



COVID-19: a consumer crisis

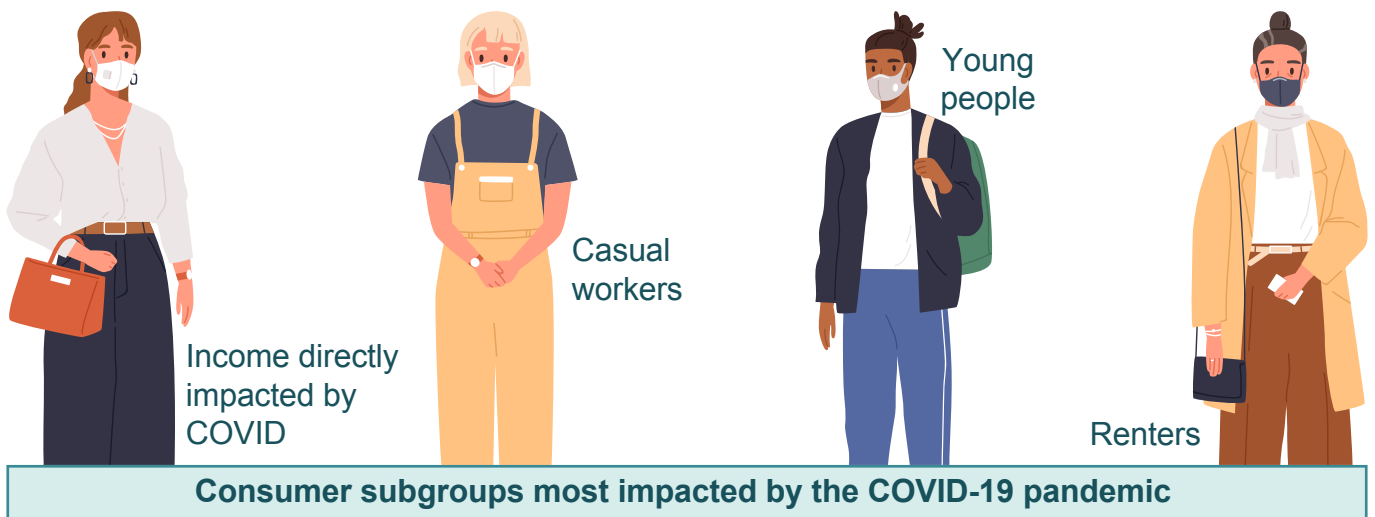
COVID-19 is first and foremost one of the most significant health crises in history. It has also spurred an economic and consumer crisis. Life-saving public health measures – in the form of widespread lockdowns and ongoing social distancing measures – have triggered a consumer demand shock. People have less capacity to spend due to very sudden and significant job loss, income drops, and widespread financial insecurity. Many people are now concerned about paying for essentials like housing and energy.

Key insights for policymakers and businesses in supporting consumers from crisis to recovery include:

- **Consumers are central to economic recovery** – the treatment of, experience and actions of consumers will ultimately determine the trajectory of our economic and social recovery over the coming months and years. Fairness and inclusion must be at the heart of the recovery mission.
- **Understanding the changing needs of consumers will be essential to designing effective support measures** – important support measures have been made available, but they are not necessarily reaching those that need the support most.
- **High household debt levels and use of finite resources mean stimulus and support measures need to be adequately sustained** – some of the greatest consumer vulnerabilities are likely to emerge towards the end of 2020. Early indications are that consumers are drawing down on finite resources (such as accessing credit, dipping into savings, borrowing money and resources from family and friends or applying for early access to superannuation) to make ends meet. Support measures appear to be assisting but once removed in addition to debt accrued may trigger significant financial distress.
- **Structural shifts present new opportunities and risks in an increasingly online environment** – how we consume technology, commute and work, and transact are changing. The increasingly online orientation of the economy provides new channels for consumer spending and keeping people in work, but only if outdated protection regimes evolve to deliver consumer trust and confidence.

Vulnerabilities are emerging and being amplified across the Australian community

COVID-19 is amplifying consumer vulnerability, due to the scale of job loss and financial concerns, and the greater use of services such as energy and telecommunications while socially distancing. More people are finding it difficult to pay for the essentials. COVID-19 is also exacerbating family violence, mental health challenges and digital exclusion, each of which can make it difficult for people to engage with service providers and access support. And while the scale of consumer vulnerability has increased, our research finds some people are more exposed than others, including those whose income has been directly impacted by COVID-19, casual workers, young people (18 - 34 years) and renters.



COVID-19 Consumer Impacts Survey: Key Findings from May 2020

CPRC engaged Roy Morgan Research to conduct a nationwide survey of 1114 Australians in May 2020. This includes a Computer Assisted Telephone Survey (CATI) with 50 participants to capture low/non-internet users who cannot participate in the online survey and may be facing digital exclusion. The survey is repeated each month from May to October.

12 million Australians are concerned about the impact of COVID-19 on their financial wellbeing

- 60% of Australians are either very or somewhat concerned about the impact of COVID-19 on their financial wellbeing.
- Groups reporting higher levels of concern include people whose income has been affected by COVID-19, casual workers and renters (Figure 1).

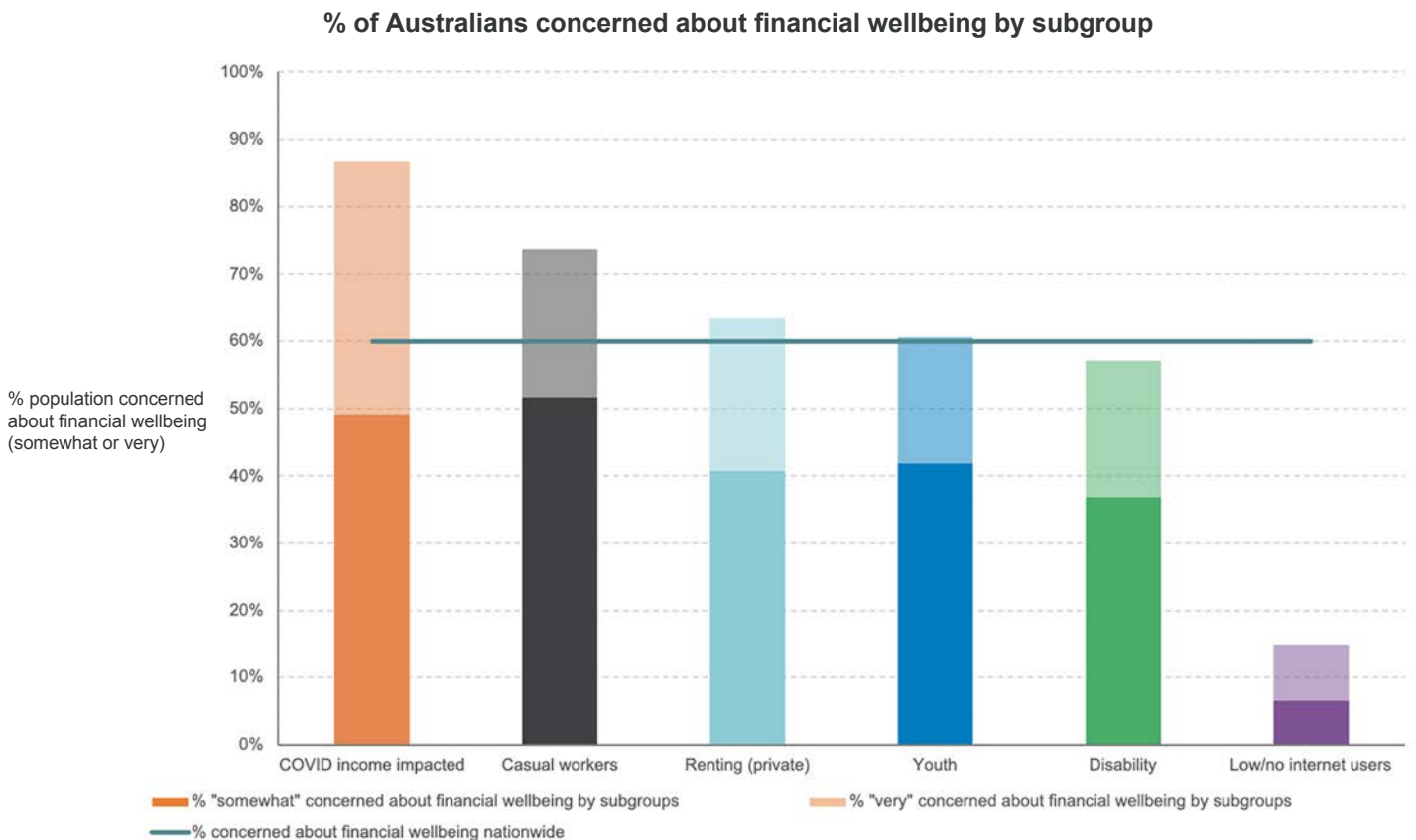


Figure 1: concerns about impact of COVID-19 on financial wellbeing
 QTN: How concerned are you about the impact of COVID-19 on your own financial wellbeing?

Worries about household expenses are common – with housing and energy the greatest cost pressures

- Consumers reported most concern about their ability to pay rent (37%). This was followed by mortgages and energy bills (27%), groceries and insurance (25%), credit (22%), telecommunications (20%) (Figure 2).
- Falls in income combined with increased consumption of some household essentials may be partly driving these concerns with many Australians also reported spending more on essential expenses such as groceries. 32% of people reported spending more on groceries in-store, 16% more online and 30% reported spending more on energy compared to their pre-COVID-19 levels.

% of Australians concerned about ability to pay household expenses

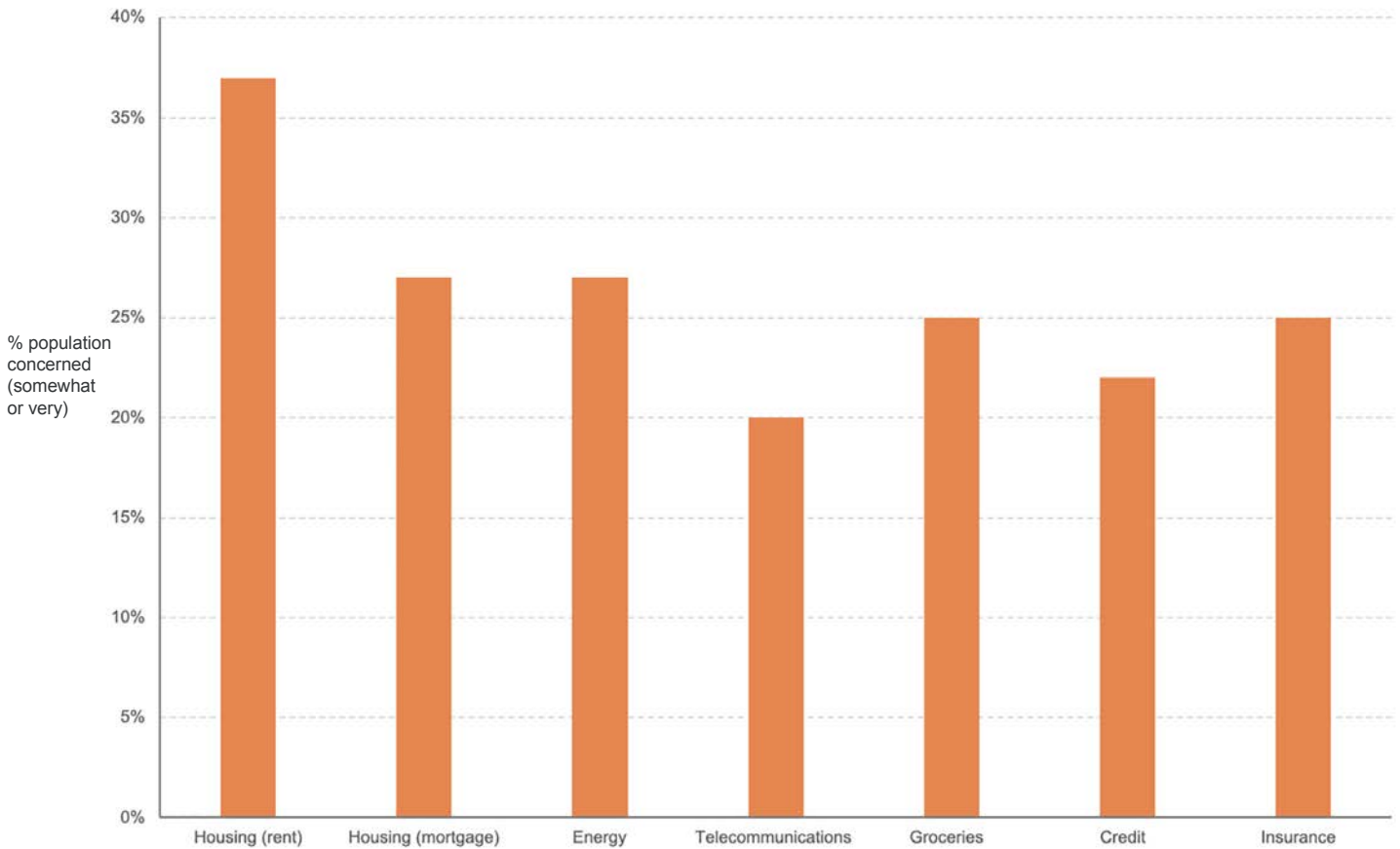


Figure 2: concerns about ability to pay household expenses
 QTN: How concerned are you about your current ability to pay for any of the following bills?

“Insurance prices are too high for me to pay whilst still being able to afford my other bills.” – private renter with part-time employment

“Reduced finances and increased cost on things like utilities and insurances have meant we have had to reduce food, medical and other costs to manage.” – self-employed mortgagor

Australians are drawing on finite resources and taking on debt to make ends meet

- Almost half of Australian consumers (49%) are taking steps to manage their household expenses, including: dipping into savings (28%); using credit cards or buy-now-pay-later services (22%); cancelling services such as insurance and subscriptions (15%); borrowing money from family or friends (7%); and/or seeking early access to superannuation (6%).
- People whose income has been affected by COVID-19, renters, casual workers and young people are most likely to have drawn down on these resources (Figure 3).

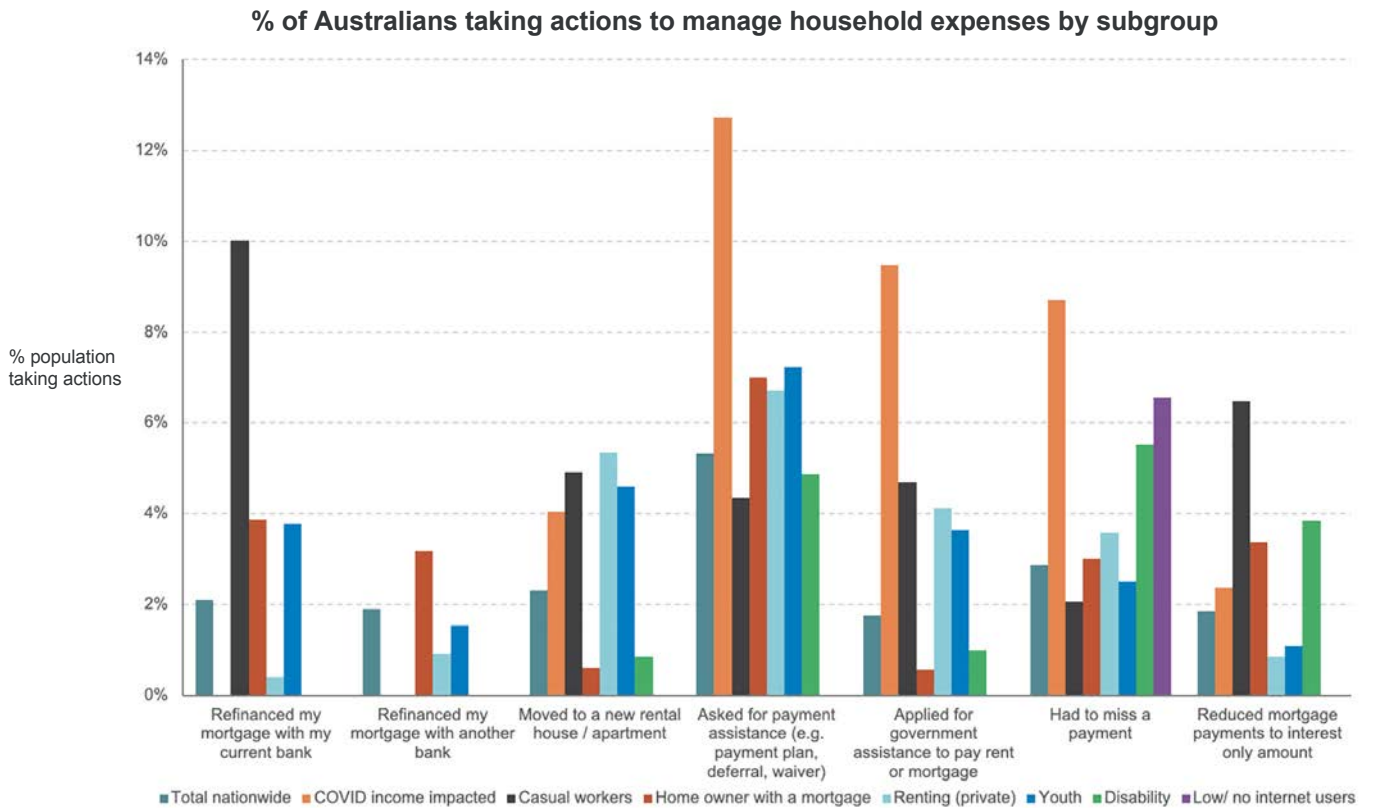


Figure 3: steps being taken to manage household expenses

QTN: In the past month have you taken any of the following actions to manage your household expenses?

Australians are taking the most action in relation to housing costs

- 1 in 5 renters or mortgage-holders took some form of action in May 2020 to manage housing payments. Actions included: refinancing with the same mortgage provider or switching to another provider, moving rental premises, seeking payment assistance, or reducing or missing payments.
- Groups most likely to take such action included: 30% of casual workers, 27% of people whose income has been affected by COVID-19 and 20% of young people.



1 in 5 renters or mortgage holders are taking action to manage housing costs

COVID-19 has created distinct consumer challenges

Almost two thirds of Australians reported some kind of challenge in receiving, cancelling or purchasing products and services over May 2020. The most common challenges were difficulty getting good customer service (10%), slow or delayed deliveries (10%) and keeping up with bills and high costs of living (8%).

“Wait times for delivery of online purchases. Wait times on the phone, especially Telstra. With their call centres offshore, they were unable to help me with issues that were important to me.” – self-employed mortgagor

“If my financial situation gets worse I will have to cancel my health insurance but it’s not an immediate problem.” – private renter on government income support

“After much negotiations with my real estate, they agreed to a rent deferral. But unfortunately, I had to draw from my super just to afford the basics before I received any government assistance.” – private renter with part-time employment

Common problems when engaging providers



wait times



poor or unhelpful service

Consumers reported negative experiences most commonly when contacting telecommunications (15%), mortgage providers (13%), and rental property managers (13%).

Some sectors have been more proactive in offering assistance



useful information

Mortgage providers were the most proactive, with 17% of mortgage holders reporting they received helpful information about payment management. This was closely followed by both energy and insurance at 7%. Telecommunications (6%), credit providers and property managers (5%) were reported as delivering the least proactive assistance to consumers.

Building Blocks for Recovery

Fairness and inclusion are essential objectives for the recovery mission. Consumer confidence and trust is not built on the back of industry stimulus, but the extent to which people experience financial security; are protected from exploitation and unsafe products and services; have diverse needs and vulnerabilities addressed by service providers; and have confidence that consumers' best interests are at the heart of policy, regulatory and business action.

The journey from crisis to recovery is uncertain and there is no linear trajectory. Effective consumer support involves both shorter-term responses to shocks, and long-term actions to improve consumer outcomes, confidence and resilience in markets as we move towards recovery.

Help consumers cope with the shocks

COVID-19 is causing widespread financial insecurity, necessitating immediate and large-scale consumer support to keep people connected to essential services. Over the coming months, it will become more evident who has missed out on support and is struggling to engage with service providers, and which groups are most at risk of ongoing vulnerability.

Policymakers and business can support consumers at this stage by:

- moving rapidly to keep people connected to essential services, including housing—it is now time to build on the large-scale responses already seen, by providing dynamic and sustained measures that can expand where and when necessary in response to consumer needs
- building an understanding of lived consumer experience during the crisis—to be effective, evolving consumer protections and supports need to be based on evidence of actual consumer experiences during the crisis, particularly those of vulnerable consumers
- ensuring consumers are able to access refunds—providing strong protections and nurturing consumer trust will be crucial while there remains a risk of reinstated social distancing measures.

Sustain, adapt and adjust consumer support measures

The stage beyond the initial crisis is perhaps the most complex. Some consumers will continue to rely on early support measures, while others will transition to financial security. Some will experience shocks for the first time and become susceptible to new harms as digital living intensifies.

Policymakers and business can support consumers at this stage by:

- fostering collaboration and coordination across essential services sectors—collaborative responses will be vital to avoid amplifying consumer vulnerability, particularly as different sectors begin contemplating how support measures might be adjusted or wound back
- adjusting support based on evidence about consumer experience—policymakers can delve deeper responding to consumer experiences as the pandemic progresses to inform policy adaptations as we move beyond the initial crisis phase
- developing stronger protections for consumers in a digitally connected world—addressing scams and exploitative behaviour, reforms to the Privacy Act, prohibition of unfair business practices, and the introduction of a general safety provision.

Build resilience through fairness and inclusion in recovery

As we move closer towards recovery, governments will increase focus on stimulus and innovation—consumer interests need to drive this process if new technologies are to be trusted and increase medium-term productivity. Increased vulnerability and inequality are significant risks at this stage if government and private sector support measures are removed too soon.

Policymakers and business can support consumers at this stage by:

- designing policies and markets that drive inclusive growth—this requires a consumer-centric approach to policy and market design that includes meaningful citizen participation and integrating equity aspects from the start
- ensuring innovation generates real value for consumers and increases wellbeing—policy and government funding should be geared towards ‘mission led approaches’ to innovation that stimulate smart, inclusive and sustainable economic growth
- fostering trust in markets—trust can be generated through stronger and more effective protections such as privacy and consumer protection reforms reforms, and ensuring public and private institutions are active in fostering good consumer outcomes
- building consumer resilience—key to this is developing a permanent regulatory and business capacity to handle adversities such as COVID-19 and natural disasters, which trigger large-scale consumer vulnerability.



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CPRC is an independent, not-for-profit consumer research organisation. CPRC undertakes interdisciplinary and cross-sectoral consumer research. Our mission is to improve the lives and welfare of consumers by producing evidence-based research that drives policy and practice change.

Level 14, 10-16
Queen Street

Melbourne
Victoria 3000

T 03 9639 7600
F 03 9639 8966

cprc.org.au
ACN 100 188 752