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Warm and Fuzzy Financial Ed Doesn't Cut It Anymore

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At the height of the massive financial turmoil that rocked the United States in 2008 and 2009, some of us in the financial literacy movement recognized that what was unfolding was more than just an historic economic calamity; it was a national teachable moment.

Consumer financial illiteracy was certainly not the main cause of the crash, but poor choices by consumers in the housing and mortgage markets were important contributors. Since then American consumers have learned some painful financial lessons on topics ranging from housing finance to portfolio management to basic household budgeting.

But while mom and dad were worried about foreclosures, plummeting investments and making ends meet during a recession, what were their kids taking from all of this? We recently asked that question in a national opinion poll of high school students which was commissioned by the University of Arizona's Take Charge America Institute for Consumer Financial Education and Research and was conducted by The Financial Literacy Group.

Like previous studies, our research confirmed that young people have significant gaps in financial knowledge, but unlike earlier research, this study also probed their attitudes. We wondered if youth would show the same low level of confidence in financial institutions demonstrated by adults post-crash.

In this vacuum of financial knowledge, it appears that young people's opinions about the financial system have been shaped by the constant drumbeat of negative stereotypes and criticisms so dominant in the public discourse during and since the crash. The result? A healthy skepticism about financial institutions has soured into cynicism, where teenagers almost expect to be victimized by financial firms. The poll of 878 students at 18 high schools spread over 11 states shows that the majority strongly

distrusted financial institutions even while expressing great confidence in other things like their likelihood to find employment and to achieve financial security. Many of them failed to disagree with even the most extreme negative characterizations of the financial services industry.

For example, 60 percent of students polled firmly believe that credit card companies often entice people into taking on more debt that they can handle, while 70 percent believe that businesses try to "trick" young people into spending more than they should. Only 25 percent of students disagreed with the statement, "the stock market is rigged mostly to benefit greedy Wall Street bankers," and only 17 percent disagreed with the statement, "banks are mostly interested in getting my money through hidden fees."

In addition to distrust, responses also indicated a lack of knowledge and understanding about the basic workings of personal finance.

Sixty-eight percent did not know that owning stocks is a riskier form of investment than owning government bonds, and 79 percent did not know that banks and credit unions typically have lower fees than check cashing stores for the same services. When asked about credit scores, more than half didn't know that a high credit score is better than a low score. Additionally, only 15 percent were aware that credit unions are different than banks with respect to their not-for-profit status.

This isn't just about bad PR for the industry. Adolescents with this level of distrust of financial institutions become adults who don't open bank accounts, invest for retirement, insure against risks or finance important purchases like college educations or homes. This type of financial disengagement could push a generation of consumers away from mainstream institutions and toward risky alternative service providers or toward simple inaction, which has its own perils. Moreover, the industry will need to attract talent from this generation to fill its ranks in the years ahead. Additionally, these students will soon become the voters who will help determine the legislative fate of these companies for decades to come.

So what does all this mean for the industry?

Perhaps these results suggest a fresh look at what is becoming a familiar topic for financial institutions — financial education. To their credit, many financial institutions have for years committed funds and volunteer hours to support youth financial

education. But it tends to be done in the spirit of philanthropy or compliance, disconnected from their business lines, while the real resources go elsewhere.

That pre-crash view is simply outmoded now. These findings suggest that enlightened financial institutions should view youth financial literacy as no longer being about "warm and fuzzy," but about profit and loss.

Perhaps what these figures show financial institutions is that financial education should not be something nice they do for the kids, but something smart they do for their shareholders. By putting their considerable financial, marketing, and political muscle behind educating the next generation of consumers, employees, and voters, the industry will likely find a strongly positive return on its investment.

In contrast, to passively endorse the status quo is to allow young people to continue to rely upon industry stereotypes, harsh sound-bites and overly simplistic characterizations of the pillars of our financial system.

Our years of experience working on behalf of the financial literacy movement tell us that we are at a crossroad, and that the time to begin aggressive action is now. Many historians point to Vietnam and Watergate as watershed moments that caused a generation of young Americans to become deeply disillusioned with government for decades that followed. In light of these polling numbers, we can't help but wonder if the financial crash will have a similar effect on the next generation's view of the financial sector.

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