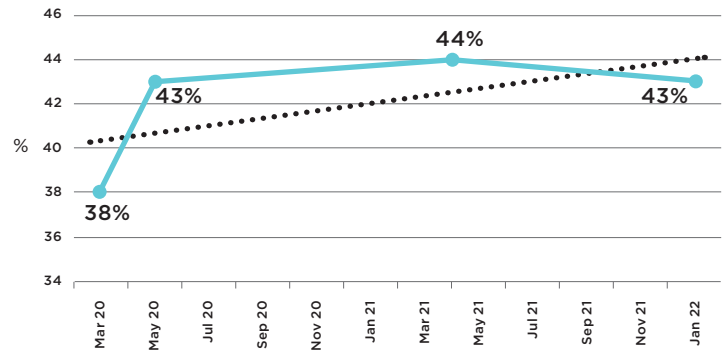


Figure 9: Key Indicator 4(b) - Retirement security

Having enough savings to retire on is also worryingly low for retirees, where a third of respondents identified that they could only maintain their lifestyle for 5 or less years on their remaining retirement savings.

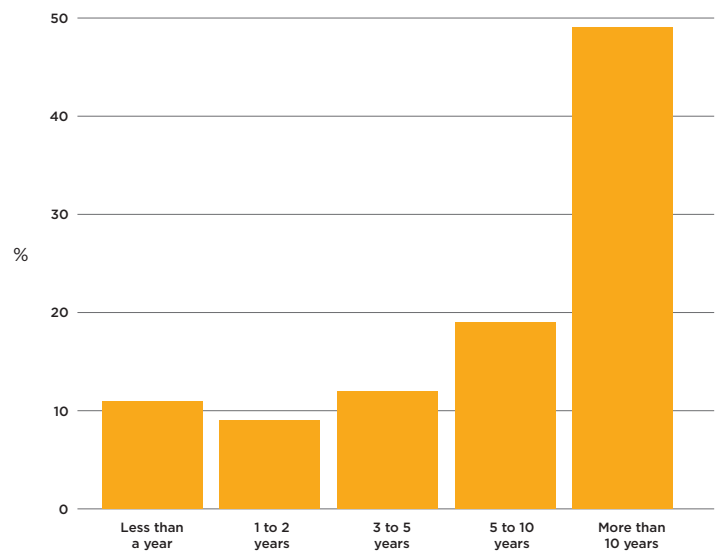


Figure 10: 'How long could you maintain your lifestyle with your remaining retirement savings?'

This trend data shows that financial preparedness and savings are one of the most concerning short-term issues for both workers and retirees in New Zealand, which could create a perfect storm in the current economic backdrop of rising interest rates and inflation.

5. JOB SECURITY

With financial preparedness being such a concerning issue for some, job security is an important element of financial resilience for those in the workforce.

The trends show that respondents are more secure in their jobs than in March 2020 and the following dips though the remainder of 2020 and 2021, potentially driven by the current tight labour market.

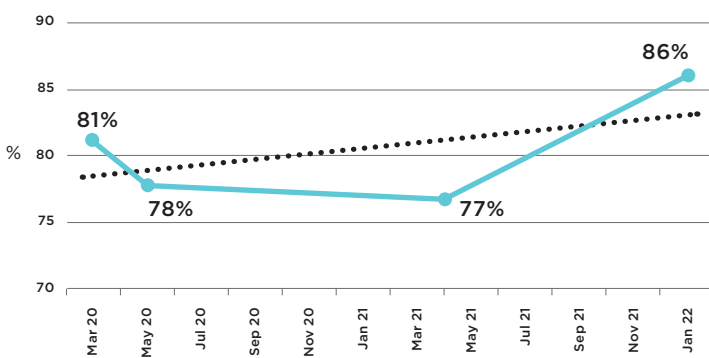


Figure 11: Key Indicator 5 - Job security

Breaking this indicator down, we can see a switch between March 2020 and January 2022 data, where more were regularly worrying about job security and less were feeling secure.

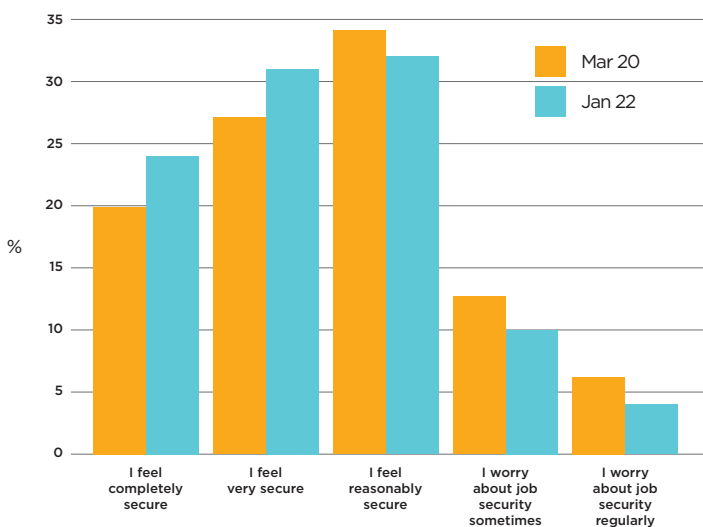


Figure 12: 'How much job security do you feel in your current employment?'

CONCLUSION

It is important to recognise that the most recent data collected was in early 2022, and that it presents not only valuable trend data but also a moment in time which, in times of constant flux, may well see different responses today.

There are positives, and since starting to track financial resilience, New Zealanders have shown, overall, to be financially resilient in extremely tumultuous times.

However, there are clear warning signs that there is a perfect storm brewing due to financial overconfidence, insufficient rainy-day funds or retirement investments and economic uncertainties such as rising interest rates and inflation.

It is now more important than ever that the wider financial services community continues to educate New Zealanders in how to grow financial confidence and wellbeing.

We aim to track the Financial Resilience Index Key Indicators again in early 2023 ■

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The research was conducted via an online survey developed and hosted by CoreData. Data was collected in March 2020 (2,000 valid complete responses), August 2020 (1,000 valid complete responses), April 2021 (2,035 valid complete responses) and January 2022 (2,000 valid complete responses). This data formed the basis of the analysis and this sector report. The samples are representative of the New Zealand consumer population in terms of age, gender and income based on the latest Stats NZ data. According to Stats NZ* in March 2021 there was an estimated resident population of 5,116,300. As this survey only included respondents aged 18 years old or over, the estimated resident population of the sample is 3,944,700.

Financial Services Council NZ



Grow the financial
confidence and wellbeing
of New Zealanders

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