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From Financial Education to Financial Capability: Opportunities for Innovation

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Authors
Joshua Sledge
Innovation Analyst

Jennifer Tescher
CFSI Director

Sarah Gordon
Nonprofit Relationship Manager

Center for Financial Services Innovation

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Executive Summary

The recent financial crisis has revealed that Americans at all income levels exhibit difficulty in managing their finances and are ill-prepared to weather economic stresses. Across the financial services landscape, the need to chart a new course for financial education has never been more apparent, and consumers themselves have never been more motivated to learn. Consumers urgently need more information and tools to recover financially and steward their financial resources.

A shift in financial education may hold the key. Signs are emerging that financial education is shifting its focus to financial capability, which emphasizes behavior change in addition to knowledge gains. Whereas financial education is a set of provider outputs, financial capability is a set of consumer outcomes. Becoming financially capable is a critical step toward establishing financial security.

Carrying out this new focus will require a variety of tools and approaches. Fortunately, new communication technologies and the insights of behavioral economics are already contributing to innovations in the field.

To learn what strategies might prove effective in improving financial capability, CFSI scanned the financial education literature, interviewed practitioners and stakeholders, and explored a range of new interventions. We found that the most effective interventions strive to be:

- Relevant, addressing participants' specific concerns and financial situations, ideally in a relevant context, to capture their attention and motivate them to change.
- Timely, coinciding with key life events or moments of decision that can provide immediate feedback.
- Actionable, enabling consumers to put newly gained knowledge into action right away in ways that can improve their financial situation.
- Ongoing, developing long-term relationships to provide support, instill a sense of accountability, and track progress.

Financial capability resources can be categorized in two ways: according to the *intensity of the delivery* for the provider (from "low touch" to "high touch") and the *level of commitment* required on the part of consumers (programs that focus on financial communication, instill financial knowledge, or create financial engagement). We examine innovations in financial capability according to both of these characteristics and examine the potential for expanding financial capability tools and programs on a larger scale to reach more people cost-effectively.

The number and variety of innovations is encouraging. Innovations of all types incorporate some of the elements of effectiveness, suggesting that there are many examples on which to build. Because the innovations we explore are all quite young, however, there is a great need for evaluation to help the field determine which are most effective and why, so that elements of effectiveness can be incorporated and combined into future developments.

The good news is that, at this early stage, it is already clear that the focus on financial capability to spur behavioral change is valuable. In addition, technology appears to hold great promise for lowering delivery costs and reaching more people. It is still unknown whether “low-touch” technology solutions will prove as effective as “high-touch,” in-person interactions. To create more powerful interventions that can enhance the financial capability of underserved consumers, further collaboration, innovation, and evaluation are essential.

Introduction

The recent financial crisis has made it plain that Americans need more and better skills and tools to be effective stewards of their financial lives. Americans themselves would agree. According to the National Foundation for Credit Counseling's 2009 Consumer Financial Literacy Survey:[1]

- 41% of respondents gave themselves a grade of C, D, or F on their knowledge of personal finance
- 57% did not use a budget to guide their spending
- 32% reported having no discretionary or emergency savings
- 26% admitted not paying all of their bills on time

"As the financial education field evolves, it is important to focus attention on those strategies that not only help consumers increase their knowledge but also help them establish healthy financial behavior."

Becoming financially capable is a critical step toward establishing financial security, particularly for lower-income, financially underserved consumers. By managing expenses, establishing long-term goals, and effectively navigating the suite of available financial products and services, these consumers put themselves in a better position to weather economic downturns and pursue financial prosperity. As the financial education field evolves, it is important to focus attention on those strategies that not only help consumers increase their knowledge but also help them establish healthy financial behavior.

With crisis comes opportunity. Financial institutions are more aware of the important role they can play in ensuring their customers understand the products and services they are buying and using. Accordingly, they are moving beyond legal disclosure requirements to communicate more frequently and effectively with consumers throughout their relationship. Government is reassessing its role in promoting financial literacy, seeking to understand the components of effective financial education and the challenges in bringing it to fruition. Nonprofits and other community-based organizations increasingly recognize that they can integrate financial tools and information with other programming to help consumers achieve financial stability.

From Financial Education to Financial Capability

The financial education field is relatively young. In 2000, the Fannie Mae Foundation commissioned a study of 90 financial education programs and found that over 70% had been established after 1990.[2] Despite its youth, the field has grown significantly as community organizations, financial institutions, and school systems all work to boost financial literacy. Within the past decade, the federal government has also turned its eye toward financial education, creating the Office of Financial Education (2002), the Financial Literacy and Education Commission (2003), and the President's Advisory Council on Financial Literacy (2008) to identify strategies to help American consumers improve their financial literacy.

The financial education field has been focused primarily on the development and delivery of information about financial products, management, and decision-making. The information is often delivered through seminars, a series of classes, or self-study materials via a variety of channels (books, internet sites, etc.).

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[1] National Foundation for Credit Counseling, "The 2009 Consumer Financial Literacy Survey: Topline Report and Data Sheet," April 2009, http://www.nfcc.org/NewsRoom/FinancialLiteracy/files/2009FinancialLiteracySurvey.pdf.
[2] Lois Vitt, et al., "Personal Finance and the Rush to Competence: Financial Literacy in the U.S.," Institute of Socio-Financial Studies, 2000.

Countless financial education programs and curricula of this kind have been developed and delivered by a wide variety of organizations.

The financial education field is evolving as a result of the economic crisis and its impact on consumers. The most noticeable change so far—and an important one—is a shift in language, from financial education to financial capability. This terminology has been used recently across the globe, most notably in the United Kingdom. The U.S. government has also begun to embrace the phrase. In December 2009, the Department of the Treasury and Department of Education launched the National Financial Capability Challenge, a joint initiative aimed at encouraging financial education in schools. In conjunction, the Treasury Department also worked with the Financial Industry Regulatory Authority (FINRA) to conduct the first National Financial Capability Survey, which measured the financial skills of U.S. adults.

The shift in language is more than semantics. Financial education is a set of provider outputs; financial capability is a set of consumer outcomes. In the report of its survey findings, FINRA notes the distinction, emphasizing that financial capability "encompasses multiple aspects of behavior relating to how individuals manage their resources and how they make financial decisions."[3] No standard definition of financial capability exists, but most definitions tend to include the following elements:[4]

- Being able to cover monthly expenses with income
- Tracking spending
- Planning ahead and saving for the future
- Selecting and managing financial products and services
- Gaining and exercising financial knowledge

"Financial education is a set of provider outputs; financial capability is a set of consumer outcomes."

Behavioral Economics

The growing attention to behavioral economics is also a factor in this shift. Behavioral economics underscores the need to focus on consumers' financial behavior in addition to their financial knowledge. The burgeoning field has demonstrated that people do not make decisions based solely on their rational knowledge but are also influenced by a host of psychosocial factors and inherent tendencies. These factors help determine people's financial decisions, reflecting the often complex feelings people have about their money. Professors Richard Thaler and Cass Sunstein's *Nudge* highlights the biases and tendencies people routinely exhibit when making decisions. Several of these concepts that have the potential to affect financial behavior are summarized below.[5]

- **Optimism and Overconfidence:** People tend to overestimate the likelihood of positive events and, likewise, underestimate the likelihood of negative events. This tendency might explain why some people buy lottery tickets, despite slim odds of winning, rather than saving their money.

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[3] Financial Industry Regulatory Authority Investor Education Foundation, "2009 National Capability Study: Executive Summary," December 2009, http://www.finrafoundation.org/resources/research/p120478.
[4] The elements presented here were selected by comparing definitions of financial capability obtained from the following sources: The United Kingdom Financial Services Authority (http://www.fsa.gov.uk/financial_capability/), The Financial Consumer Agency of Canada (http://www.fcaccfc.gc.ca/eng/publications/SurveyStudy/FinCapability/ FinCapability_01-eng.asp#02b), and FINRA (http://www.finrafoundation.org/resources/research/p120478).
[5] Richard Thaler and Cass Sunstein, *Nudge: Improving Decisions About Health, Wealth, and Happiness*, Yale University Press, 2008.

- **Status Quo Bias:** People tend to stick with their current situation, even when change would benefit them. This bias may keep people from opting out of an automatic overdraft program or increasing their retirement plan contributions.

- **Temptation:** People often choose immediate gratification over a long-term benefit. This tendency can make it difficult to manage a budget and may lead to overspending.

These and other behavioral biases and tendencies can work against financial knowledge, leading people to make decisions they know are not in their best interest. Addressing these behavioral influences, in addition to promoting increased knowledge, is an important step in helping consumers toward financial capability.

Effective Interventions

To learn about effective strategies for improving financial capability, CFSI not only considered the ramifications of behavioral economics but also scanned the financial education literature and landscape, and interviewed dozens of practitioners and stakeholders. We found that the most effective interventions strive to be:

- **Relevant:** Programs that focus their subject matter to address participants' specific concerns and financial situations are better positioned to capture people's attention and motivate them to change. In addition, new programs and tools are more likely to be accepted when they are introduced in a relevant context.

- **Timely:** Timing the delivery of information to coincide with key life events or moments of decision can provide immediate feedback that helps consumers better understand the consequences of their behavior.

- **Actionable:** When programs and tools can be used right away to demonstrate financial capability, they can help consumers establish positive habits and behavior. This approach allows consumers to put newly gained knowledge into action in ways that can improve their financial situation. For example, pairing messages about the benefits of saving with an opportunity to open an account provides an occasion for consumers to take a definitive step toward planning for their financial future.

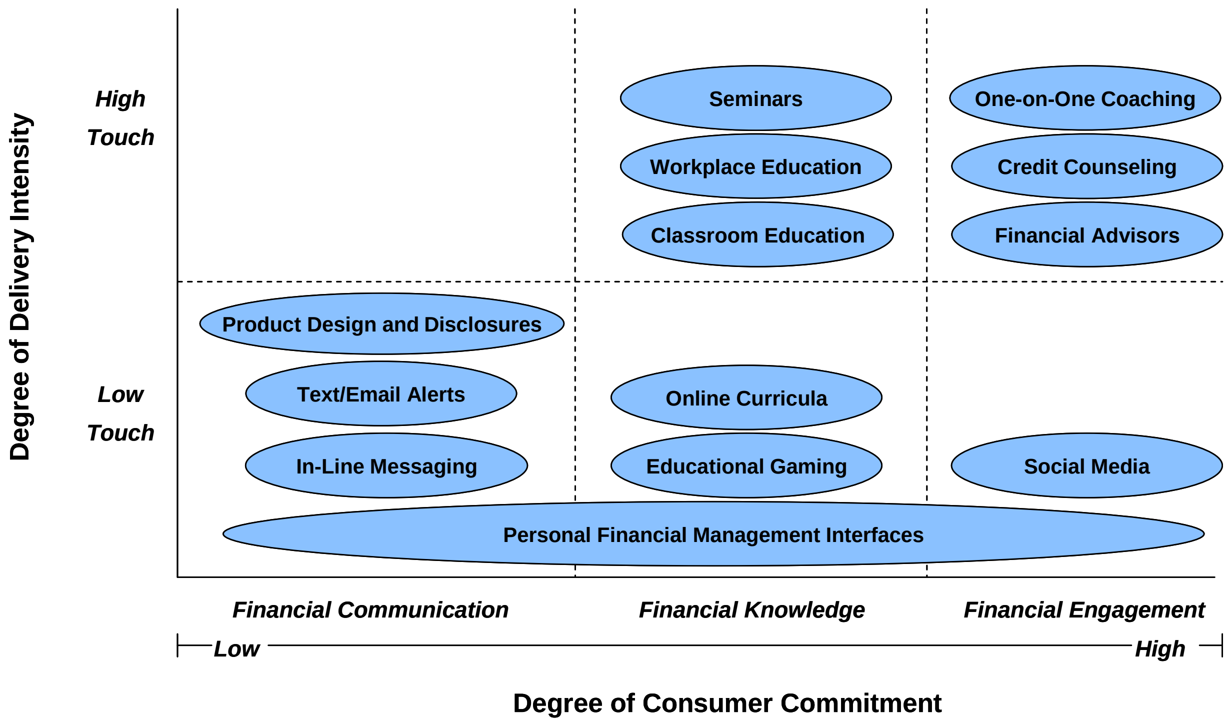
- **Ongoing:** Programs that develop long-term relationships offer essential ongoing support as consumers change their behavior. In particular, periodic progress assessments and tracking capabilities help consumers establish positive habits and internalize the long-term impact of their decisions. For example, goal-based savings products can help consumers achieve their targets by encouraging them to develop long-term plans and providing tools to track their progress. Pairing these interventions with peer support and evaluation provides additional incentive for consumers to live up to their commitments.

Finally, we examined another important development in the shift to financial capability—the increasing availability and sophistication of communication technology. Technology makes it possible to reach more people cost-effectively. From cell phones to websites, there are more ways than ever to communicate with consumers in real time about their finances. In addition, there are new tools to aggregate financial data from disparate sources and analyze it in multiple ways. These tools can help with budgeting, cash-flow management, shopping for the right product, and planning for the future. Finally, social networking tools can be used to provide peer support around financial issues, motivating consumers to achieve their goals.

The developments described here have opened the door for innovation in the financial capability field. This paper focuses on some of the most promising new programs to date. While some early lessons have been learned, opportunities abound for further innovations that build on the most effective strategies, as evaluation methods and practices evolve to identify them.

A Framework for Financial Capability Innovation

While financial education programs have aimed to help consumers improve their financial knowledge, the concept of financial capability extends beyond what a person knows to what the person does. This shift requires a broader range of tools and programs that help consumers change their behavior in financially beneficial ways. Potential means of intervention extend beyond the classroom to provide support at various points throughout a consumer's financial life. The chart below shows several existing tools and programs that can be brought to bear to improve consumers' financial capability.[6]



The chart above categorizes financial capability resources by two characteristics that illustrate how they are offered by providers and received by consumers. The first, on the horizontal axis, is the degree of consumer commitment the resource requires, and the second, on the vertical axis, is the degree of intensity with which the resource is delivered.

[6] Our focus was on those resources that catered to the adult segment of the population.

The measure of consumer commitment recognizes that consumers have different degrees of motivation to improve their financial capability. While some may be willing to invest significant time and effort into overhauling their financial lives, others may not even be aware that their financial behavior could be harmful. Consequently, consumers may be more likely to utilize a particular resource based on the amount of time and effort they expect to commit to its use. We classified potential interventions based on the degree of consumer commitment required, from low to high:

Financial Communication: These tools present relevant information to consumers in a just-in-time manner, explaining the consequences of financial decisions before they are made. They also can be used to provide more immediate feedback, remind consumers of a commitment, or motivate them to follow through on a goal. These tools can be easily integrated into product design and delivery, requiring a minimal commitment on the consumer's part.

Financial Knowledge: These programs appeal to consumers who are interested in learning more about financial concepts to better inform their future decisions. This category includes programs that are part of the traditional financial education field and may require participants to make a bigger commitment to learning.

Financial Engagement: Tools and programs in this category are designed to develop a relatively long relationship as consumers are given ongoing advice and support, often on an individual basis. These resources require a deeper level of consumer commitment over an extended period.

The second factor to consider is the intensity of delivery, or the way each resource "touches" its users. "High-touch" resources are more likely to involve in-person relationships, providing consumers with opportunities for dialogue with and direct feedback from practitioners. "Low-touch" tools tend to employ technology or more limited interactions to connect with users. The degree of intensity determines a provider's ability to reach a large number of consumers cost-efficiently.

Taken together, these two characteristics suggest that a wide array of resources, offered through various channels and by numerous means, can be leveraged to promote financial capability. Many tools and programs can be effective at improving consumers' financial behavior, and they can be combined into multiple approaches to create more holistic and powerful interventions.

In the following sections, we explore existing resources and promising innovations within each category of consumer commitment.

Financial Communication

Even with low consumer commitment, it is increasingly possible to reach consumers with timely, relevant information that can help them avoid relatively small, short-term mistakes and encourage longer-term thinking. These interventions are often integrated into financial transactions, creating an opportunity to influence behavior at actionable moments as decisions are made. These resources can directly address the components of financial capability; they can clarify the terms of financial products, help consumers more efficiently track spending, and encourage prudent financial management. Automated communications such as email or text messages are a low-cost way to reach countless customers, regardless of their motivation to improve their financial lives. Financial institutions are the most frequent practitioners of such communications as they focus on better communication with their customers both to satisfy changing regulatory requirements and to improve the customer experience.

Financial Communication Tools

Purpose:
To present relevant information in a timely manner.

Examples:

- Product disclosures
- Account alerts
- In-line messaging

Characteristics:

- Can clarify the consequences of financial decisions
- Requires little to no commitment from target consumers
- Can be integrated into transactions with financial services providers

Challenges:

- Limited interaction with consumers may also limit impact on behavior
- Obstacles of the email/mobile channel (e.g. being "drowned out" by non-related messages)

Product Disclosures

Written product disclosures represent the most basic example of financial communication. Financial services providers are required to explain the terms and conditions of the products consumers are purchasing. However, these disclosures often appear as footnotes to product offers, written in dense language that can be difficult to understand. While such disclosures may fulfill the provider's legal obligation, they can leave consumers without a clear picture of how the product works, resulting in costly fees and penalties. Additionally, without fully understanding the details of what is being offered, consumers have limited ability to compare their options and select the best product for their situation, a key component of financial capability.

In recent years, as financial products have become increasingly complex, disclosure documents have become equally complicated. Bank regulatory agencies have studied whether consumers understand disclosures and have created model disclosure documents that are meant to simplify them. A prime example is the Schumer Box, a model disclosure required with credit card offers. Named after Senator Charles Schumer, who chaired the Senate Banking Committee at the time the box was created, this standardized disclosure organizes credit card terms and conditions in a consistent and transparent manner, allowing consumers to more easily compare different cards.

Despite continuing efforts to improve and simplify them, legal disclosure statements are still challenging for consumers. Some banks are moving beyond required disclosures to create other simplified communication tools that help consumers understand how to avoid fees and penalties. In 2007, CFSI released a report detailing efforts undertaken by U.S. Bank, Citibank, and Wells Fargo to increase the transparency of their product offers.[7] A more recent example is Bank of America's Clarity Commitment. In April 2009, the bank began providing home mortgage customers with a one-page summary of the terms and conditions of loan offers in plain language.[8] Bank of America extended the same approach to its credit card customers with the launch of its Credit Card Clarity initiative in December 2009.[9]

More transparent disclosures and product information act as timely and actionable interventions and have been shown to improve consumers' decision-making. For instance, J. Michael Collins's study of 2005 home mortgage data found that consumers who received transparent legal disclosures about the risk of taking on a high-cost, cash-out refinance mortgage were more likely to reject an approved offer for such a loan.[10] In accordance with state laws, these consumers were required to sign a disclosure in advance that spelled out the consequences of default and included a clear warning, "YOU COULD LOSE YOUR HOME." This language helped consumers in those states understand the risks associated with cash-out mortgages, including high interest rates and a reduction in borrowers' equity. The study found that the inclusion of the signed disclosure requirement was responsible for an approximately four to ten percent increase in the rejection rate of the offers. This example illustrates the effect strong disclosures can have in steering consumers away from potentially harmful products.

In-line Messaging

Useful information can also be integrated into the customer's 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 bank branch, creating a timely opportunity to address their behavior and offer better financial products. KeyBank's in-line messaging program is a prime example. Through its KeyBank Plus initiative, the bank provides check cashing services in certain branches where the service is in demand. After repeated engagement with customers, branch staff members encourage them to open a deposit account, which would allow them to avoid paying fees every time they cash a check. The product offering is also expanded to include a savings account and loan-assist product. Self-Help Federal Credit Union has adopted a similar approach in its recently opened micro-branch in East San Jose, California, employing in-line messaging to help customers migrate from transactional services such as check cashing to deposit accounts.

Financial services providers can also generate greater financial capability and encourage positive financial behavior by using automation as a product feature. For instance, Bank of America, Chase, Citibank, Wells Fargo, and many other financial services providers allow customers to set up automatic savings deposits, establishing a recurring event that directly addresses a component of financial capability: planning and saving for the future.

Email and Mobile Channels

Financial communication can be further extended to touch consumers in their everyday lives through email and mobile channels. In particular, account alerts and inquiries sent through these channels 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

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[7] Kimberly Gartner, "Toward Better Informed Consumers: A Collection of Strategies from Financial Institutions," CFSI, September 2007.
[8] Bank of America, http://newsroom.bankofamerica.com/index.php?s=43&item=8440.
[9] Bank of America, http://ahead.bankofamerica.com/consumerlending/bank-of-america-announces-credit-card-clarity-initiative/.
[10] J. Michael Collins, "You Could Lose Your Home: The Effects of State Policies Mandating Subprime Mortgage Risk Disclosures on Consumer Evaluations of Loan Offers", July 1, 2008. Available at SSRN: http://ssrn.com/abstract=1505668.

benefit of reaching consumers immediately, regardless of where they are. With over 70% of U.S. households using cell phones,[11] even traditionally hard-to-reach consumers can be contacted easily.

The email and mobile channels are increasingly popular among financial services providers. Among others, Citibank, Chase, and Bank of America offer account alerts via email and text as well as more complete banking applications accessible through mobile web browsers and smart-phone applications. Email and text alerts are also offered by prepaid card providers such as NetSpend, RushCard, and AccountNow. Depending on the provider, customers can either have automatic alerts sent to their mobile phones or send a text message to their provider to request information as needed.

At least one study has found mobile financial communication an effective means of improving financial capability. A recent study conducted in Peru, Bolivia, and the Philippines found that sending text messages to low-income bank customers reminding them to save led to a 6% increase in savings balances, on average; this number increased to almost 16% when reminders mentioned incentives offered by the participating bank for consistent deposits.[12]

While these tools give consumers additional resources to boost their financial capability, they do have limits. For one, text communications are generally offered for free by financial services providers, but customers may incur standard text messaging fees from their wireless service provider. Applications offered through mobile web browsers may require customers to subscribe to a monthly data plan. Customers may choose not to use the mobile functionality in hopes of avoiding costly service overages or incurring a higher monthly bill. Additionally, customers may become desensitized to alerts over time if they become too frequent or if alerts become “lost” among their other messages.

Customization could help. For instance, software provider Jwaala has built functionality into its banking software that allows its client’s customers to create highly specialized alerts to match their personal spending patterns. Customers can set alerts to trigger based on spending at a specific merchant, spending a specific dollar amount or both. Additionally, the company recently modified its software to allow customers to receive alerts through social networking sites such as Twitter.[13] These innovations are designed to make the alerts more relevant to each customer, creating more useful and targeted messaging.

Low-touch tools can be brought to scale quite inexpensively. Product information can be reproduced electronically or incorporated into existing promotion materials. While software or employee training may be required to implement an effective system of in-line messaging, variable costs per customer are near zero. Electronic communication via email or SMS text also represents a relatively low-cost method of intervention. With these resources, financial services providers have a unique ability to promote financial capability. These providers play a role in every transaction that is carried out with a checking account, prepaid card, credit card, or other financial product. With the use of low-touch, low-cost resources, each transaction represents an opportunity to provide support and guidance to help consumers make better financial decisions.

[11] U.S. Census Bureau, http://www.census.gov/Press-Release/www/releases/archives/income_wealth/014418.html.
[12] “Study Suggests Text Messages Can Increase Savings”, Kristina Peterson, *Wall Street Journal*, November 3, 2009.
[13] Daniel Wolfe, “Account Alerts Get Personal,” *American Banker*, January 14, 2010.

Financial Knowledge

While financial communication tools can often be delivered to consumers unobtrusively through the transaction process, financial knowledge resources require greater consumer commitment. It takes time to learn the principles and practices that are part of financial knowledge. Consumers may have to go out of their way to find and engage educational resources, and some may lack the motivation to do so. But those who are motivated can use these resources to improve their financial knowledge, directly addressing a key component of their financial capability.

Financial Knowledge Tools

Purpose:
To educate consumers about relevant financial issues and increase their financial knowledge.

Examples:
- "Traditional" financial education, such as classes and seminars
- Educational gaming
- Media applications

Characteristics:
- Builds on principle that education leads to knowledge, which helps change behavior
- Can be combined with actionable steps to great effect
- Can be offered in a relevant context to enhance effectiveness

Challenges:
- Ensuring knowledge gains result and, if so, determining if they translate to behavior change
- Unknown effectiveness of "low-touch" resources

Financial Education

Traditional financial education is based on the idea that improving consumers' financial knowledge will help them change their financial behavior. While some studies back this up, multiple obstacles can inhibit improvements in financial behavior. Perhaps most significantly, financial education that is inappropriately designed for its target audience may not be effective at either increasing knowledge or changing behavior. However, many successful financial education programs have been able to combat this trend—in particular, by integrating relevance and actionable concepts into experiential education programs, pairing instruction and guidance with opportunities to act on the lessons delivered.

For example, workplace financial education programs meant to encourage employees to save for retirement have been shown to increase 401(k) participation rates when the education is tightly linked with sign-up. Because retirement plans are generally established through workplace payroll systems, the context is relevant and gives employees the opportunity to take action by enrolling. The Financially Fit Minnesota initiative is a good example. FFM is an alliance of more than 20 Minnesota employers who want to help workers establish economic security. In 2008, participating employers pushed to increase 401(k) participation among their respective workforces by adopting such strategies as workshops and peer-based interventions. Despite an adverse economic environment, the group saw increased 401(k) participation among employees aged 20–29 and among those earning $30,000–$50,000 annually.[14]

While experiential education can help increase knowledge and facilitate behavior change, programs that rely on high-touch interaction face challenges in achieving scale. Classroom or group-based approaches allow for an ongoing dialogue that can be helpful to the learning process, but they can also be costly and time-consuming. To achieve greater scale cost-effectively, several innovations are leveraging technology to offer low-touch ways to provide relevant and meaningful learning experiences.

[14] Sarah Berke and Rachel Schneider, "Employer-Based Collaboration: Lessons from Financially Fit Minnesota, CFSI, September 2009.

Online Gaming

Perhaps the most salient example of this approach is the use of online educational gaming to impart financial knowledge. Such programs take advantage of growing interest in computer games—68% of American households play computer or video games[15]—to offer financial education within a context that is not only relevant but enjoyable for game players.

The Doorways to Dreams (D2D) Fund is one of those groups experimenting with educational gaming to improve financial capability. The Massachusetts-based organization has developed "Celebrity Calamity," an online financial education game targeting 18–32-year-old low-to-moderate income women. In "Celebrity Calamity," players become financial managers for rising celebrities who are prone to irresponsible spending. Players must effectively manage the celebrity's bank account, debit card, and credit card to help them avoid fees and live within their means. The game's learning objectives include: (1) avoiding paying more than the minimum credit card limit, (2) minimizing interest on credit cards, (3) avoiding fees for product misuse, and (4) taking APR into account when making financial decisions.

The group is working on pilot distribution for the game, exploring community colleges, employers, and financial institutions as potential channels. D2D believes that by making the game fun, they can help players become more aware of their own spending behavior and internalize the learning objectives. Early evaluations suggest their approach is working. In a series of focus groups, D2D found that after 60 to 90 minutes of playing the game, players showed increases ranging from 15% to 30% in financial skills confidence and 50%–70% increases in knowledge around the specific learning objectives.[16] It is unclear to what extent the game has led to changes in financial behavior, but it has been effective in boosting financial knowledge.

Financial Education Gaming

The following are additional examples of innovative games developed within the financial services industry:

- **Moneytopia (FINRA)**: Developed for 18–24-year-old members of the military and their families, Moneytopia simulates a lifetime of financial decisions made by players to demonstrate the consequences of various user choices, including where they live and what type of financial products they use.

- **Stagecoach Island (Wells Fargo)**: This game is housed within the Second Life platform, a virtual world outside the financial industry where users socialize and network. With an invitation from Wells Fargo, Second Life users can visit Stagecoach Island, where they must balance spending virtual money on games with saving the money in interest-bearing accounts. Users can also earn additional money by passing quizzes covering financial concepts.

- **Financial Football (Visa)**: Developed in conjunction with the National Football League, Financial Football allows users to compete against friends in answering questions about financial concepts and banking products. Teams earn yardage and score points by answering correctly.

[15] Entertainment Software Association, http://www.theesa.com/facts/index.asp.
[16] Doorways to Dreams, http://www.d2dfund.org/preliminary_results

Timely Delivery

Another effective innovation in financial education involves identifying timely points of delivery, when consumers are most likely to be interested in improving their financial capability, and then capturing this interest with low-touch educational methods. The Los Angeles-based company Saber es Poder (SEP) has used this approach to provide financial education in Mexican consulates, community clinics, and other community service locations. With typical wait times of an hour or two at such venues, SEP recognized an opportunity to deliver information relevant to the individual's reason for being there. For example, recent immigrants must visit Mexican consulates to receive documentation necessary to work in the United States. Understanding that these individuals are beginning to establish themselves in the country, 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 in an effort to establish a solid financial footing for their new lives. SEP also provides coupons in the pamphlets for discounts at partner financial institutions; these coupons also allow the company to track the number of visitors who act on their advice.

SEP's approach appears to be effective. In partnership with Wells Fargo, the company found that for every 750 guides it distributed, 244 new bank accounts were opened using the associated coupons. The company is now developing mobile applications to provide additional guidance to visitors after they leave the consulate.

The Community Reinvestment Association of North Carolina (CRA-NC) has also experimented with unique delivery channels for financial education. CRA-NC created Nuestro Barrio, a 13-episode Spanish language soap opera, or telenovela, targeted at Latino immigrants. The telenovela, which has been displayed on nonprofit and for-profit channels throughout the country, ties financial experiences into the lives of its characters. By calling attention to various financial issues while delivering its story (for instance, one character is duped by a used-car salesmen and led by his friends to reexamine the terms of his car loan), CRA-NC highlights financial concepts within a relevant context. The group aims to spark awareness of financial concepts among its viewers, and by making the show entertaining, they hope to reach consumers who may not otherwise have shown interest in learning about financial matters. Research has found that viewers were more likely to participate in discussions with friends and family around financial issues and seek out information about financial products on their own.

By delivering financial education programs within a relevant context, providers may be able to employ effective low-touch tools. This approach makes it possible to scale up without significant human and financial resources so that proven programs can reach more consumers. The challenge for financial education providers is to continue to develop innovative resources that can achieve scale while remaining effective in imparting financial knowledge and, ultimately, changing behavior. Another challenge is that low-touch resources have only limited ability to foster dialogue with program participants—dialogue that could help identify a participant's future financial goals and create an opportunity to help the participant prepare.

Financial Engagement

Financial engagement resources entail deep involvement in consumers' lives to help them change their behavior. Consumers typically must commit to a series of long-term actions to rectify a problem or pursue a goal. This approach is based on the idea that behavior change generally takes time, and periodic progress evaluations are built in to create a sense of accountability and a network of support that can help a consumer live up to a commitment to change. This more involved process also allows providers to address several of a consumer's financial habits at once, facilitating behavioral changes while helping to increase financial knowledge.

Financial Engagement Tools

Purpose:
To build ongoing relationships with consumers through relevant, actionable advice and support.

Examples:
- Financial counseling and coaching
- Social media

Characteristics:
- Requires long-term commitment on the part of consumers
- Allows for periodic progress assessment
- May be conducted in individual or group settings

Challenges:
- Cost and difficulty of scaling "high-touch" resources
- Unknown effectiveness of "low-touch" resources

Financial Coaching and Counseling

Financial coaching and counseling programs represent the most common forms of financial engagement tools. 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 clients with highly individualized guidance and support in the pursuit of improved financial health. These services are often provided to low-to-moderate income consumers free or for limited fees in an effort to give them access to the type of advice that well-to-do consumers obtain from financial advisors. Many Americans use these services. One provider, the National Foundation for Credit Counseling, estimates that its network of member organizations serves more than 3.2 million consumers per year.[17] Counseling and coaching services may extend beyond a participant's economic situation to address the emotions and psychosocial factors that influence financial behavior. In some instances, counseling activities take place within a group setting, providing participants with a supportive peer group to aid in their efforts. The elements of effectiveness are built into such programs: counselors and coaches form involved and ongoing relationships with clients, enabling relevant and often timely intervention.

One such program, the nonprofit organization Credit Where Credit Is Due, offers one-on-one coaching and financial education to low-to-moderate income consumers as a complement to a suite of financial products and services provided by the group's sister organization, Neighborhood Trust Federal Credit Union. The New York City–based partner organizations develop long-term relationships with counseling clients and provide savings, loan, and transactional services designed to meet the needs of low-income city residents. With this focus on providing targeted guidance and services, Credit Where Credit is Due and Neighborhood Trust work to help clients "move beyond crisis mode and began planning for [their] future." They serve 3,000 New York City residents a year.[18] On average, clients reduce their debt by

[17] National Foundation for Credit Counseling, http://www.nfcc.org/about/index.cfm.
[18] Credit Where Credit Is Due, http://www.cwcid.org/CWCIDrole.htm.

approximately $8,000, establish $800 in savings, and improve their credit scores by 200 points within two years of working with the group.[19]

While these programs have succeeded in helping clients, it can be difficult for such efforts to achieve scale. Like high-touch financial education programs, the costs of providing coaching or counseling can be high with an individualized, in-person approach. Because many programs are offered to low-to-moderate income consumers for a small fee or none at all, grants and subsidies are required to support education and counseling activities. The dependency on outside funding can create a challenge to sustainability and limit the potential for growth. Developments in communications technology that allow more consumers to be reached with limited resources may help overcome this obstacle.

Social Media

To replicate the sense of accountability and support offered in coaching and counseling programs, some innovators have turned to social media as a means of leveraging peer networks to encourage behavior change. 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 the goal. Social media can also be used to create a virtual support network for individuals to share information about their progress and offer advice.

The following tools and resources show how social media can help promote financial capability:

- Recent start-up **SmartyPig**[20] offers online savings accounts to help consumers meet specific goals. Customers set their goal and track their progress as they make deposits to their account. To help users reach savings goals, SmartyPig allows them to share their progress through social media websites. Users can arrange for automatic updates to be posted on their Twitter or Facebook accounts each time they contribute toward their goal. The moral support received from these networks helps to hold the user accountable. SmartyPig also maintains an active presence on social media sites, generating a dialogue between users and the company. Its Twitter account has over 5,000 followers and acts as a forum for users to share advice, swap stories, and receive encouragement. As an added benefit, SmartyPig can conveniently solicit users' opinions of its product—a low-cost way to obtain customer feedback.

- In January 2010, **Citi** launched its Bundle website,[21] which allows users to compare their spending and savings patterns to people like themselves. Developed in partnership with Morningstar and Microsoft, Bundle allows users to find comparable information based on their age, marriage status, income, and location. The data allows users to analyze their financial situation within the context of a larger peer network. This tool is complemented by a website forum, connected with Facebook, on which users can share information about their progress in improving their financial behavior. Bundle also offers a mobile application called ViceTracker, which enables users to track their financial indulgences and compete with friends to limit their expenditures.

- In October 2008, **The National Endowment for Financial Education (NEFE)** launched a website called Spendster.org,[22] which acts as a "public confessional" for consumers' wasteful

[19] Executive Director Justine Zinkin on "NewsHour with Jim Lehrer," PBS, " May 1, 2009.
[20] SmartyPig, www.smartypig.com.
[21] Bundle, www.bundle.com
[22] National Endowment for Financial Education, www.spendster.org.

spending. Visitors to the site are encouraged to post short comments or self-made videos (which appear on a special YouTube channel) about some of their least necessary purchases, creating a discussion around spending habits. The site aims to make people aware of how they spend money and the things to consider before buying something. Spendster.org also contains saving tips and calculators to demonstrate how much visitors could have saved had they foregone frivolous purchases.

As these examples show, social media can be leveraged to create supportive resources for consumers who commit to improving their financial capability. While this low-touch resource creates opportunities to achieve scale, the use of social media as a tool of financial engagement is still relatively new. Continued development in the space will determine the degree to which these tools can match the accountability and peer support of in-person counseling and coaching programs.

Personal Financial Management Platforms

Additional online tools are being developed to emulate counseling models. In particular, personal financial management platforms (PFMs) provide a broad range of tools with the potential to help consumers improve their financial capability. These versatile applications can be used to inform consumers about their financial health, provide lessons in financial education, and offer useful tools to support long-term goals.

Accessed online, PFMs typically aggregate the user's account information from other online financial services sites to give the user a snapshot of their financial lives. With financial services increasingly offered as independent products outside of a single financial institution relationship, PFMs help consumers manage their financial lives through a central point of control. The platforms often go beyond this snapshot to allow users to track spending patterns, establish a budget, and set up long-term savings goals. Some PFMs also incorporate product offers and recommendations into their platforms or provide other forms of support.

PFM Platforms and Functionality

PFMs come in all shapes and sizes, offering various tools and applications for consumers. The following list highlights several prominent platforms:

▪ Recently purchased by Intuit, **Mint** is one of the most popular PFM platforms. Among its various tools, the platform performs data analysis to offer targeted advice and offers tips and guidance through its Mintlife blog.[23]

▪ In addition to providing a direct-to-consumer platform, **Yodlee** also builds PFM software which financial institutions integrate into their online banking offering.[24] Among its other capabilities, Yodlee can track the value of a user's home and can allow for account sharing, giving users the option to share financial information with a spouse or financial advisor.[25]

[23] Mint, www.mint.com.
[24] "Yodlee powers 85% of all online personal financial management", *eBanking & News Payments*, June 25, 2009.
[25] Yodlee, http://www.yodlee.com/solutions_pfm.shtml.

▪ **Wesabe** incorporates a strong element of social networking, allowing members to establish discussion groups to provide advice around topics such as creating a budget and buying a home.[26]

▪ Set to launch later this year, **HelloWallet** is designed to help low-to-moderate income consumers identify financial goals. The platform will also allow users to compare and shop for a wide range of banking products to identify those that best suit their needs. It is set to be distributed primarily through employers as a workplace benefit.[27]

▪ **Geezeo** users can reach out to an online community for advice and establish SMS text alerts to remind them of when particular bills are due. The company also develops private-label PFM solutions for financial institutions.[28]

For example, Tree.com's Thrive platform offers a broad suite of tools that facilitate financial communication, education, and engagement. The PFM delivers relevant, easy-to-understand messages, creating a clear picture of a person's financial status. For instance, users can access a savings summary that tells them how many days they could survive without a job based on their current spending patterns and savings account balances. Thrive has also developed a Financial Health score, giving users a single metric by which to gauge improvements in their financial condition. The site also offers articles aimed at improving financial education and integrates short messages describing financial concepts and products throughout its interface. Finally, Thrive has developed an algorithm to analyze users' financial data and transaction activity to provide guided, individualized advice. The platform offers a toolkit that consumers can use to better understand their financial health, develop greater knowledge, and pursue long-term changes to their financial behavior.[29]

PFM platforms have developed rapidly in the past five years. In addition to independent providers, financial institutions are partnering with technology providers to integrate PFM solutions into their online banking platforms. Yet consumer adoption remains low. According to a 2009 Javelin report, only 13% of consumers use online platforms to manage their finances, while an additional 12% use software loaded onto their computers.[30] PFMs' suitability for underbanked consumers also remains in question, as many depend on the cash economy, where their financial activities are not captured in online account platforms.

Additionally, it is undetermined whether PFMs can be as effective as high-touch models. In particular, the platforms face limitations in addressing factors outside of users' financial lives that affect their financial decisions, an important component of many coaching and counseling programs. Despite these issues, low-touch solutions have the potential to help many consumers significantly improve their financial capability. Overall, the low-touch approach to financial engagement is particularly ripe for further innovation.

Evaluation

Despite their potential for facilitating greater financial capability, questions remain about these innovative programs' impact on financial behavior. It will be critical to evaluate their impact to understand the degree

[26] Wesabe, www.wesabe.com.
[27] Keith Epstein, "Will HelloWallet Transform Online Financial Advice," *BusinessWeek*, September 29, 2009, http://www.businessweek.com/investor/content/sep2009/pi20090929_616550.htm.
[28] Geezeo, www.geezeo.com.
[29] Thrive, www.justthrive.com.
[30] Daniel Wolfe, "Intuit Sees Good Signs for PFM in the Banking Space," *American Banker*, September 25, 2009.

of behavior change that can be expected from different resources. This information will enable resource providers and funders in the financial capability space a better opportunity to make sound investments of financial and human resources.

In the past, efforts to evaluate the impact of financial education were focused primarily on program outputs and improvements in financial knowledge. A 2006 national survey of financial education practitioners found that the most common indicators of impact were the number of program participants (used by 78% of practitioners) and changes in knowledge (77%). Although they are common practice, these methods of evaluation ultimately fail to measure the impact of financial education on participants' behavior. Behavioral measures are far less common; according to the 2006 survey, only 42% of respondents reported using actual behavior changes as a means of evaluation.[31]

This situation calls attention to the obstacles and challenges inherent in attempting to capture improvements in financial behavior. For one, it can be costly to do so, requiring tracking and following up with participants over time. Additionally, program staff may not be familiar with proper evaluation techniques and thus may not measure behavior accurately. Evaluation procedures may need to take external factors into account, establishing control groups and adjusting for biases in order to isolate the impact of an intervention. Creating and conducting such evaluations can be a challenge for providers and may conflict with their primary goals (e.g., creating a control group might mean withholding services from consumers in need). Finally, behavior evaluation may not be a priority for financial education practitioners, who may prefer to focus on helping clients or find that knowledge measures are enough for their purposes.

To evaluate financial capability requires greater emphasis on measuring changes in financial behavior—what consumers do in addition to what they know. Identifying metrics and proxies that measure changes in financial capability can help providers target their approaches. The landscape of financial capability resources provides opportunities to overcome the challenges to behavior evaluation by making these points of measurement more accessible. For instance, financial institutions are in a unique position to measure the impact of mobile alerts, because they have direct access to customers' account balances and transaction histories. The ability to monitor their customers can also be leveraged through cross-sector partnerships between the financial services industry and traditional financial education practitioners. PFM platforms can track the use of various tools and measure their impact on consumers' financial management practices.

Developing sound and effective methods of evaluating behavior change is an important step in creating resources that facilitate financial capability. Without a reliable gauge of effectiveness, it will be difficult to accurately identify best practices and continue improving solutions.

"To evaluate financial capability requires greater emphasis on measuring changes in financial behavior—what consumers do in addition to what they know."

"Developing sound and effective methods of evaluating behavior change is an important step in creating resources that facilitate financial capability."

[31] Angela C. Lyons et al., "Are we making the grade? A national overview of financial education and program evaluation," *Journal of Consumers Affairs*, August 2006.

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. The stage is set for further development. The following observations build on early lessons from the experiences and approaches described above to enhance the effectiveness of future innovations:

- The focus should continue to shift from financial education to financial capability. This will help shift industry efforts toward facilitating behavior change in addition to increasing financial knowledge.
- Effective financial capability efforts are relevant, actionable, timely, and ongoing.
- Technology provides an opportunity to lower delivery costs and to scale promising models.
- More collaboration among nonprofits, private sector players, and government is needed to create holistic interventions that facilitate financial capability.

To make sure that solutions are cost-effective as well as impactful, innovators must carefully negotiate issues of scale, design, and delivery. In addition, it will require solid evaluation efforts to analyze the potential of these new strategies and resources, so that lessons learned from these innovations can help turn experience into industry know-how. By learning more about the best ways to build effective resources, proponents of financial capability will be able to better serve consumers, helping them to establish economic security and pursue financial prosperity.

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About CFSI:

The Center for Financial Services Innovation is the nation's leading authority on financial services for underbanked consumers. Since 2004, its programs have focused on informing, connecting, and investing – gathering enhanced intelligence, brokering and supporting productive industry relationships, and fostering best-in-class products and strategies. A nonprofit affiliate of ShoreBank Corporation, CFSI works with leaders and innovators in the business, government and nonprofit sectors to transform the financial services landscape. For more on CFSI, go to www.cfsinnovation.com.

To contact CFSI

CFSI Center for Financial Services Innovation
An Affiliate of ShoreBank Corporation

2230 Michigan AvenueSuite 200
Chicago, Illinois 60616

tel: 312.881.5856
fax: 312.881.5801

cfsinnovation.com