



## EXECUTIVE SUMMARY

# PATHWAYS TO RESILIENCE

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

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Research project funded by



Good Shepherd  
**Microfinance**

# Executive Summary

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

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

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

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

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

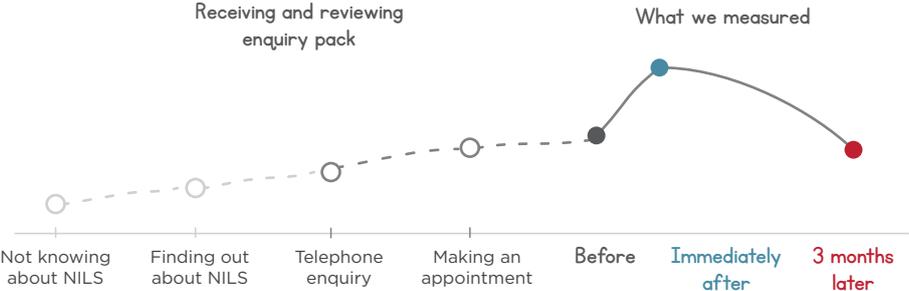
The key findings of this research are summarised below.

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

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



Figure 1  
Financial capability along the NILS application journey



## Preparing for a financial conversation has an impact

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

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



Leonie, NILS Program Coordinator,  
Salisbury Community Organisation  
Against Poverty



### Recommendation One

#### Refresh the NILS enquiry pack

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

### Recommendation Two

#### Verify whether preparing for a financial conversation improves financial capability

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

## Financial capability increases during a financial conversation

This research confirms previous studies within the Good Shepherd network that found the financial conversation has a positive immediate impact on each component of financial capability<sup>2</sup>. It also found that applicants leave the financial conversation with more confidence and fresh strategies for managing their finances.

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

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

### Recommendation Three

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

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

### Recommendation Four

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

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

## Financial capability normalises over time

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

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

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

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

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

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

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



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



#### **Recommendation Five**

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

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

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

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

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

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

### Recommendation Six

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

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

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

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

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

#### Recommendation Seven

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

### Planning future spending and saving is challenging

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

#### Recommendation Eight

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

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

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

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

#### Recommendation Nine

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

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



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**Citation**

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