From Financial Education to Financial Capability: Opportunities for Innovation

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Though the financial education field has grown significantly in recent years, Americans are still struggling financially. This paper introduces a burgeoning framework that calls for a more direct focus on addressing consumer financial behavior and outcomes. This approach seeks to expand interventions beyond the classroom, pulling in stakeholders across sectors to build innovative tools and resources to help consumers make better decisions and achieve their financial goals. By implementing and refining this approach through a process of exploration and evaluation, resources can be better directed toward solutions that have a greater impact on the financial lives of Americans.

The recent economic downturn has revealed that Americans at all income levels exhibit difficulty in managing their finances and are ill-prepared to endure economic stresses. Across the financial services landscape, the need to chart a new course for financial education has never been more apparent. Consumers urgently need more information and tools to recover financially and steward their financial resources. The financial education field is also evolving as a result of the economic crisis. The most noticeable change so far—and an important one—is a shift in language, from financial education to financial capability. The shift in language is more than semantics. Financial education is a set of consumer inputs, seeking to address what people know; financial capability is a set of consumer outcomes, placing an emphasis on what people actually do. The field of behavioral economics has demonstrated that people do not make financial decisions based solely on their logical knowledge but are also influenced by a host of psychosocial factors and inherent biases; this dynamic can lead people to make decisions despite knowing

they are not in their best interest. The financial capability framework accounts for these behavioral influences by focusing on more directly helping consumers adopt behaviors that will lead to better financial health and an improved ability to manage their financial lives. There is no standard definition of the behaviors that make a consumer "financially capable," but most definitions tend to include the following elements: being able to cover monthly expenses with income; tracking spending; planning ahead and saving for the future; selecting and managing financial products and services; and gaining and exercising financial knowledge (Atkinson, McKay, Kempson, & Collard, 2006; FINRA Investor Education Foundation, 2009; Government of Canada, 2005).

Effective Interventions

In an effort to identify effective approaches to instituting the financial capability framework, we scanned the financial education literature and interviewed representatives from 22 organizations active in the financial education field and financial services industry.[1] From our research and the reported experiences of the interviewees, we identified the following key elements of effective financial capability interventions that more directly facilitate improvements in financial behavior.

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[1] We spoke to representatives from the following organizations during the interview process (service location provided in parentheses for direct service providers): Churnless, Citi, Center for Financial Social Work, Credit Builders Alliance, Credit Where Credit is Due, Inc. (New York City, NY), Dartmouth College, Doorways to Dreams Fund, Eastside Financial Center (St. Paul, MN), Filene Research Institute, The Financial Clinic (New York City, NY), The Financial Literacy Group, Financial Stability Partnership (Omaha, NE), HelloWallet, KeyBank, Mission Asset Fund (San Francisco, CA), National Endowment for Financial Education, National Foundation for Credit Counseling, New York City Office of Financial Empowerment, Pew Charitable Trusts, Smarty Pig, University of Illinois, WECO Fund, Inc. (Cleveland, OH).

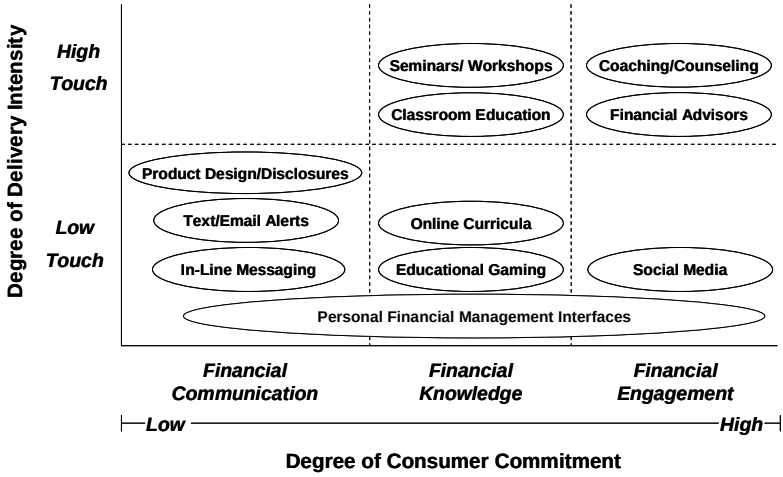
1. Relevant: Programs and new concepts that focus on content relevant to participants' concerns are more likely to be accepted and to motivate change.
2. Timely: Timing the delivery of information to coincide with key life events or decision points can help consumers better understand their behaviors.
3. Actionable: When people can immediately act upon advice, results are more effective. For example, pairing messages about the benefits of saving with an opportunity to open an account can be a compelling approach.
4. Ongoing: Periodic progress assessments and tracking capabilities help consumers establish positive habits and internalize the long-term impact of their decisions.

A Framework for Financial Capability Innovation

Promoting financial capability requires a broader range of tools and programs delivered by an array of providers to help consumers positively change their financial behavior. Chart 1 shows several existing tools and programs that can be brought to bear to improve consumers' financial capability. The chart categorizes financial capability resources by two characteristics: degree of consumer commitment and intensity of delivery.

The measure of consumer commitment recognizes that consumers have differing degrees of motivation to improve their financial capability and may be more likely to use a particular resource based on the time and effort required. Financial communication tools require a minimal commitment on the consumer's part, can be easily integrated into product design and delivery, and present relevant information for financial decisions. Financial knowledge programs appeal to consumers who are interested in learning more about financial concepts. Financial engagement resources provide support through a longer-term relationship with the user.

Chart 1



The measure of intensity of delivery recognizes the way each resource "touches" its users. "High-touch" resources are more likely to involve in-person relationships and provide opportunities for dialogue. "Low-touch" tools tend to employ technology or to connect with users in limited interactions. The degree of intensity determines a provider's ability to reach a large number of consumers in a cost-efficient manner. By finding ways to leverage low-touch technologies to replicate the in-depth interaction inherent in high-touch resources, innovative industry players can potentially create more holistic and powerful financial capability interventions that can be scaled in a cost-efficient manner. These types of cost considerations can help to more efficiently allocate program funding toward those resources that achieve the greatest impact on consumer behavior given their costs.

Underlying the various financial capability programs and resources is the assumption that using financial services as a means of practicing sound financial management is a key component to improving one's prospects for financial security and prosperity. Empirical evidence provides support for this belief. In a 1999 study of *US Census Survey of Income and Program*

Participation data, Carney and Gale (2000) found that households without a transaction account were less likely to hold financial assets, own a home, or own a car than households that had one. By providing consumers with guidance on how best to use financial services to their benefit, financial capability resources play a significant role in improving financial health.

The following sections highlight existing resources and promising innovations in financial communication, financial knowledge, and financial engagement.

Financial Communication

Even with low consumer commitment, it is increasingly possible to provide timely, relevant information that can help consumers avoid short-term mistakes and encourage longer-term thinking. These interventions, often integrated into financial transactions, create an opportunity to influence behavior at actionable moments and can help consumers more efficiently track spending and increase savings. Financial communication resources can generally be delivered at a low cost by leveraging technology or redesigning existing processes to provide information that can help steer consumers toward better financial behavior.

Disclosures, in which financial services providers are required by law to explain the terms and conditions of their products, represent a basic approach to financial communication. However, these disclosures often appear as footnotes written in difficult-to-understand language and can leave consumers with no clear picture of how the product works, resulting in costly fees and penalties and an inability to comparison shop. In response, bank regulatory agencies have created simplified disclosure models, such as the Schumer Box, which organizes credit card terms and conditions in a consistent and transparent manner, allowing consumers to more easily compare card offerings. More recently, the *Credit Card Accountability Responsibility and Disclosure Act of 2009*, signed into federal law in May 2009, sought to enhance

product disclosures to better inform credit cardholders of the consequences of their financial decisions. For instance, the law required issuers to modify their periodic customer statements to display how long it would take a cardholder to pay off their balance and the corresponding interest cost if they were to only make minimum payments.

Some banks and state governments are moving beyond meeting base requirements in designing disclosures. In 2007, the Center for Financial Services Innovation released a report detailing efforts by U.S. Bank, Citibank, and Wells Fargo to increase product transparency (Gartner, 2007). Additionally, Collins (2008) found that when consumers applying for high-cost, cash-out refinance mortgages were required to sign a state mandated disclosure that spelled out the consequences of default and included a clear warning, such as "YOU COULD LOSE YOUR HOME," they were more likely to reject the offer. As a result of the disclosure, consumers were given pause to consider the potential impact of their choice, leading many to turn away from a potentially harmful product.

Useful information can also be integrated into the customer experience at the point of transaction. Referred to as "in-line messaging," this approach recognizes that a customer is already thinking about their financial situation when they enter a physical location to make a financial transaction, creating an opportune moment to address their financial behavior. For example, KeyBank, through its KeyBank Plus initiative, provides check-cashing services in certain branches. After repeated engagement, branch staff members are trained to encourage customers to open a deposit account, which would eliminate their check-cashing fees.

Financial communication can be further extended to touch consumers through the email and mobile channels. In particular, account alerts and inquiries can provide timely updates of spending behavior and snapshots of account balances, helping consumers track expenses and manage their money in real time. The use of text messaging comes with the added benefit of reaching consumers immediately, regardless of where they are.

Among others, Citibank, Chase, and Bank of America offer email and text message account alerts, as well as more complete banking applications through mobile web browsers and smart-phone applications. This approach has been shown to be effective. In a recent study conducted in Bolivia, the Philippines, and Peru, Karlan, McConnell, Mullainathan, and Zinman (2010) found that messages sent to low- and middle-class bank customers reminding them to make contributions to savings accounts led to a 6% increase in account balances relative to customers who did not receive the messages. The Philippines' program sent these reminders to participants via text messaging, as 66% of those who opened the savings accounts used in the study owned a cell phone. By comparison, 71% of American adults with household incomes below $30,000 own cell phones (Lenhart, 2010).

While financial communication tools serve as additional resources to boost financial capability, they also have their limitations. For example, text communications are generally offered for free by financial services providers, but customers may incur standard text messaging fees from their wireless service provider to receive them. Consumers may also be concerned with the security of sensitive financial information shared in communications sent over mobile and online channels. Additionally, customers may become desensitized to alerts over time if they become too frequent or if alerts become "lost" among their other messages.

Financial Knowledge

While financial communication tools can often be delivered unobtrusively through the transaction process, financial knowledge resources require greater consumer commitment. However, for those motivated to use these resources, they can be a key component in achieving increased financial capability.

Traditional financial education is based on the idea that improving consumers' financial knowledge will help change financial behavior. However, multiple obstacles can stand in the

way. Perhaps most significantly, financial education provided without corresponding action steps may lead to increased knowledge but might not result in changed behavior. To overcome this hurdle, many financial education programs have successfully paired instruction and guidance with opportunities to act on the lessons being taught. While this type of experiential education can help increase knowledge and facilitate behavior change, programs that rely on high-touch interaction may also face challenges in achieving scale. Technology can play a key role in achieving greater scale in a more cost-effective way.

Focusing on timely delivery can help to make this approach more effective. The Los Angeles-based company *SABEResPODER* (SEP) has used this approach extensively with the Mexican immigrant community. For example, to recent immigrants, who must visit Mexican consulates to receive documentation necessary to work in the United States, SEP provides low-touch financial education inside the consulate through closed-circuit television and pamphlets. These resources explain financial products and encourage visitors to seek them out to establish a solid financial footing. SEP also provides coupons for discounts at partner financial institutions, giving recipients an actionable step and allowing the company to track the number of visitors who act on their advice. SEP found that for every 750 guides it distributed, 244 new bank accounts were opened.

By delivering financial knowledge programs at timely moments, providers may be able to employ effective low-touch tools to increase scale without expending significant human and financial resources. The challenge for financial education providers is to continue to develop innovative resources and approaches that can achieve scale while remaining effective in imparting financial knowledge and, ultimately, changing behavior.

Financial Engagement

Financial engagement resources entail deeper involvement in consumers' lives to help them change their behavior. With these

types of programs, consumers typically commit to a series of long-term actions to rectify a problem or pursue a goal. This approach acknowledges that behavior change takes time and implements periodic evaluations and support networks to create more accountability.

Financial coaching and counseling programs are the most common forms of financial engagement interventions. While differences exist between the two models ("coaching" programs are generally goal-oriented, while "counseling" services are typically engaged in response to a problem), both provide highly individualized guidance and support. The counseling and coaching models have been shown to have a positive impact on consumers' financial health in certain instances. Hirad and Zorn (2001) found that applicants to a federal home loan program who received pre-purchase homeownership counseling were 13% less likely to become 60-day delinquent relative to their counterparts who did not receive counseling.

The nonprofit organization *Credit Where Credit Is Due* (CWCID) offers one-on-one coaching and financial education to low- and moderate-income consumers as a complement to a suite of financial products and services provided by its sister organization, Neighborhood Trust Federal Credit Union. According to its Web site, CWCID annually serves 3,000 clients, who, on average, are able to reduce their debts by approximately $8,000, establish $800 in savings, and improve their credit scores by 200 points within two years of working with CWCID (Winslow, 2009).

While these types of programs have succeeded in helping clients, it can be difficult and prohibitively costly for them to achieve scale. The costs of providing coaching or counseling can be high with an individualized, in-person approach. Since the programs are typically offered to low- and moderate-income consumers for free or for a small fee, grants and subsidies are required, creating a challenge to sustainability. Developments in communications technology that allow more consumers to be reached with limited provider resources may help overcome this

obstacle.

To replicate the sense of accountability and support offered in coaching and counseling programs, some innovators have turned to social media. By informing a person's social network of the individual's progress toward a goal, such resources use social pressure to help the person meet their stated goal. Social media can also be used to create a virtual support network for individuals to share information about their progress and to receive advice. For example, *SmartyPig*, which offers online savings accounts to help consumers meet specific goals, enables users to arrange for automatic updates to be posted on their Twitter or Facebook accounts when they make contributions toward their goals. The use of social media as a financial capability resource is still a relatively new and unproven means of impacting consumer behavior. Continued development and study in the space will determine the degree to which these tools can match the effectiveness of in-person counseling and coaching.

Additional online tools are being developed to emulate counseling models. Personal financial management platforms (PFMs) provide a broad range of options to improve financial capability. These versatile applications can be used to inform consumers about their financial health, provide lessons in financial knowledge, and support long-term goals. Accessed online, PFMs typically aggregate users' account information from other online financial services sites to give consumers a snapshot of their financial lives and help them manage their finances through a central point of control. Leading names in PFMs include Mint, Yodlee, and Thrive. Recent survey data suggest that PFMs are an effective means of improving consumer behavior. The Aite Group (2010) surveyed 976 PFM users and found that 41% saved more money and 28% paid less in credit card late fees. However, consumer adoption remains low, with only 13% of consumers using online financial management tools, according to a survey conducted by Javelin Strategy & Research (2009), suggesting further opportunities for platform development and growth. Additionally, for both social media and PFMs, privacy

and security concerns about information shared on the Internet may inhibit consumer adoption.

Evaluation

Despite their potential for facilitating greater financial capability, questions remain about these innovative resources' impact on financial behavior. It will be critical to evaluate their effect to understand the degree of behavior change that can be expected from different resources. Greater comprehension of the types of interventions most effective in impacting consumer behavior can help drive funding and development resources toward the most promising solutions, reducing costs and increasing the sustainability of financial capability tools.

Past efforts to evaluate the impact of financial education have largely focused on program outputs and improvements in financial knowledge. In a national survey of financial education practitioners, Lyons, Palmer, Jayaratne, and Scherpf (2006) found that the most common indicators of impact were the number of program participants (used by 78% of practitioners) and changes in knowledge (77%). Behavioral measures were far less common, as only 42% of providers reported using indicators of actual behavior change to evaluate the impact of their programs.

To evaluate financial capability requires greater emphasis on measuring changes in behavior—what consumers do, in addition to what they know. An important first step is gaining clarity into the specific behaviors interventions are designed to address. General approaches to financial education that provide a broad overview of financial principles and products may help consumers gain familiarity with the financial world, but also lack focus on specific applications of knowledge. An increased focus on desired outcomes at a program's outset not only aids in facilitating evaluation, but might also improve its focus on the targeted change in behavior.

The broader landscape of financial capability resources can help overcome the challenges of behavior evaluation by making

measurement data more accessible. For instance, financial institutions are in a unique position to measure the impact of mobile alerts given their access to customers' account balances and transaction histories. The ability to monitor their customers can also be leveraged through cross-sector partnerships involving the financial services industry. For financial education practitioners, engaging with providers and incorporating the use of financial management tools may improve their ability to track behavior and lead to a better understanding of how specific areas of financial knowledge impact financial behavior.

Conclusion

Innovators and practitioners have made a promising start at creating tools and programs to help consumers improve their financial knowledge and change their behavior and the stage is set for further developments. We provide the following recommendations for practitioners and financial services providers interested in applying a financial capability framework.

1. Effective financial capability efforts need to be relevant, actionable, timely, and ongoing.
2. Technology provides an opportunity to lower delivery costs and scale promising models.
3. More collaboration among nonprofits, private sector players, and government is needed to create holistic interventions that facilitate financial capability.

To ensure that solutions are cost-effective as well as impactful, innovators must carefully negotiate issues of scale, design, and delivery. Solid evaluation efforts will help ensure that lessons learned from these innovations can be applied across the financial services industry. By learning more about the best ways to build effective resources, proponents of financial capability will be able to better help consumers establish economic security and pursue financial prosperity.

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