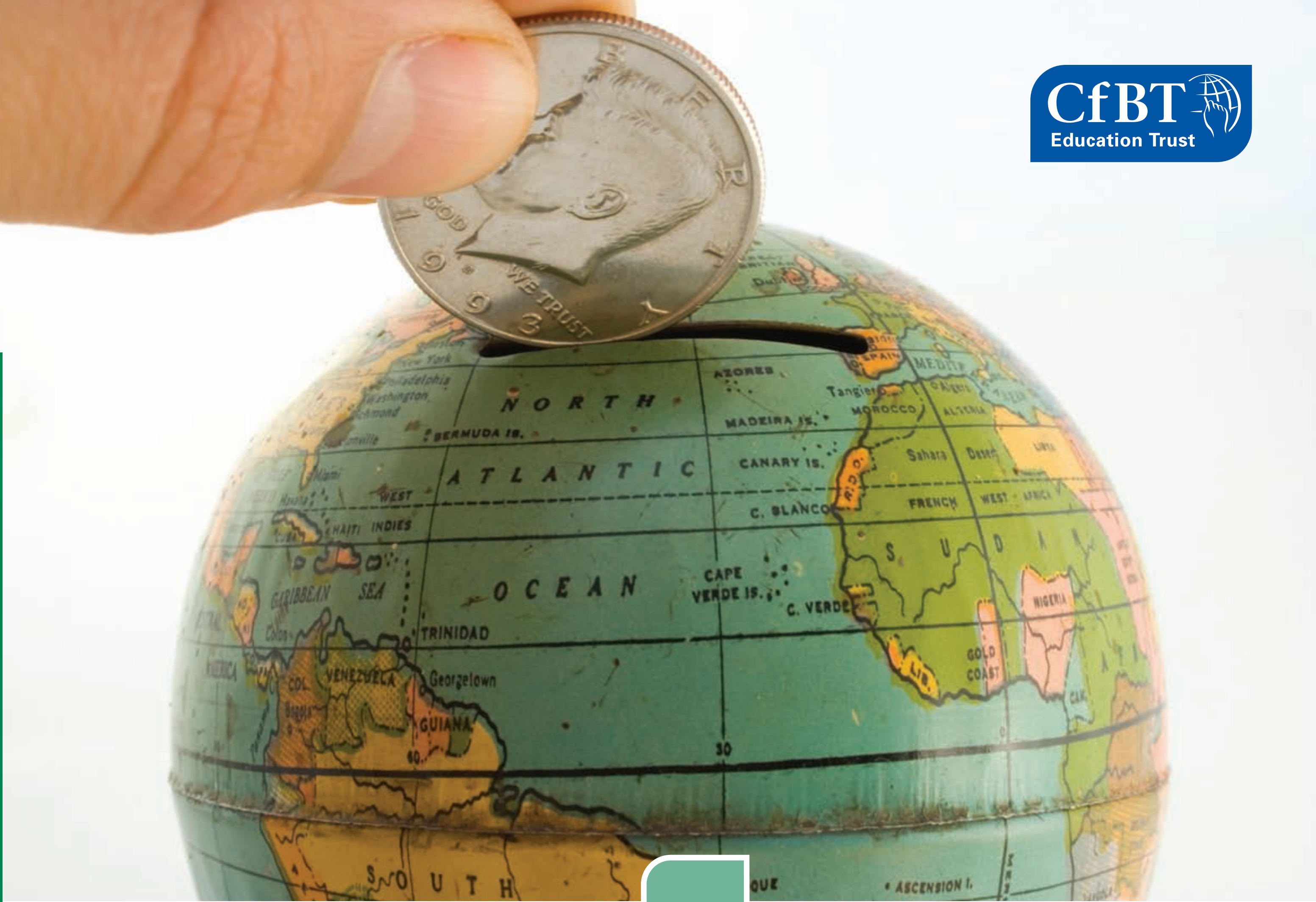

CfBT Education Trust

Financial capability: Why is it important and how can it be improved?

Perspective report

Shaun Mundy

Providing education for public benefit worldwide

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For more information about this and CfBT's other work in Africa, please contact:

CfBT Education Trust Africa Regional Office
PO Box 45774-00100
Nairobi, Kenya
Tel: +254 20 2179031/32
Fax: +254 20 3861941
Email: cfbt@cfbt-africa.com
Web: www.cfbt-africa.com

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About the author

Shaun Mundy is a consultant specialising in financial capability and financial services regulation. His clients include the OECD, the World Bank, CGAP (Consultative Group to Assist the Poor), the UK's Financial Services Authority, GTZ (the German Development Agency), FinMark Trust and the Microfinance Centre for Central & Eastern Europe and the New Independent States. Shaun has undertaken consultancy work in a range of developed and developing countries and is a frequent speaker at international conferences. He is the author of a report for the OECD on financial education in schools, colleges and universities.

From 2003 to 2007, Shaun was Head of Financial Capability at the UK's Financial Services Authority (FSA), where his responsibilities included leading the development and implementation of the UK's national strategy on financial capability. Shaun had previously held a number of other senior positions at the FSA and at predecessor financial services regulators.

Shaun's earlier career was spent at the Home Office and the Cabinet Office.

Shaun has an MA in Economics and Politics and a Diploma in Criminology, both from Emmanuel College, Cambridge.

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Introduction

…having the knowledge, understanding, skills, motivation and confidence to make financial decisions which are appropriate to one's personal circumstances.

This perspective piece is aimed at those with an interest in the development of national financial capability strategies and those who are developing or implementing financial capability programmes.

Many international bodies, politicians, central bankers and financial services regulators have called for action to be taken to help people to manage their personal finances better – that is, to help people to become more financially capable. Several countries have launched national strategies or programmes designed to achieve this.

But what does it mean to be financially capable? What are the benefits? And what are the most effective ways of helping people to manage their personal finances better?

This paper suggests answers to those questions. In doing so, it discusses initiatives being undertaken, both by international organisations and at a national level, to promote financial capability. And it makes a number of recommendations on the future development of financial capability strategies and programmes.

What is meant by the term 'financial capability'?

There is no generally accepted definition of the term 'financial capability'. However, at its core it means:

…having the knowledge, understanding, skills, motivation and confidence to make financial decisions which are appropriate to one's personal circumstances.

The UK's Financial Services Authority distinguished[1] five components of financial capability:

- making ends meet
- keeping track of your finances
- planning ahead
- choosing financial products, and
- staying informed about financial matters.

A person's financial capability is best judged by their actual behaviour. Someone can be financially literate (in the sense that they have the knowledge, understanding and skills which would enable them to manage their personal finances well) without necessarily being financially capable, as demonstrated by their actual behaviour. For example, people who understand the importance of shopping around before buying financial products or services, and know how to do so, can be regarded as financially literate (as regards that issue) but cannot be regarded as financially capable if, in practice, they never shop around before choosing financial products or services.

[1] See *Financial Capability in the UK: Establishing a Baseline.* FSA 2006. Available at http://www.fsa.gov.uk/pubs/other/fincap_baseline.pdf

…everyone stands to benefit from understanding how to manage their personal finances well.

The terms 'financial literacy' and 'financial capability' tend to be used interchangeably. However, 'financial capability' – the term which the UK's Financial Services Authority (FSA) started using in 2003, when it first set out its plans for leading the development and implementation of a national strategy for financial capability – is increasingly being used internationally, in preference to 'financial literacy' or 'financial education', probably because it more obviously encompasses behaviour. For example, the Consultative Group to Assist the Poor (CGAP),[2] Making Finance Work for Africa[3] and the US Treasury[4] all now use this term.

Being financially capable is not about being able to calculate an APR – let alone knowing what 'APR' stands for. It is instead about being able (for example) to compare product offerings with different characteristics and to reach a reasonable decision on whether they are good offers and which of those is likely to be most suitable, given one's personal situation and preferences.

What constitutes financially capable behaviour will, to some extent, vary according to an individual's personal circumstances. For example, it is important for a person who has little money to have an accurate picture of how much they have available at any given time, because the consequences could be severe if they were to run out of money. However, a person who has little or no spare money may not need to know about investments. A wealthy person, on the other hand, may not need to have more than a broad idea of how much money they have on their person (or in their bank account) at any given time; but he or she may well benefit from understanding how to invest their money wisely.

In some countries, financial capability or financial literacy tends to be confused with entrepreneurship. The two are separate but related: people are unlikely to be able to set up and run a business if they cannot manage their personal finances; but running a business requires a separate set of knowledge and skills. Not everyone wants to be an entrepreneur, but everyone stands to benefit from understanding how to manage their personal finances well.

Financial education, information, instruction, training and guidance – in a wide variety of forms – can all help people to become more financially capable. However, financial capability initiatives should not be regarded as encompassing so-called financial education, information or guidance which are in reality marketing activities (the promotion of a brand or specific products or services) or which incorporate commercial financial advice (advice which may result in the recommendation of a specific financial product or service from a particular provider).

Some people make unrealistic claims for financial literacy. For example, it is not plausible to suggest that, if people had been more financially capable, the sub-prime crisis in the US would not have happened. However, it is reasonable to suppose that people who were financially capable would have been less likely to have overstretched themselves when taking out a mortgage.

Some other commentators have suggested that financial education is liable to be counter-productive. For example, Lauren Willis has argued that:

> *'policymakers [in the United States] have embraced financial literacy education as a necessary corollary to the disclosure model of regulation. This education is widely believed to turn*

[2] See *Consumer Protection Regulation in Low-Access Environments: Opportunities to Promote Responsible Finance*. CGAP 2010. Available at **http://www.cgap.org/gm/document-1.9.42343/FN60.pdf**

[3] See **http://www.mfw4a.org/financial-capability/financial-capability.html**

[4] For example, President Obama has established the President's Advisory Council on Financial Capability (which is the successor to President Bush's Advisory Council on Financial Literacy).

One aspect of being financially capable is being able to recognise when, and knowing how, to obtain further information or professional advice…

> *consumers into 'responsible' and 'empowered' market players, motivated and competent to make financial decisions that increase their own welfare. The vision is of educated consumers handling their own credit, insurance, and retirement planning matters by confidently navigating the bountiful unrestricted marketplace.*
>
> *Although the vision is seductive, promising both a free market and increased consumer welfare, the predicate belief in the effectiveness of financial literacy education lacks empirical support. Moreover, the belief is implausible, given the velocity of change in the financial marketplace, the gulf between current consumer skills and those needed to understand today's complex non-standardized financial products, the persistence of biases in financial decision making, and the disparity between educators and financial services firms in resources with which to reach consumers.*
>
> *Harboring this belief may be innocent, but it is not harmless; the pursuit of financial literacy poses costs that almost certainly swamp any benefits. For some consumers, financial education appears to increase confidence without improving ability, leading to worse decisions. When consumers find themselves in dire financial straits, the regulation through education model blames them for their plight, shaming them and deflecting calls for effective market regulation. Consumers generally do not serve as their own doctors and lawyers and for reasons of efficient division of labor alone, generally should not serve as their own financial experts. The search for effective financial literacy education should be replaced by a search for policies more conducive to good consumer financial outcomes.'*[5]

However, financial capability initiatives are not intended to turn people into financial experts. They are intended instead to help people to make effective use of their (or their family's) financial resources – to achieve good outcomes, even if they are not the best possible outcomes. One aspect of being financially capable is being able to recognise when, and knowing how, to obtain further information or professional advice, where this is needed. Financial capability initiatives are complementary to, not a substitute for, financial services regulation.

As Lauren Willis says, consumers do not generally act as their own doctor. However, health education can help people to lead healthy lives – and can also help people to recognise when they need to seek specialist advice or treatment from a health professional. Personal finance education and information has a broadly similar set of objectives (albeit, of course, in a different context). It is no coincidence that the term 'financial healthcheck' is sometimes used[6] to describe tools which are designed to help people to identify their financial needs and to make financial decisions.

[5] *Against Financial Literacy Education*, Lauren E Willis, Iowa Law Review, 2008. Available at **http://www.law.uiowa.edu/documents/ilr/willis.pdf**

[6] See, for example, the UK Consumer Financial Education Body's financial healthcheck at **http://www.moneymadeclear.org.uk/tools.aspx?Tool=financial-health-check**

An international perspective

For emerging economies, financially educated consumers can help ensure that the financial sector makes an effective contribution to real economic growth and poverty reduction.

In both developed and developing countries, many people lack the knowledge, skills and confidence to manage their money well. There is increasing recognition, among both international and national policy-makers, about the importance of tackling this. This has been prompted in part by the factors which lie behind, together with the fall-out from, the global financial crisis.

The Organisation for Economic Co-operation and Development (OECD) stated in 2006 that:

> *'For emerging economies, financially educated consumers can help ensure that the financial sector makes an effective contribution to real economic growth and poverty reduction. But financial literacy is also crucial for more developed economies, to help ensure consumers save enough to provide an adequate income in retirement while avoiding high levels of debt that might result in bankruptcy and foreclosures.*
>
> *The information available on consumer financial literacy is worrying for two reasons – not only do individuals generally lack an adequate financial background or understanding to navigate today's complex market, but unfortunately they also generally believe that they are far more financially literate than is really the case.'*[7]

The OECD's programme of work has included the publication of studies, putting on conferences to enable countries to share experiences about their work on financial capability initiatives, and the creation of the International Gateway for Financial Education as an international clearing house on financial education, 'providing access to a comprehensive range of information, data, resources, research and news on financial education issues and programmes around the globe'.[8]

A statement by G8 Finance Ministers in 2006 included the following:

> *'We acknowledge the importance of better financial education and literacy for improving the ability of people to use financial services and to make effective decisions with respect to their present and future welfare. We welcome the ongoing work in the OECD on the Financial Education Project and call for further development of financial literacy guidelines based on best practices.'*[9]

The European Commission said in 2007:

> *'Numerous international surveys have demonstrated consumers' generally low level of understanding of financial matters and of basic economics. At the same time, the education of citizens in financial matters is becoming increasingly important as innovation and globalisation are increasing the range and complexity of financial services on offer. The current difficulties in the US sub-prime mortgage market, where many consumers have taken on mortgages beyond their means owing, in part, to a lack of understanding of product features, serve as a reminder of the magnitude of the problem.'*[10]

[7] *The Importance of Financial Education,* OECD Policy Brief, 2006. Available at http://www.oecd.org/dataoecd/8/32/37087833.pdf
[8] See http://www.financial-education.org/pages/0,2987,en_39665975_39666038_1_1_1_1_1,00.html
[9] *Pre-Summit Statement by G8 Finance Ministers,* 2006. Available at http://en.g8russia.ru/page_work/11_1.html
[10] *Communication on Financial Education,* European Commission, 2007. Available at http://ec.europa.eu/internal_market/finservices-retail/docs/capability/communication_en.pdf

The World Bank is currently creating a Global Program on Consumer Protection and Financial Literacy, scaling up work that it has undertaken in Europe and Central Asia and making the Program available globally to developing countries.

Prior to this, the ECOFIN Council had invited EU Member States:

> *'to significantly step up their efforts to raise households' awareness on the latter's need to obtain proper information and education, in combination with the financial industry's own responsibilities and initiatives as appropriate, so as to increase households' preparation whilst maintaining adequate investor protection.'*[11]

The World Bank and CGAP have also recognised the importance of addressing this issue and have each undertaken a range of initiatives, including convening financial capability conferences, carrying out diagnostic studies[12] and offering advice in a range of countries. The World Bank is currently creating a Global Program on Consumer Protection and Financial Literacy, scaling up work that it has undertaken in Europe and Central Asia and making the Program available globally to developing countries.[13]

The UK's Department for International Development and the German Development Co-operation (GTZ) have each been active in promoting financial capability in a number of developing countries. Other organisations that operate internationally which are undertaking work to promote financial capability include the Microfinance Centre for Central & Eastern Europe and the New Independent States (MFC), Microfinance Opportunities and the Commonwealth Secretariat.

A number of countries – for example: Australia, Azerbaijan, Brazil, Canada, Kenya, Malaysia, New Zealand, Singapore, South Africa, Tanzania, Trinidad and Tobago, Uganda, the United Kingdom and Zambia – have already put in place, or are developing, a national financial capability (or financial literacy) strategy or programme. In each case, the development and implementation of the national strategy or programme is being led by a public sector body (such as the central bank, another financial services regulator, or a Government Department or agency) or by a development partner.[14]

A common feature of financial capability work in each of these countries is a strong emphasis on working in partnership with a wide range of stakeholders from the public, private and non-profit sectors.

In many other countries, some steps are being taken – by governments, non-governmental organisations, financial services institutions and others – to seek to improve the financial capability of the generality of the population or of particular groups of people. Some of these countries are planning to develop a national financial capability strategy.

[11] *Council of the European Union press release,* 2007. Available at **http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ecofin/94033.pdf**

[12] See, for example, *Consumer Protection and Financial Literacy: Lessons from Nine Country Studies* Susan Rutledge, World Bank, 2010. Available at **http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2010/06/03/000158349_20100603082853/Rendered/PDF/WPS5326.pdf**

[13] See **www.worldbank.org/eca/consumerprotection**

[14] For example, financial capability work is being led in Australia by the Australian Securities and Investment Commission; in Azerbaijan, by the Central Bank of Azerbaijan; in Kenya, by Financial Sector Deepening Kenya; in New Zealand, by the Retirement Commission; in Poland, by the Bank of Poland; in Uganda, by the Bank of Uganda; in the UK, by the Consumer Financial Education Body; and in the US by the US Treasury.

Why it is important for people to be financially capable

People who are financially capable are able to make sound financial decisions for themselves and for their families…

People who are financially capable are able to make sound financial decisions for themselves and for their families; to make informed choices between different financial products and services; to budget and to plan ahead financially; to build up some savings; to avoid becoming over-indebted; to identify, and protect themselves against, financial risks (for example, through insurance); to invest prudently (if they have sufficient resources to be able to do so); and to understand their rights and responsibilities.

It is becoming increasingly important that people have the ability to manage their personal finances well, as illustrated by the following examples.

- In recent years, the trend, particularly in developed countries, has been for individuals to be expected to take greater responsibility for their long-term financial planning, rather than being able to rely on the state or their employer to provide for their financial futures.
- Many people who can afford to do so are failing to save. So, they lack a financial cushion to help them cope with unexpected financial challenges (resulting from, say, illness or unemployment) or with predictable future events, such as retirement.
- Credit (in the form, for example, of credit cards and personal loans) is much more readily available than in the past. While many people have benefited from this, in many countries there are increasing numbers of borrowers who have built up unmanageable debts or who are at risk of doing so.
- For many consumers, there is a vast array of financial products and services – which between them have a wide variety of terms and conditions – from which they can choose. This creates a greater range of opportunities for consumers; but the financial decisions which people are faced with are more complex and demanding than was typically the case in the past.
- In a number of developing countries, there is an increasing range of opportunities for people to participate in the formal financial system. In Kenya, for example:

  'After abandoning rural branches in the 1990s, banks are now expanding their rural presence with new branches, mobile banks and other touch points linked to mobile phones and point of sale devices. This new supply of services, technologies and products calls for financial education to help consumers navigate through the options.'[15]
- People who lack financial understanding and skills are less likely to make use of financial products and services – that is they are more likely to be financially excluded. People who are financially excluded can face a range of detriments – for example, they are not able to take advantage of discounts given to those who pay utility bills by direct debit; and a failure to have adequate insurance can lead to catastrophic losses.
- People in financial difficulty can suffer worry and stress – which can in turn lead to ill health, personal relationship difficulties, and poor performance or absence from work.
- A study commissioned by the UK's Financial Services Authority has suggested that strengthening financial capability can improve psychological wellbeing.[16]
- People with little or no understanding of financial matters are more vulnerable to financial frauds.

[15] *Financial Education in Kenya: Scoping Exercise Report,* Financial Sector Deepening Kenya, 2008, page iv, available at **http://www.globalfinancialed.org/documents/Financial%20Education%20in%20Kenya%20Scoping%20Exercise%20Report.pdf**

[16] A study commissioned by the UK's Financial Services Authority found that 'There is a strong association between financial capability and psychological wellbeing and also between changes in financial capability and changes in psychological wellbeing'. *Financial capability and wellbeing: Evidence from the BHPS,* FSA, 2010. Available at **http://www.fsa.gov.uk/pubs/occpapers/op34.pdf**

For those with few, if any, financial management skills, even relatively straightforward matters – such as opening a bank account – can be beyond them.

Even those people who have good financial management skills often find it challenging to manage their personal finances well. For those with few, if any, financial management skills, even relatively straightforward matters – such as opening a bank account – can be beyond them. Many people have received no financial education or training and do not know how to set about obtaining information or guidance which could help them to manage their personal finances well. They may also lack confidence to use financial products and services (or, conversely, may be over-confident – and thus fail to take informed decisions or may expose themselves to risks of which they are unaware). Some of those with low levels of financial capability also lack literacy or numeracy skills and this increases the challenge of helping them to become more financially capable.

Financial capability surveys typically suggest that people lack the capability to manage their personal finances well. For example, among the main conclusions which the UK's FSA drew from its national financial capability survey,[17] the results of which were published in 2006, were that:

- many people fail to plan for their financial futures
- many people could face problems in the future as a result of risks which they are not protected against, either through poor choices or because they are not aware of the risks
- many households fail to shop around for good deals in financial products and services and therefore incur substantial additional costs
- on average, young people are less financially capable than their elders
- the following groups also have lower levels of financial capability:
  - the financially excluded
  - those who are not home owners
  - one-parent families
  - unemployed people.

The survey results were used by the FSA both in helping to set priorities and in developing financial capability programmes.

In the past, many young people would have become more financially capable as they got older, through 'learning by doing'. However, it would be complacent to conclude that it will be sufficient to rely on today's young people becoming more financially capable as they gradually gain experience, since they face far greater financial challenges than was typically the case for their parents' generation. In the UK, for example, students typically have to fund themselves – often via student loans – through university or college; credit is much more readily available to young people – which provides opportunities, but also increases the risk of them becoming over-indebted; and few young people are able to benefit from defined benefit pension schemes. So, there is a greater need now than was the case a generation ago, for young people – and also older generations – to be helped to become more financially capable.

It is in the interests of financial services firms that their consumers, and potential future consumers, are knowledgeable and engaged, rather than disengaged or hostile. Consumers who have confidence in their financial skills are more likely to take the initiative in approaching financial services firms with a view to purchasing a product or service – and this can help both to reduce the costs of acquiring new business and to increase volumes of business. Firms have to spend less time explaining basic concepts to those who are financially astute. Financially capable consumers are less likely to purchase unsuitable products or services, or products or services which they do

[17] *Financial Capability in the UK: Establishing a Baseline*, FSA, 2006 Available at
http://www.fsa.gov.uk/pubs/other/fincap_baseline.pdf http://www.fsa.gov.uk/pubs/other/fincap_baseline.pdf

not properly understand: this reduces the likelihood of consumers being dissatisfied and may also reduce the incidence of complaints. In short, securing improvements in people's financial capability makes good business sense for financial services firms.

It is also in the interests of governments and of financial services regulators that consumers are financially capable. Improving financial capability can help to promote financial inclusion, increase savings levels, stimulate economic activity, reduce the incidence of over-indebtedness and take some of the poor out of poverty.

A number of employers have recognised that they too can benefit from increased levels of financial capability among their staff, since employees with money worries are liable to be less productive in work. Some employers have therefore facilitated programmes designed to improve the financial capability of their workforce.[18]

Improvements in people's financial capability can also help many other organisations to achieve their goals. For example, clients of many voluntary sector organisations face severe financial challenges: strengthening their financial capability can help them to address those challenges successfully.[19]

Relationship between financial capability, financial services regulation and financial inclusion

…even the most financially astute consumer will be unable to understand the important features of a financial product or service which he or she is considering buying if the firm fails to disclose these features clearly.

Improving people's financial capability and sound regulation of financial services firms can both contribute to the achievement of a vibrant and responsible financial services industry. They are complementary, rather than alternatives. For example, regulations requiring firms to set out the key features of financial products and services in clear and plain language will achieve little if consumers lack the capacity, or the motivation, to read and understand the documentation. Equally, even the most financially astute consumer will be unable to understand the important features of a financial product or service which he or she is considering buying if the firm fails to disclose these features clearly. In other words, in order for the financial services market to operate effectively and efficiently, it is necessary to address both the supply side (through conduct of business regulation[20]) and the demand side (through financial capability initiatives).

Similarly, financial capability initiatives are complementary, rather than alternatives, to measures intended to stimulate financial inclusion. Efforts to promote financial inclusion – such as encouraging the development and take-up of basic bank accounts and expanding the use of micro-finance institutions – are unlikely to make much impact unless they are accompanied by measures to improve the financial capability of people who are currently financially excluded, so that the people whom financial inclusion initiatives are intended to reach have the competence and confidence to make use of financial products and services. Similarly, financial capability initiatives are unlikely to have much practical impact if there is a lack of suitable financial products and services which are available to those at whom the financial capability initiatives are directed.

[18] In the UK, for example, many employers have enabled their staff to attend Making the Most of Your Money seminars put on by the Consumer Financial Education Body (previously the Financial Services Authority), which provide basic financial education and information.

[19] The UK's Consumer Financial Education Body works in partnership with a number of voluntary organisations which work in the social housing, learning disabilities, mental health, offending and autism sectors.

[20] Sometimes known as market conduct regulation or as financial consumer protection regulation.

Which sorts of financial capability initiatives are most likely to be successful?

Financial capability programmes are designed to influence people's behaviours.

The academic discipline of behavioural economics provides some pointers to the sorts of approaches which are likely to be most successful, including that:

- if people are faced with too much information, or by a large number of possible choices, they are liable to be overwhelmed and to do nothing
- people tend to be over-confident about their ability to manage their personal finances and to ignore information which might be thought to call into question their views; challenging people's views, or getting them to explain their views to others and thus to set out the rationale for the opinions they have developed, can help people to be more objective
- people often struggle to make sound decisions; consideration should be given to helping people – for example, through training or counselling – to make good decisions, as well as providing education, information and guidance on personal finance issues.

In developing financial capability programmes, it can be helpful to take account of experience from other forms of social marketing (for example, HIV/AIDS prevention) about the techniques and communication channels which have worked well with different target groups in particular countries. Among the lessons which can be derived from a range of social marketing programmes, including financial capability initiatives, are to:

- keep things as simple as possible
- use relevant and engaging language and contexts
- repeat messages
- use a variety of methods and channels.

Financial capability programmes are designed to influence people's behaviours. They therefore need to focus on people's attitudes, as well as on education, information and skills. For example, it is not sufficient for people to understand how to save and how to shop around for suitable savings products; they also need to understand how saving for the future can benefit them and their families.

Many financial capability programmes have been evaluated. However, in the main, evaluations have been carried out to provide information for the organisation which is running the programme in question, or which is funding it, and relatively few evaluations have been published. There is, as yet, a lack of robust, published evidence about the sorts of approaches which are most likely to be successful.

Some financial capability programmes are intended to achieve relatively narrow, immediate objectives – such as to promote the take-up of bank accounts. It is relatively easy to measure the impact which the programme has had on take-up – though it is important not merely to measure immediate take-up, but also to assess whether new account holders go on to make use of their bank account. However, many financial capability programmes are much broader in scope and are intended to help equip people to manage their personal finances well, not just in the immediate future, but also in years to come. It is by no means straightforward to develop measures to assess the effectiveness of these programmes – for example, to obtain objective information on whether

Many poorer countries want to develop a national financial literacy strategy and are looking for guidance and support.

people's behaviour has changed (particularly since some behavioural change may take years to occur) and to establish what impact the particular intervention – as against other factors which might have had an influence – has made.

It can also be difficult to determine the lessons for future programmes which can be derived from an evaluation of any particular current programme. For example, if a particular financial capability programme is shown to be successful, what confidence can there be that a similar programme would be successful if deployed with different groups in the same country; or with similar groups of people in a different country? Was the success attributable mainly to particular elements of the programme, such as the quality of any written materials or of the trainers or presenters – so that it is those elements, rather than necessarily the programme as a whole, which should be replicated elsewhere?

A programme, led by the World Bank and financed by the Russia Trust Fund, has been established to measure the effectiveness of financial education programmes in low and middle income countries. Robert Holzmann, the initiator and leader of the programme, has explained the purpose of this initiative:

> *'A few rich countries have established a comprehensive national financial literacy strategy and many others are thinking about [doing so]. Many poorer countries want to do likewise and are looking for guidance and support. While substantial progress has been made in bringing countries and key country actors together to exchange information and experiences on concepts and practices, there has been less progress on the conceptual and empirical side in high-income countries to guide convincingly low- and middle-income countries in their ambitions. Conceptual uncertainty concerns the objectives, definition and measurement of financial literacy; empirical uncertainty concerns the effectiveness of financial education compared to other interventions to improve outcomes. And even if more conceptual and empirical certainty were to exist in high-income countries, the translation into a low- and middle-income environment may be far from straightforward.'*[21]

One objective of the World Bank programme is to:

> *'provide a (free) operational instrument (or toolkit) for LICs[22] and MICs[23] that has been country-tested to allow them to implement national capability surveys that deliver results which are comparable across time and space.'*[24]

This will take as its starting point the approach that was adopted by the UK's Financial Services Authority in developing its national survey on financial capability. This approach has since informed the approaches taken by Ireland, the Netherlands, Australia and the United States in developing their national surveys on financial capability.

A second objective of this programme is the development of a monitoring and evaluation toolkit for financial education and related interventions. The expectation is that this:

> *'should motivate and empower financial education providers to include rigorous impact evaluation considerations already in the design phase and allow an informed and productive interaction with impact evaluators (from private sector and academia)…*

[21] *Bringing Financial Literacy and Education to Low and Middle Income Countries: The Need to Review, Adjust, and Extend Current Wisdom,* Robert Holzmann, World Bank, 2010. Available at http://siteresources.worldbank.org/SOCIALPROTECTION/Resources/SP-Discussion-papers/Social-Protection-General-DP/1007.pdf

[22] Low Income Countries

[23] Middle Income Countries

[24] *Ibid*

The purpose of the evaluation is to make an assessment of both the delivery mechanisms as well as of the objectives, outcomes and impacts of financial education programs and other promising interventions such as edutainment…

The purpose of the evaluation is to make an assessment of both the delivery mechanisms as well as of the objectives, outcomes and impacts of financial education programs and other promising interventions such as edutainment[25], social marketing and one-to-one counselling. Therefore, a combination of process evaluation and impact evaluation is expected, including qualitative research methods (in-depth interviews, focus groups, or observation techniques) and quantitative experimental studies.

Each study must determine both causality and attribution. It must be able to show to the most rigorous extent possible whether or not the observed outcomes were likely to have been caused by the intervention being evaluated, and it must be able to control for or otherwise dismiss other possible explanations for the observed outcomes. In addition, the study must strive for external validity. The evaluation must be able to control for unobserved factors that might determine heterogeneity in outcomes.'[26]

The UK's Department for International Development has established a Financial Education Fund,[27] a challenge fund that supports innovative projects in sub-Saharan Africa which aim to improve financial literacy and capability. A key element of each project for which funding is awarded is an assessment of its impact and of the lessons learnt.

These and other initiatives can be expected to generate further knowledge and understanding about the sorts of approaches which are likely to be most successful in strengthening people's financial capability. However, it is unrealistic to suppose that it will be possible to derive a set of scientifically proven templates setting out precisely the best ways of improving people's financial capability in any given country and for any particular target group. As with other walks of life, much has to be left to judgement and experience. Nevertheless – and although each country is different and the approach taken needs to be tailored to that country's circumstances – there are a number of general principles and insights which can be derived from evaluations undertaken to date and from the experiences of organisations and individuals who have been involved in financial capability programmes, which can help to inform future work. These general principles and insights are discussed below.

[25] Entertainment which is intended to educate as well as to amuse.
[26] *Ibid*
[27] See **http://www.financialeducationfund.org/index.php**

Relevant and engaging contexts, language and channels

…if people were to be asked whether they would like to know how to make their money go further, many would probably say 'yes'.

If people were to be asked whether they are interested in personal finance, most would say 'no' – not least because terms like 'finance' and 'financial' are rather forbidding to many people. However, if people were to be asked whether they would like to know how to make their money go further, many would probably say 'yes'.

Similarly, personal finance education, information or guidance is more likely to be successful if it is seen, by those at whom it is aimed, as relevant to them – either immediately or in the reasonably near future – and if they find the contexts, and the methods which are used, engaging.

For example, secondary school students are more likely to be interested in exercises based on (say) saving to buy a bicycle or car, or to pay for family birthday presents or to support further education, rather than exercises about how to fund their retirement. The particular examples which are most likely to resonate with any particular group of people will depend in part on the national, economic and cultural contexts.

It is also important to keep things as simple as possible and to focus on the key messages which the target audience for any financial capability initiative needs to receive. A 'less is more' approach can help to avoid information overload.

People learn, and access information, in a wide variety of ways. One method can be particularly successful with certain people, while a different method can be more effective in reaching others. Moreover, receiving information and guidance in a number of different ways – and on a number of different occasions – can help to confirm and reinforce messages.

Cost-effectiveness

Those who lead the development or implementation of financial capability programmes need to be entrepreneurial in seeking out sources of funding, and of in-kind support…

Obtaining funds for financial capability initiatives is always a challenge. Those who lead the development or implementation of financial capability programmes need to be entrepreneurial in seeking out sources of funding, and of in-kind support, and to make the most cost-effective use of the funds which are available.

In several countries, many of the initiatives which have so far been undertaken to provide financial education have comprised donor-funded outreach programmes, in which trainers run classes for people, often in rural villages. Typically, relatively few people are reached; and once the donor funding runs out, the programme comes to an end. There may well be more cost-effective ways of improving people's financial capability.

Cost-effectiveness is dependent on:

- the number of people which the initiative will reach
- the impact which the initiative has on people's behaviours: it is important to test and evaluate initiatives (including the materials and channels which they use) to establish whether they are effective
- the extent to which an initiative can leverage other resources (including in-kind resources)
- the extent to which the initiative is sustainable, replicable and scalable – especially after any initial funding is no longer available.

There is potential to partner with a wide range of organisations which are well placed to help deliver financial capability messages – and which may themselves derive benefit from the initiative (or which may be willing to contribute as part of their corporate social responsibility activities) and therefore may not require payment for their contribution. Examples include financial services firms, the media, employers, telecommunications companies, and a range of development partners.

Examples of financial capability programmes

Personal finance education in schools can equip schoolchildren with the knowledge, understanding and skills to manage their personal finances well as they move into adulthood.

There is a vast range of financial capability programmes which are currently being undertaken or which have been undertaken in the past. This section of the paper discusses some of the most promising types of financial capability initiatives.

Financial education in schools

People form attitudes to financial matters early in life. Personal finance education in schools can equip schoolchildren with the knowledge, understanding and skills to manage their personal finances well as they move into adulthood. It is important that teachers receive training to give them the competence and confidence to teach personal finance well; and that they can draw on appropriate materials and other resources.[28]

Curricula in virtually every country are already crowded. However, the usual practice in countries in which financial education is provided in schools is for it to be integrated into a range of existing subjects – such as citizenship, mathematics, social studies, economics and business studies – rather than being taught as a separate subject.[29] Ideally, it should be incorporated in compulsory, rather than elective, subjects, so that all students receive some financial education.

Extra-curricular activities can also play a useful role. For example, Aflatoun – which provides extra-curricular social and financial education to children and provides opportunities for them to save, plan and budget – operates in schools in over 50 countries (though, in many of these countries, only in a relatively small number of schools). In Malaysia, several thousand schools have been adopted by a bank or insurance company as part of a School Adoption Programme: the bank or insurance company conducts activities related to banking, insurance and basic financial knowledge and provides an opportunity for schoolchildren to experience having a bank account. In Singapore, drama has been used in primary schools, as a result of a partnership between the Association of Banks and MoneySENSE,[30] who developed a 30-minute programme which includes an interactive performance 'Saving – the Sensible Habit' (about a bear and his friends), which is performed by a local theatre group.

While personal finance education in schools can potentially play an important role in strengthening a population's financial capability, it is not sufficient on its own. In particular, it will have little impact on the adult population (though some schoolchildren who have benefited from financial education in schools may use their knowledge and skills to help their parents manage the family finances); and even those who have received personal finance education in schools are likely to benefit from refresher training or will find themselves needing new knowledge and skills to cope with innovations in financial products and services.

[28] In the UK, the Personal Finance Education Group (pfeg), an independent charity, provides free support, resources and consultancy to teachers and school leadership teams – in both secondary and primary schools – in order to help them plan and teach personal finance in ways which are relevant to students' lives and needs. In the US, the Jump$tart Coalition for Personal Financial Literacy helps educators and parents, through an online database **http://www.jumpstart.org/jump$tart-clearinghouse.html**, to locate personal financial education resources.

[29] For example, in England, personal finance education is part of the secondary school curriculum through the 'economic wellbeing and financial capability' programme of study within Personal, Social, Health and Economic (PSHE) education; and personal finance issues can also be covered in subjects such as mathematics and citizenship. In Singapore, financial education is integrated into relevant subjects, such as social studies and civics and moral education, at both the secondary school and primary school levels.

[30] MoneySENSE is a national financial education programme, which was launched by the Monetary Authority of Singapore (the Singapore central bank) in 2003.

Academic staff and trainers (many of whom – in common with others in the population – may not have the knowledge, understanding, skills and confidence to manage their own personal finances well) need to receive training in how to deliver personal finance education and training effectively.

Adult financial education

Adult financial education can be provided in universities and colleges,[31] and also through community learning, independent (including work-based) learning and offender learning.

Financial education can be embedded in a wide range of academic and vocational education. The incorporation of personal finance education into courses should be attractive to education and training providers, since financial worries can be an important contributory factor to students failing to concentrate on their studies or dropping out of their course.

Academic staff and trainers (many of whom – in common with others in the population – may not have the knowledge, understanding, skills and confidence to manage their own personal finances well) need to receive training in how to deliver personal finance education and training effectively. Academic staff and trainers – together with learners – also need to have ready access to high quality resources (including, ideally, online resources).

Use of television, radio and other mass media

Television, radio and other mass media have the potential to reach large numbers of people. However, relatively few people – other than those who already have an interest in personal finance – will be willing to watch, or listen to, 'talking heads'. It is likely to be much more effective for financial education to be provided in a more entertaining format.

In Poland, for example, a television programme, *Gold for the Bold – Poles and Money*, gave viewers the opportunity to test their knowledge of financial matters. To make the format more appealing, questions were designed to provide fun and entertainment, as well as education, and were illustrated by film material from famous comedies or cabaret scenes. The programme was shown on a popular television channel on Sunday evenings and attracted an audience of several million viewers. There were spin-off articles in print and on websites, together with materials for schools.

The television soap opera, *Makutano Junction*,[32] is shown in a number of African countries and is particularly popular in Kenya, where the series is made. The series covers, in a fun and engaging manner, a range of development issues, including personal finance issues.

Personal finance information and education can also be provided via newspapers, magazines and other publications – preferably in a section of the publication which is likely to be read by the generality of readers, rather than contained within a specialist personal finance section. Comic books can be an effective way of conveying messages in some countries: for example, the Reserve Bank of India has developed a comic book, *Raju and the Money Tree*, to explain basic banking.

[31] In Singapore, for example, publicly funded universities and polytechnics have general/cross-disciplinary financial literacy modules, or modules that incorporate financial education, which are open to all students.

[32] See **http://www.makutanojunction.org.uk/the-soap.html**

…there are times in people's lives, and contexts, when they are likely to be more receptive to financial education, information or guidance…

Use of new technologies

Financial education and information are more likely to be accessed if they are communicated via channels which the target audience is accustomed to using. In a growing number of countries, many people – especially younger generations – frequently communicate and derive information online or via mobile phones. Financial education and information can potentially be provided – particularly to young people – via websites (including via links from non-financial websites), social networking sites, SMS messages and other forms of online media.

A number of websites dedicated to personal finance education and information have been created, particularly in developed countries, some of which are specifically aimed at young people. Visa and the NFL have developed a game which can be played online[33] or can be downloaded to an iPad or iPhone, aimed at teaching educators, students, parents and consumers about credit, debt, saving and budgeting, while having fun. In Uganda, Grameen Foundation (in conjunction with others) is undertaking pilot studies to explore the potential for using mobile phones as a channel for improving both financial capability and financial inclusion, particularly among those who live in rural areas.

Teachable moments

Although many people would like to be able to make their money go further, this does not mean that they will necessarily be receptive to financial education or information. Thinking about financial issues can be challenging; and, at any given time, most people have other things which they would prefer to do or to think about. However, there are times in people's lives, and contexts, when they are likely to be more receptive to financial education, information or guidance: these are sometimes known as 'teachable moments'. Examples include couples who are planning to set up home together or to get married – or who are separating or divorcing; parents before, or soon after, the birth of a child; students at college or university who are facing, often for the first time, the challenges of managing their own personal finances; people who are starting work; and people who are approaching retirement.

The UK's Consumer Financial Education Body makes available to expectant parents a Parent's Guide to Money on the financial aspects of having a baby. The guide was developed, with the help of parents and healthcare professionals, because having a baby is a major life change that also brings big financial changes. The guide is distributed by midwives – who are trusted by parents as a source of support and advice – to expectant parents around 16–20 weeks into pregnancy, so that it is in time to help with the financial changes that having a baby brings.

The UK's Consumer Financial Education Body also runs a workplace-based financial capability programme.[34] Employees with serious financial problems can suffer worry, stress and illness, all of which can make them less productive at work: personal finance education and training can help reduce the risk of people developing serious financial problems.

[33] http://www.practicalmoneyskills.com/games/trainingcamp/ff/
[34] See http://www.cfebuk.org.uk/pdfs/MMOYM_factsheet.pdf

A lot of older women do not have the benefit of education or are not well educated, and are very dependent on their families for their finances. They often feel at the mercy of their families.

Gender-based programmes

Some financial capability initiatives are targeted at women. In some communities, women tend to manage the family budget; and, in some cultures, women tend to learn better when men are not present.

Examples of financial capability approaches and activities which are considered to have worked with women in the Maori community in New Zealand[35] include:

- enabling women to understand their personal financial story – how their family has historically handled money, and what has influenced their own habits and actions
- recording myths and beliefs about money so that those providing programmes can tailor these to start where the learner is
- enabling women to develop dreams (aspirations) about money, and making sure that these dreams feature women in the picture
- personalising money so that there is a recognition of how money can be used to pay for the next major family event such as a wedding or a funeral
- coaching women on dealing with service providers/employers, etc – for example how to set up a bank account or how to negotiate a salary or ask for a pay rise
- scripting difficult conversations so that women are prepared to handle difficult situations related to money
- setting personal goals with timeframes and using positive language – for example, 'I will do X by Y date' rather than 'I will try to do X' statements
- developing written plans.

Reference is made earlier in this paper to the provision of financial education and information to expectant mothers. During the development of that programme, focus group research revealed that there was greater interest among expectant mothers than expectant fathers in a guide to help them manage their money at this time: this is why the Parent's Guide to Money is designed for, and distributed to, expectant mothers.

In Singapore, the Tsao Foundation, in collaboration with Citibank, runs a Financial Education Programme for Mature Women. Dr Mary Ann Tsao, President of the Tsao Foundation, has explained that:

> *'A lot of older women do not have the benefit of education or are not well educated, and are very dependent on their families for their finances. They often feel at the mercy of their families. But we want them to feel empowered, to be able to understand and manage their money.'*[36]

[35] See *Why a Man is not a Financial Plan: Reducing Financial Vulnerability Among Women,* Summary of a presentation by Joan Baker, Director, WealthCoaches.net, New Zealand, at Citi-FT Financial Education Summit, Beijing, 2008. Available at http://www.financialeducationsummit.org/2008/presentations/FE%20Summit%202008%20Summary%20Day%20Two%20-%20Special%20Lunch%20Address.pdf
[36] http://www.asiaone.com/Business/News/My+Money/Story/A1Story20100922-238405.html

Conclusion and recommendations

A number of countries have launched national strategies or programmes to improve financial capability (or financial literacy) and other countries are likely to follow suit.

There is ever-increasing recognition, among governments, central banks, international organisations and others, about the importance of taking steps to improve people's financial capability. A number of countries have launched national strategies or programmes to improve financial capability (or financial literacy) and other countries are likely to follow suit. In several cases, these national strategies or programmes are linked to initiatives to strengthen financial services regulation or to promote financial inclusion. In many other countries, there are a number of (mainly uncoordinated) financial capability initiatives.

As larger numbers of people throughout the world come to participate in the formal financial services sector (or are encouraged to do so), and as recognition grows that being able to manage one's personal finances is an important life skill, it seems likely that increasing focus will be placed on developing and implementing effective ways of helping people to manage their personal finances successfully – that is helping people to become more financially capable.

There is still much to learn about what works best with particular sections of a population and in specific contexts. Some programmes have been launched with a main purpose of learning more about what works well – and, on the other hand, what is unlikely to be successful. In addition, further insights will no doubt be gained from evaluations of some of the many financial capability initiatives which are currently being undertaken.

Nevertheless, a number of recommendations, for those involved in developing national financial capability strategies and those who are developing or implementing particular financial capability programmes, can be derived from experience to date:

- Keep things simple and straightforward: financial capability initiatives should not aim to turn people into financial experts (since this cannot realistically be achieved), but should instead give people basic information, skills, understanding and confidence to help them to manage their finances well – including knowing where, and in what circumstances, to go for specialist help.
- Use relevant and engaging language and contexts, so that financial information and education is seen by the intended audience as relevant and meaningful.
- Repeat messages, since people may not absorb and remember messages the first time they hear them.
- Use a variety of methods and channels. People learn in different ways; and the use of a range of methods and channels to deliver personal finance messages is likely to maximise impact and reach and will help to reinforce learning.
- Take advantage of 'teachable moments' – that is those times in people's lives and contexts (such as couples who are planning to set up home together or to get married – or who are separating or divorcing; parents before, or soon after, the birth of a child; students at college or university who are starting to manage their own personal finances; people who are starting work; and people who are approaching retirement) when people are most likely to be receptive to personal finance education and information.

- Prioritise initiatives which are most likely to be cost-effective. Cost-effectiveness depends on the number of people which the initiative will reach; the impact which the initiative has on people's behaviours; the extent to which an initiative can leverage other resources (including in-kind resources); and the extent to which the initiative is sustainable, replicable and scalable – especially after any initial funding is no longer available.
- Monitor and evaluate financial capability programmes in order to establish which ones are cost-effective and should be continued (possible with modifications) and which ones should be discontinued.

CfBT Education Trust
60 Queens Road
Reading
Berkshire
RG1 4BS

0118 902 1000

www.cfbt.com

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