

From Financial Education to Financial Capability: Opportunities for Innovation

Introduction

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. 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.

What is Financial Capability?

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.

We found that the most effective interventions strive to be:

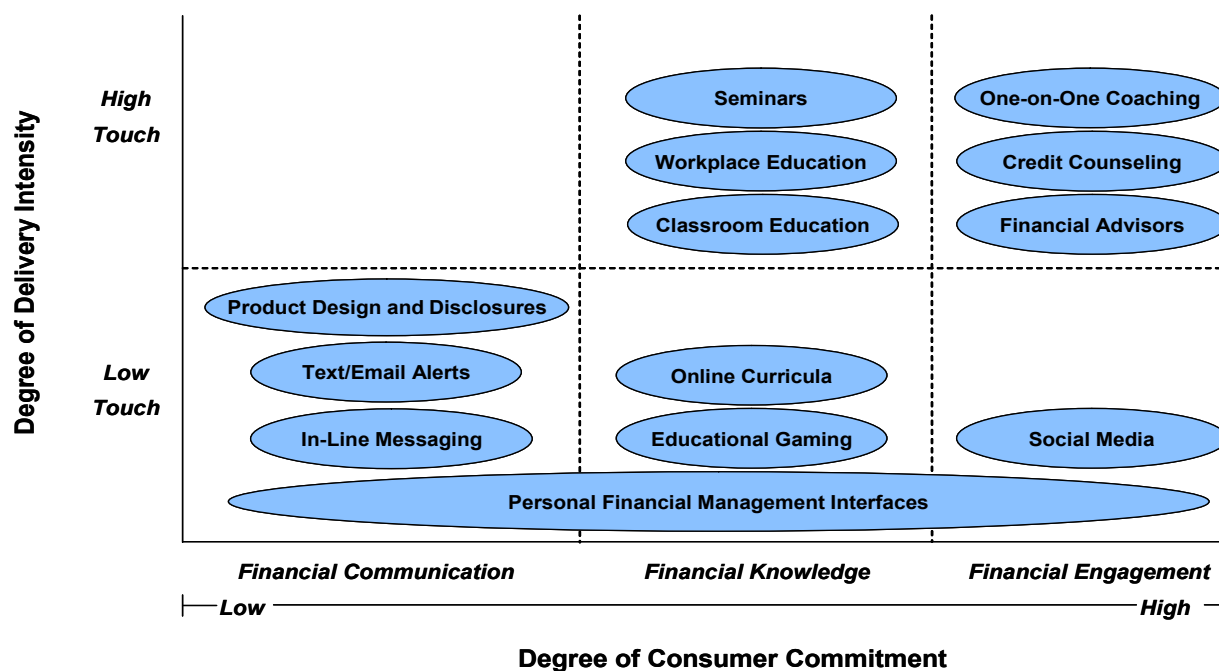


No standard definition of financial capability exists, but most definitions tend to include the following elements:

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

(See page 4 of whitepaper for footnote)

A Framework for Financial Capability



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.

Degree of Consumer Commitment

This factor recognizes that consumers have different degrees of motivation to improve their financial capability and 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.

- **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.
- **Financial Knowledge:** These programs appeal to consumers who are interested in learning more about financial concepts to better inform their future decisions.
- **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.

Degree of Delivery Intensity

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.

Financial Capability Tools

Financial Communication

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)

Financial Knowledge

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 Engagement

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

Conclusion and Recommendations

The following observations build on early lessons from the experiences and approaches described above to enhance the effectiveness of future innovations:

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

Citi Foundation



The Center for Financial Services Innovation would like to thank the Citi Foundation for their generous support in the development of this initiative.

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 non-profit affiliate of ShoreBank Corporation, CFSI works with leaders and innovators in the business, government and non-profit sectors to transform the financial services landscape. For more on CFSI, go to www.cfsinnovation.com.

To Contact CFSI:

Center for Financial Services Innovation
2230 South Michigan Avenue, Suite 200
Chicago, IL 60616

tel: 312.881.5856
fax: 312.881.5801

www.cfsinnovation.com