

## International approaches to improving financial capability

This briefing provides an overview of initiatives promoting financial capability through the provision of financial information and advice in Australia, Canada and the USA. It is largely based on desktop research and has been supplemented by a limited number of interviews.<sup>1</sup> It also includes links to projects, initiatives and further research which may be useful for those wishing to explore these issues further.

Although this is not an exhaustive study, some general conclusions can be drawn:

- As in the UK, some steps have been taken in Canada, Australia and the US to improve financial capability. However efforts in each of these countries have focussed on adult financial education seminars and school based curricula.
- Another key strand of financial education has been via the promotion of savings behaviour amongst lower income groups through matched-savings asset accumulation programmes, which is often combined with mandatory financial education classes.
- Financial capability programmes in Australia and the US seem to be quite disparate and fragmented, and so may be improved through greater coherence and coordination.
- Despite the existence of financial counselling services in Australia and the US, advice initiatives are far less developed than financial literacy and education programmes.
- Several key members of the financial services industry in each of these countries have collaborated with the third sector and government agencies to provide financial support and to deliver curriculum based financial literacy programmes
- Voluntary sector and community based organisations have also played a positive role in delivering financial literacy programmes, often through forging partnerships with financial services companies, other community and voluntary sector organisations, government departments and research and policy organisations

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## Australia

### **Background**

In recent years, Australia has witnessed a substantial increase in unsecured consumer debt due to the increased availability of credit. Credit card debt in particular has rocketed from \$5.6 billion in 1995 to \$37.3 billion in October 2006. This debt has grown by \$9 billion since 2004 alone, with a noticeable trend in older consumers, especially retirees, increasing their credit card debt.<sup>2</sup>

Critics believe this rise is being fuelled in part by irresponsible lending practices in the banking sector – with multiple credit cards being offered and extended limits agreed with less consideration of ability to pay. In addition, a new fringe financial services industry has sprung up, offering high interest credit and other products. This has included the emergence of brokers offering Part 9 Debt Agreements – an alternative to bankruptcy and similar to IVAs in the UK - which were made available following changes to bankruptcy law in 1996. These brokers charge very high fees and have been accused of mis-selling, aggressive marketing, over-charging and other unsuitable practices, which often compound consumers' debts. Following complaints from consumers and debt councillors, the Federal Government has been prompted to tighten regulations. New rules governing the licensing of debt brokers are due to come into effect in July 2007.<sup>3</sup>

This has also stimulated the growth of a financial counselling sector which deals primarily with debt crisis management, as well as a range of financial education and information programmes which warn of the dangers facing consumers in the fringes of the financial services industry.

### **Government Strategy**

The clearest example of the Australian Government's attempts to improve financial capability is their sponsorship of the Financial Information Service (FIS), an independent service providing financial education and information run through CentreLink. CentreLink is an organisation which pays social security benefits and offers other support services on behalf of various Australian Government Departments. As such, it acts as a one stop shop for many Australians, a third of whom have some contact with the service. However, the majority of FIS clients are wage-earners under the age of 55, who are not currently receiving Centrelink payments or services.

The FIS has a number of stated objectives:

- Increase consumer confidence when dealing with financial matters;
- Promote awareness and understanding of personal financial affairs;
- Inform consumers of their options;
- Alert consumers to levels of risk of particular products;
- Explain the roles of financial services industry professionals;
- Assist individuals to find expert financial advice;

<sup>2</sup> <http://www.smh.com.au/news/business/40-billion-on-our-credit-cards/2006/12/30/1166895523061.html>

<sup>3</sup> <http://moneymanager.com.au/articles/2006/11/13/1163266481553.html>

- Explain the advantages of reducing personal debt;
- Explain and demonstrate the sensible use of credit;
- Encourage savings behaviour and future planning; and
- Encourage retirement planning and demonstrate ways of maximising retirement income.

The Service has three channels of delivery: a confidential freephone hotline, educational seminars which are organised around the country and face-to-face interviews with Financial Information Service Officers. The CentreLink website also offers a range of FIS fact sheets on topics such as pensions, taxations and assets. Operating since 1989, the FIS estimated that it had provided free and independent financial information to nearly two million Australians by 2005. Nevertheless, the service is quite small – there were only around 140 FIS Officers in Australia in 2003 (latest figures available).<sup>4</sup>

The stated role of a Financial Information Service Officer is to coach consumers about engaging with and taking control of their finances, actively planning for their future and preparing for lifestyle choices in retirement.

The service states that it does not provide financial advice or counselling. Officers will not, for example, prepare financial plans, recommend particular investment types, suggest types of investment, purchase investment products on behalf of clients, make decisions about a clients retirement options or calculate the rate which individuals can be paid (though they may be able to provide a rough estimate as a guide).<sup>5</sup>

In seminars delivered by FIS officers, objectives for consumers include:

- recognise and pursue their financial options;
- make better financial decisions;
- understand investment products and how they work;
- approach/undertake their own financial planning;
- recognise that housing/accommodation needs are a fundamental component of retirement planning;
- understand taxation provisions and requirements; and
- understand social security payments and provisions.<sup>6</sup>

### **Industry Action**

In addition to government activity, the financial services industry also offers a range of financial education programmes. Perhaps the two most significant are MoneyMinded and Saver Plus:

#### ***MoneyMinded***

The MoneyMinded programme was initiated and funded by ANZ National Bank, with contributions from community sector and education experts, including the Australian Financial Counselling Service and Credit Reform Association.

<sup>4</sup> [http://www.aph.gov.au/SENATE/COMMITTEE/clac\\_ctte/completed\\_inquiries/2002-04/poverty/submissions/sub165b.doc](http://www.aph.gov.au/SENATE/COMMITTEE/clac_ctte/completed_inquiries/2002-04/poverty/submissions/sub165b.doc)

<sup>5</sup> [http://myaccount.centrelink.gov.au/wps/portal/srv\\_2\\_financial\\_information\\_service?initURL=true](http://myaccount.centrelink.gov.au/wps/portal/srv_2_financial_information_service?initURL=true)

<sup>6</sup> <http://www.aph.gov.au/house/committee/ageing/strategies/subs/sub156.pdf>

Although its principal funder is a bank, MoneyMinded provides unbiased consumer education, and does not use any ANZ branding or promote its financial products and services. MoneyMinded was developed following ANZ's 'Survey of Financial Literacy' (May 2003) which showed that people on low incomes and with lower education levels would benefit the most from financial education. ANZ's Survey has since been repeated in 2005, asking the same questions as in 2002, covering the use of financial products, their attitudes to their finances, their saving and spending behaviours, and so on. This found that the general level of financial literacy had increased significantly between the surveys, though a persistent minority have remained in financial difficulty.<sup>7</sup>

MoneyMinded's primary goals are to improve financial knowledge and build confidence in managing both day-to-day and longer term financial matters. This is achieved via its website, which provides a series of online learning resources covering budget planning, case studies and savings calculators. However, its main activity is to deliver a workshop programme providing training to community groups<sup>8</sup> across the country and financial counsellors (see below). In 2005, the programme trained 270 community representatives<sup>9</sup> to deliver the MoneyMinded workshop programme, and it hoped to train 500 more in 2006.

The workshop programme is a series of 17 workshops covering 6 key topics:

1. Planning and saving
2. Easy payments
3. Understanding paperwork
4. Living with debt
5. Everyday banking and financial products
6. Rights and responsibilities

These can be delivered either in group seminars, or on a one-to-one casework basis. In the first quarter of 2006, over 2,100 consumers used MoneyMinded, with the majority helped via one to one sessions rather than in seminars.<sup>10</sup> MoneyMinded hopes to reach 100,000 people in the next five years and has worked on a version of the programme suitable for inclusion in the secondary school curriculum of selected Victoria schools. The programme has also been adopted as a centrepiece project by Victoria University to improve financial literacy amongst refugees, young, disabled and unemployed people.

### **Saver Plus**

Saver Plus was also pioneered by ANZ Bank. Drawing on work from the United States to develop and promote Individual Development Accounts (IDAs) and the Savings Gateway in the UK, Saver Plus is a programme to encourage personal savings. People who save into an ANZ Progress Saver Account<sup>11</sup> have their savings matched (\$1 for every \$1 saved) up to a total of \$2,000. The account has other special features to encourage savings, such as limited withdrawal capability (one per month) but no minimum balance and unlimited deposits, until the \$2,000 mark is reached.

<sup>7</sup> <http://www.anz.com.au/aus/aboutanz/Community/Programs/FinSurvey2005.asp>

<sup>8</sup> Groups involved in delivering the programme include Brotherhood of St Laurence, Berry Street Victoria, The Smith Family, The Benevolent Society, Mission Australia, Anglicare and Kildonan Child and Family Services.

<sup>9</sup> To be eligible for MoneyMinded training, a person must work for a registered not-for-profit organisation and have experience in either adult education/training or financial counselling.

<sup>10</sup> The Royal Melbourne Institute of Technology found 1811 people came into contact with MoneyMinded through one to one sessions. *RMIT, April 2006*

<sup>11</sup> A generic ANZ account which clients can continue to use after Saver Plus

Saver Plus is aimed at helping low income families reach a savings goal and improve their financial literacy through asset building. Those eligible to join the programme must be parents or guardians of children enrolled in a government secondary school; must have a Centrelink Health Care Card or Pension Card (which proves a low income); additional earnings through part-time, casual employment or self employment; and a demonstrated capacity to save. Between 2003-06, when ANZ Bank was piloting the scheme, 660 families participated. Most were headed by female single parents with an average age of 42. ANZ has now committed \$3 million until the end of 2008 to deliver Saver Plus to 5,400 families between 2006 and 2008.<sup>12</sup>

However, the programme is not just about asset building – there are two further components: financial education, and support through a Relationship Manager. The financial education programme is compulsory and aims to ensure that the participants have the opportunity to learn financial skills and knowledge to assist them in continuing their savings efforts after the savings period has finished. The curriculum, developed in conjunction with community and voluntary bodies, consists of five two-hour modules:

1. The benefits of saving and strategies to develop savings habits
2. How to identify barriers to saving
3. How to budget
4. How to establish effective financial goals
5. Useful and relevant information about the services offered by financial institutions and how best to utilise them

The workshops are delivered by a 'Relationship Manager'. Relationship Managers are also responsible for the recruitment of participants, administration and maintenance of participant files and the disbursement of the matched funds. However their main role is to provide support and coaching for families to encourage them to save.

An evaluation of Saver Plus was carried out by Royal Melbourne Institute of Technology University in 2006. This found that for just over 80 per cent of the 253 participants they interviewed, the opportunity to access matched funds was the key incentive to join the programme. However, savings behaviour certainly improved among participants with people tending to deposit more as the programme went on (demonstrating that they were able to save more). 86 per cent were still saving the same amount or more every month three months after the end of the programme. Furthermore, the vast majority of the participants found the financial education programme useful and the evaluation showed notable improvements in quality of life and financial capability.<sup>13</sup>

## **Other Initiatives**

### ***The National Information Service On Retirement Investments inc.***

The National Information Centre on Retirement Investments (NICRI) is a small scale national programme, based in Canberra, which provides information and assistance in relation to retirement options. NICRI is a government-funded, independent consumer group, and so

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<sup>12</sup> <http://www.anz.com.au/aus/aboutanz/Community/Programs/Saver.asp>

<sup>13</sup> *Saver Plus—encouraging savings and increasing financial capabilities among low-income families* RMIT, September 2006

also looks to influence policy and comment on developments affecting retired or pre-retired groups, such as legislative developments on social security issues and veterans' affairs.

However, its main stated objective is "to provide an accessible, independent source of information concerning financial and investment products of importance to pre-retirees, retirees and the wider community, particularly those with modest means".<sup>14</sup>

NICRI predominantly serves individuals over 55, and its services are free, independent and confidential. There are three distribution channels:

- General information on financial planning and investment products is disseminated via leaflets, booklets, guides and technical papers. NICRI also hosts "MoneyMap", which helps people work out their investment and savings decisions with online calculators and other tools.
- NICRI staff are available for seminars and conferences on issues such as investing and redundancy, often involving partnerships with the Financial Information Service and the Department of Family and Community Services
- The most important element of the service is a free telephone information line which is open from 9:00-17:00, Monday to Friday, for anyone needing information on investment products, wishing to discuss their financial situation or obtain contact details for further assistance.

In 2005/06, NICRI dealt with 4,885 cases via telephone, email, letter and fax, and received 31,137 hits on its website. An evaluation of the telephone service was conducted in 2000/01. This revealed that information officers were receiving increasingly complex queries, which meant that a large number of calls were lasting upwards of 60 to 90 minutes.<sup>15</sup>

### ***Australia's Network of Financial Counsellors***

Financial counsellors provide information to consumers in financial difficulty, based on a thorough assessment of an individual or family's situation. They are required to act in the paramount interests of consumers, free of any conflict of interest and free of any commercial benefit. They therefore provide a free, independent and confidential service and are based in community agencies funded largely by State or the Federal Governments. They can also assist in negotiating with people's creditors to reach amicable repayment agreements, as well as help people lodge complaints and refer people to other services they need. To protect consumers, services are subject to a reduced form of regulation, however to avoid litigation, FC's only provide information and present options, rather than actual advice.

Financial counsellors have expertise in: over-commitment, uninsured car accidents, action taken by creditors to sell off client's assets, credit card debt, money management, house eviction, legal action for recovery of a debt, bankruptcy, debt consolidation, access to superannuation in hardship, rental problems and credit contract issues. In recent years, counsellors have faced increasingly complex problems especially in regard to increased consumer debt and accompanying legal issues. This has forced financial counselling services to evolve and incorporate greater legal and social counselling. The financial counselling experience may incorporate a number of dimensions:

<sup>14</sup> <http://www.nicri.org.au/pdfs/NICRI.pdf>

<sup>15</sup> <http://www.nicri.org.au/>

- creating personalised budgets
- a current financial assessment
- discussion of options to improve financial situation
- debt counselling and negotiation with creditors
- revealing entitlements to government assistance
- providing information on debt recovery and laws relating to credit
- information on bankruptcy and the rights and responsibilities of consumers
- ongoing casework support and referral to appropriate services

The training of counsellors is predominantly provided through counsellors' regional membership bodies and individual agencies. Victoria has the most sophisticated training programme – the nationally accredited *Diploma of Community Services* (Financial Counselling). This programme is also being developed for other states and territories.

Financial counsellors are represented nationally by the Financial Counselling and Credit Reform Association (AFCCRA), established in the early 1980s. Nevertheless, the network of financial counsellors is quite disparate – funded and operating differently in different locations. The network is also under-resourced – AFCCRA estimate that there are just 450 full time, part time and voluntary Counsellors in Australia – constituting 1 counsellor per 44,578 people in New South Wales and 1 per 49,174 people in Victoria. Some funding for the network is provided by government – the Commonwealth Financial Counselling Programme (a programme run by the Department of Families, Community Services and Indigenous Affairs) has provided just over \$3 million in 2005/06 for 50 community organisations providing financial counselling services.<sup>16</sup> However, this funding is being reduced and AFCCRA has become more reliant on strategic partnerships to compensate.

### **Conclusions About the Australian Approach**

Australia has a well developed multi-channel approach to financial information, with face to face, seminar, web-based, literature and help-line models all working to provide as much coverage as possible. This may be in part due to the fact that populations in Australia can be very dispersed, with some isolated communities not having well developed transport or communications links.

These initiatives are funded and delivered variously by the government, industry and third sector and while there are some positive examples of joint working, the field might benefit from better coordination and streamlining of objectives and initiatives.

Furthermore, the remit of the services outlined demonstrate a clear line drawn between provision of information and advice. The Australian Financial Services (AFS) is required to license those who provide advice in a similar manner to the FSA in the UK. The concept of “generic financial advice” seems to be missing in practice in Australian initiatives, which instead rely on information and education only.

ANZ's MoneyMinded and Saver Plus provide two extremely positive examples of how the industry has engaged in the provision of financial education. ANZ has also shown initiative by forging partnerships with voluntary sector organisations and demonstrated their

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<sup>16</sup> [http://www.facs.gov.au/internet/facsinternet.nsf/family/cfcp-commonwealth\\_financial\\_counselling\\_programme.htm](http://www.facs.gov.au/internet/facsinternet.nsf/family/cfcp-commonwealth_financial_counselling_programme.htm)

determination to target resources in communities where they can have most impact. Its regular survey of financial literacy is similar to the FSA baseline survey and provides a regular benchmark with which to measure changes in financial literacy in the Australian population.

### **Further Information**

Financial Information Service:

<http://www.centrelink.gov.au/internet/internet.nsf/services/fis.htm#what>

MoneyMinded: <http://www.moneyminded.com.au/>

ANZ Bank: <http://www.anz.com>

Centre for Learning Innovation in NSW Department of Education and Training:

<http://www.cli.nsw.edu.au/cli/about/about.shtm>

Mission Australia: <http://www.mission.com.au/cm/index.aspx>

Anglicare: <http://www.anglicare.org.au/index.html>

Kildonan Child and Family Services: <http://www.kildonan.unitingcare.org.au/>

Saver Plus:

<http://www.anz.com/aus/aboutanz/Community/Programmes/Saver.asp>

Saver Plus Evaluation:

<http://www.anz.com/aus/about/saver/Evaluation.asp>

Brotherhood of St Laurence: <http://www.bsl.org.au/main.asp?PageId=2281>

Berry Street Victoria: <http://www.berrystreet.org.au/>

Benevolent Society: <http://www.bensoc.org.au/>

The Smith Family: <http://www.smithfamily.com.au/index.cfm>

Department of Family, Community Services and Indigenous Affairs: <http://www.facs.gov.au/>

NICRI: <http://www.nicri.org.au/>

AFCCRA: <http://www.afccra.org>

Overview of Financial Counselling in Australia:

<http://www.afccra.org/documents/Analysis.doc>



## United States of America

### **Background**

There are several problems in the US which the UK also experiences: high rates of consumer debt, 'unbanked' sections of the population, poverty (both through low income and lack of assets), insufficient financial capability, fringe financial services and irresponsible lending practices. In response, the US government has adopted a strategy of financial education and asset accumulation programmes to improve financial capability.

Beginning in the mid-90s, public and private organisations have actively attempted to get Americans to engage with their personal finances. Financial literacy programmes have been co-ordinated by a multiplicity of organisations. Two overviews of this field – *Personal Finance and the Rush to Competence: Financial Literacy Education in the U.S.* (2000) Fannie Mae Foundation, and *Goodbye to Complacency Financial Literacy Education in the U.S. 2000-2005* (2005) Institute for Socio-Financial Studies – found over 90 separate programmes in operation.

However, free financial advice is less well developed than mainstream financial education programmes. As in the UK, advice is provided largely by financial services companies, financial planners and independent financial advisers. Financial planners provide the least expensive option, although at \$200 per hour, lower income consumers tend not to access such services.

### **Federal Government Strategy**

#### ***Office of Financial Education***

The first substantive federal attempt to improve financial capability began in 1995 with the formation of the American Savings Education Council (ASEC); a public-private coalition founded by the Department of Labor and the Department of the Treasury, which mainly promotes savings and retirement planning. The promotion of general financial education at federal level began in May 2002, when the Department of the Treasury established the *Office of Financial Education*.

The OFE's mission is to ensure that Americans have access to financial education programmes, and that they obtain practical knowledge and skills to enable them to make informed financial choices throughout various life stages. It emphasises saving, credit management, home ownership and retirement planning. It also helps coordinate the many (and growing) number of financial education initiatives carried out by federal departments and their agencies. This includes programmes such as Federal Deposit Insurance Corporation's "Money Smart" curriculum, which help adults enhance their money management skills, understand basic financial services offered by the financial mainstream and build their financial confidence to use banking services effectively (see below for more details); and the Department of Agriculture, Cooperative State Research, Education, and Extension Service's "Financial Security in Later life" initiative, which delivers a programme to help people preparing for retirement and potential long-term care costs by improving planning, saving, and debt control skills.

The OFE also coordinates the work of the Financial Literacy and Education Commission, which was established in 2003 to improve financial literacy amongst Americans. The Commission has members from all government departments represented, and as such its online resource *MyMoney* coordinates financial education information from 20 different departments. [www.MyMoney.gov](http://www.MyMoney.gov) is essentially a referral site, acting as a clearing house providing links to relevant government department and agency sites grouped together by topic, such as Saving and Investing, Retirement, Paying for Education, and so on.

In addition to this coordination role, the Commission has also published a National Strategy for Financial Literacy, *Taking Ownership of the Future*. The 2006 strategy covers areas such as promoting savings, home ownership and retirement planning, but has four general objectives:

1. Building public awareness of available resources
2. Developing Tailored, Targeted Materials and Dissemination Strategies
3. Tapping into Public-Private and Private- Private Partnerships
4. Research and Evaluation of Financial Education Programmes

### **Money Smart**

The Federal Deposit Insurance Corporation (FDIC) (an independent federal agency which insures bank deposits of over \$100,000) created Money Smart, a training programme to help adults in hard to reach groups. The Money Smart curriculum helps individuals build financial knowledge, develop financial confidence, and use banking services effectively. It is separated into 10 modules (of between 60 and 90 minutes) which cover areas such as credit, home ownership, using a savings account, identity theft and loans. It also has a strong savings message, with one of the modules entitled “pay yourself first: why you should save, save, save.”<sup>17</sup>

The modules are designed to be used by banks and other organisations interested in sponsoring financial education workshops, and currently has 1,250 partner organisations across all states using it – including commercial banks, professional associations, third sector organisations and federal agencies (e.g. the Federal Bureau of Prisons). It is estimated that 490,000 Americans have received Money Smart classes, though FDIC aims to reach 1 million consumers in the next 5 years.

Money Smart also provides a training programme (“Train-the-Trainer” workshops ) for staff in organisations to help them deliver the curriculum.

### **Federal Reserve Banks**

Federal Reserve Banks carry out significant amounts of financial education, with teacher and classroom resources and personal financial information guides available through the Federal Reserve Education Programme<sup>18</sup>. In individual states, Federal Reserve Banks carry out their own educational literacy programmes, usually working with schools to help teachers provide financial education and running essay competitions, etc. Their websites also offer a comprehensive amount of personal financial information and web tools (such as credit card interest calculators)

<sup>17</sup> <http://www.fdic.gov/consumers/consumer/moneysmart/overview.html>

<sup>18</sup> <http://www.federalreserveeducation.org/FRED/?CFID=1124144&CFTOKEN=14894766>

## **Industry action**

The American financial services industry appears to have positively engaged with the financial literacy agenda, either creating their own or supporting third sector or government education initiatives. Providing financial education programmes like Money Smart can help banks fulfil part of their Community Reinvestment Act obligations. The Community Reinvestment Act of 1977 (CRA) encourages federally insured banks to help meet the credit needs of their entire community, including in areas of low- and moderate-income. When a bank's CRA performance is reviewed, the institution's efforts to provide financial education and other retail services are taken into account. Citigroup, for example, either offers or partly funds around 25 separate financial education programmes.<sup>19</sup>

To support the banking sector's efforts, the Consumers Bankers Association<sup>20</sup> conducts an annual survey of financial literacy. This is used to inform the industry's response and identify where best to target their resources. For example, in 2004, prompted by record levels of home ownership, the industry launched a particular focus on housing issues, providing seminars on homeownership, household budgeting and affordable mortgages.

The promotion of financial literacy and education via the financial services industry serves a dual purpose: it not only seeks to educate and empower consumers, but also forms part of a self-regulating campaign against the more unscrupulous members of the financial services industry. This has led to projects designed to restore consumer confidence in the financial services industry, including education for consumers about the dangers of predatory lending and identity theft.

### ***Citigroup***

Citigroup have made a significant contribution in pioneering an affordable mortgage programme for low and mid-income homebuyers, first time buyers and minority populations. Consumers are only eligible to buy these products if they have participated in financial education training and credit counselling (see below). This programme has reached 3,000 Americans and has been replicated by a number of other large providers including JP Morgan Chase, whose own project claims to reach 15,000 low income individuals each year and is dependent on completion of mandatory credit counselling. JP Morgan has developed its project in conjunction with ACORN Housing Corporation, a not-for-profit institution with a significant community presence.

Other programmes have been successful due to their selected targeting of particular individuals, groups and communities. Partnerships with community-based voluntary and not-for-profit organisations have also proved successful with Bank of America leading the way by providing services and donating \$6 million dollars to the National Council on Economic Education (a national network promoting financial education in schools) for their *Financial Fitness for Life* project (a personal finance curriculum for 11 to 18 year olds).

### ***Money Skill***

Money Skill is a personal finance course with an internet-based curriculum of 34 modules, aimed at high school students. It is resourced by a coalition of private financial services

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<sup>19</sup> <http://www.citigroup.com/citigroup/citizen/financialeducation/index.htm>

<sup>20</sup> An organisation representing the retail banking industry whose membership includes most of America's largest bank holding companies, regional and super-community banks

providers, including HSBC, JP Morgan, American General Finance and Centex Home Equity.<sup>21</sup>

## **Other Initiatives**

### ***Financial Education and Asset Building***

Individual Development Accounts (IDA's) link asset building programmes with financial education. By the end of 2003, over 300 IDA programmes were in operation in the United States, with more than 15,000 account holders. IDAs allow low income individuals to save and have their savings matched at 1:1, 2:1 or sometimes more.

IDAs operate differently in different states, but are usually run by community groups (although some banks are now operating IDA accounts), in partnership with the state or federal government and the private sector. Community groups will organise the IDA programme in a locality, and then the private sector or Government will agree to match funds being saved. People usually have to be 150 to 200 per cent below the national median income to be eligible for an IDA.

The most important aspect of IDAs from a financial literacy point of view is that in order to open an account (and benefit from the matched savings) account holders must agree to participate in a minimum number of hours of financial education. For most programmes, this is set at 12 hours of general financial education as well as additional training specific to the asset being saved for (e.g. buying a house or attending private education).

The American Dream Demonstration carried out an analysis of 14 IDAs operating across the US. Although this, and most studies assessing the impact of IDAs, tend to explore their impact on savings behaviour and how the saved money was spent, the 2002 ADD report highlighted a small positive correlation between financial education and the amount saved. This found that the effect was strong, up to 8 hours of financial education being received (with people saving around \$1.30 a month more per hour of education they received) though this effect tailed off after 8-10 hours of financial education.<sup>22</sup>

### ***Credit Counselling***

Credit Counsellors in the US provide online, telephone and face to face support for people with debt problems. Counsellors will go through a person's income and expenditure, credit commitments and so on, often devising a Debt Management Plan (DMP) to help them repay their creditors, with the average duration of consultations around 90 minutes. Most counselling services in individual states (usually called Consumer Credit Counselling Service – CCCSs) operate on a not for profit basis, providing free advice to help with budgeting, money management and credit issues, as well as offering general financial information and organising financial education seminars. For some services CCC's may charge a small fee. The most expensive product provided is typically a DMP, which can include a set up charge of approximately \$50 and monthly payments of around \$25. Plans may be in place for as long as 30-60 months. Housing and mortgage counselling are frequently available free of charge and are often subsidised by the US Department of Housing and Urban Development.

<sup>21</sup> <http://www.moneyskill.org/main/contributions.html>

<sup>22</sup> <http://gwbweb.wustl.edu/csd/Publications/2002/ADDreport2002.pdf>

Counselling services in the US successfully return around \$5 billion to creditors each year through DMPs. As a result, CCCSs frequently receive voluntary funding from creditors themselves (usually calculated as a percentage of payments from debt management plans), to help them sustain their services.

The National Foundation for Credit Counselling (NFCC) acts as a representative body for credit counsellors. It has around 120 member agencies and approximately 1,000 local offices. The role of the NFCC is to set standards, promote ethical practices, accredit counsellors and develop policies and practices to achieve stability in the credit counselling field. As such, NFCC membership acts as a quality mark for consumers to trust the counsellor in question. The quality mark is important, as there are a growing number of financial services companies who offer similar services, but with far greater upfront and accumulative fees.

### **America Saves**

America Saves is a national coalition of around 1,000 non-profit groups, employers, financial institutions, and government agencies working at the local, state, or national levels which campaign to promote savings. This is achieved by encouraging people to enrol in the America Saves programme. There are currently 40,000 enrolled “Savers” who have access to a range of free services, including a no- or low-balance savings account at a local bank or credit union. The programme also offers a comprehensive financial literacy and savings advice service. This includes:

- Wealth-building workshops which show how people can save and build wealth;
- enrolment of Savers who have developed a wealth-building goal, such as debt repayment, an emergency fund, homeownership, or retirement savings, and the creation of a simple plan to achieve this goal;
- Wealth coaches to assist Savers in the selection of this goal and plan;
- Free access to certified financial planners who have been recruited, as volunteers, by the Financial Planning Association (the FPA is a membership body for financial planners/advisers).

Wealth coaches are volunteers from the local community who receive training from America Saves local branches to provide guidance in decisions about money. A wealth coach can be anyone who has successfully completed training and is willing to volunteer two to four hours a month. They are then tasked with contacting newly enrolled savers and encouraging them to continue with their saving habits.

Wealth coaches are given key questions to ask about savings and scripts to give advice on how to encourage savings for different key areas, such as setting up an emergency fund, reducing credit card debt or buying a home.

#### *Examples of guidance for Wealth Coaches volunteering for Tennessee Saves*

##### Reducing Credit Card Debt

- Reducing credit card debt is a legitimate goal

- Work with the client to encourage them to list all the credit cards and the balance due, to give them an idea of their total debt
- They can accomplish this task after the call.

### Home Ownership

#### Coaching Tip

- Recommend the saver enrol in the Tennessee Housing Development Agency home buyer education class
- Encourage the saver to work with a lender to pre-qualify for a loan. Working with a loan officer can help them learn about down payments, closing costs and their affordable price range.
- Encourage the saver to set a realistic savings goal and deposit money into this account regularly.
- Direct deposit is a good idea for saving towards a down payment<sup>23</sup>

### **Conclusions about the US approach**

One of the most positive aspects of the American approach is the commitment by both the federal government and financial services industry to promote financial literacy. There are dozens of examples of where the financial services industry, government and the third sector are working together to roll out school-based and adult financial education programmes.

However, there seems to be lack of coordination of effort, with several programmes running side by side at local, state and federal level, and no single federal department taking on a national financial literacy strategy. It also seems to be the case that the US relies mainly on financial education initiatives rolled out in seminars via standardised curricula, and often in schools rather than adopting a wider range of approaches, such as advice services and interactive online tools. Credit counselling and wealth coaches are exceptions, but only have limited reach when compared with the modular education programmes rolled out by federal departments and banks.

### **Further Information**

Vitt et al. 2000: [http://www.fanniemaefoundation.org/programmes/pdf/rep\\_finliteracy.pdf](http://www.fanniemaefoundation.org/programmes/pdf/rep_finliteracy.pdf)

Financial Literacy Strategy 2006: <http://www.mymoney.gov/pdfs/ownership.pdf>

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<sup>23</sup> <http://tennesseesaves.org/TeachingResources/volunteers/default.htm>

Fox et al. Journal of Consumer Affairs Vol 39, Issue 1 April 2005 p195  
<http://www.blackwellsynergy.com/links/doi/10.1111/j.17456606.2005.00009.x/abs/>

ASEC: <http://www.choosetosave.org/asec/>

US Dept of Treasury: <http://www.ustreas.gov/>

CBA: <http://www.cbanet.org>

CBA Financial Literacy Survey Report 2004:  
<http://www.cbanet.org/surveys/literacy/documents/WEB%20FINAL%202004%20Financial%20Literacy%20Survey%20Report.pdf>

CBA Financial Literacy Survey Report 2005:  
<http://www.cbanet.org/surveys/literacy/documents/2005%20Financial%20Literacy%20Survey%20Report.pdf>

The National Council on Economic Education (NCEE): <http://www.ncee.net/>

ACORN Housing Corporation: <http://www.acornhousing.org/index.php>

Financial Fitness for Life: <http://fffl.ncee.net/>

Fleet Boston (now part of Bank of America): <http://www.bankofamerica.com/>

Downpayments on the American Dream: <http://128.252.132.4/csd/asset/add.htm>

The Corporation for Enterprise Development: <http://www.cfed.org/>

Centre for Social Development: <http://qwbweb.wustl.edu/csd/index.htm>

Temporary Assistance for Needy Families: <http://www.acf.dhhs.gov/programmes/ofa/>

Sargent Shriver Centre for Poverty Law: <http://www.povertylaw.org>

Illinois Department of Human Services: <http://www.dhs.state.il.us/>

FLLIP Final Evaluation: [http://www.povertylaw.org/advocacy/community-investment/fllip-evaluation-project\\_june-2004.pdf](http://www.povertylaw.org/advocacy/community-investment/fllip-evaluation-project_june-2004.pdf)

NFCC: [www.debtadvice.org](http://www.debtadvice.org)

Council on Accreditation of Services for Families and Children Inc:  
<http://www.coanet.org/front3/index.cfm>

US Department of Housing and Urban Development: <http://www.hud.gov/>

Ibarra 2005: <http://www.nclr.org/content/publications/download/35644>





## Canada

### Background

Although financial education has been developed in Canada over a number of years, the broader concept of financial capability was brought into the spotlight following the first ever National Symposium on the issue held in June 2005. The event, entitled “*Canadians and Their Money: A National Symposium on Financial Capability*”, represented the first attempt to develop a coherent national strategy for improving the financial capability of Canadians. The strategy highlighted a number of economic benefits for the financial services industry of actively participating in the financial capability strategy:

- Increased spending power of market participants
- Greater innovation and efficiency of financial products and services
- Enhanced local/regional competitiveness
- Better understanding of customer needs, especially those who are currently under-served
- Reduced loan defaulting as customers better understand their rights and responsibilities
- Moving more capable customers to lower cost channels
- An expanded customer base with increasingly capable consumers
- Increased understanding among customers of their particular needs and financial situation
- The fulfilment of corporate social responsibility objectives

### Federal Government Initiatives

#### **FCAC**

The Federal Government’s financial capability strategy is led by the Financial Consumer Agency of Canada (FCAC). It was established in 2001 to oversee consumer protection measures in the federally regulated financial sector and the expansion of consumer education.

In its first three years, FCAC prioritised the production and dissemination of information (mostly brochures and booklets), which helped consumers to understand how credit card interest is calculated and how to compare credit card fees and features. It also produces an annual report which compares the features and service fees of accounts from a variety of major banks, giving consumers the information required to make informed decisions about products.

In addition to the resource centre on FCAC’s website, which lists sources of information and fact sheets on a variety of financial topics, they also operate a financial inquiry call centre in partnership with the Canada Deposit Insurance Corporation (CDIC). FCAC’s staff of information officers are equipped to answer a wide range of financial questions and also act as a referral service to more appropriate agencies and for more specialised enquiries. In 2005/06, the call centre received 26,145 enquiries in addition to 2,057 emails and letters.

FCAC's educational branch also works with other federal agencies and the third sector to provide outreach seminars, highlighting the responsibilities of the financial services industry to consumers and develops online interactive tools.

### ***The Investor Education Fund***

The Investor Education Fund's stated aim is to help people make effective use of financial information. They also provide information on the services and advice that the financial industry offers. There are three programmes that fulfil these goals:

1. Online tools and information – The IEF website provides information to help people make investment decisions. Online tools compliment this information, including investment returns calculators, interactive worksheets and online quizzes.
2. Taking Stock in Your Future Teacher Programme - The IEF produces curriculum material for teachers to use at different ages to promoting financial literacy, and provides workshops to train teachers in teaching financial literacy within other curriculum areas such as maths and business studies.
3. Sponsorship Programme – The IEF provides funding for non-profit organisations delivering investor education programmes.

## **Industry Action**

### ***Building a Better Understanding***

In 1997, the Canadian Bankers Association conducted a nation wide survey: *Survey of Canadians' Economic and Financial Understanding*, in which Canadians expressed an interest in knowing more about banking and the financial world to help them make informed decisions. As a result, the CBA (using funds drawn from its membership fees – members include most domestic and international banks based in Canada), launched a comprehensive information programme in January 1998 *Building a Better Understanding*.

The programme consists of websites, literature and seminars. In addition to the main CBA website, "*Your Money Network*", acts as an online portal to a number of other financial information websites, and "*There's Something About Money*", a money management site aimed at students to teach them the basics of credit and learning to budget. Accompanying this website is a classroom seminar series which targets senior high school students. Between 1999-2003, almost 130,000 students participated in seminars. Over the same period, the CBA hosted 270 small business seminars, reaching 22,500 people. This work is supplemented by a range of other publications for adults regarding saving for children's education, buying a mortgage and starting up a small business. 6 million of these publications have been ordered from CBA.

### ***RBC Royal Bank***

RBC has participated in a number of programmes which have sought to improve the financial awareness and health of the Canadian population, in partnership with community and voluntary organisations such as Career Edge and Junior Achievement to provide financial education. The Lifeskills Seminar Scholarship Programme was launched in 2002 to educate high school students across Canada about the importance of financial literacy, planning and management. It has also sought to assist these students in choosing their future careers, develop their CV and learn about alternative opportunities through provision of scholarships.

Similarly, RBC has been actively involved in the Social and Enterprise Development Innovations (SEDI) designed project the *A Game*, a community based initiative which uses seminars, training schemes and more personalised training to help school age people become self sufficient in managing their money. The *A Game* is an example of Canada's many social development programmes which include financial capability as a component. It can be broken down into three key sections: Generation E (about enterprise and entrepreneurialism), Dollars and \$ense (money, credit and debt awareness) and The Changing World of Work (economy and the labour market). It is supported by a broad range of community stakeholders, employers, private sector members and community organisations and was implemented in 20 communities across Canada by the end of 2003, targeting especially younger people deemed 'at risk'.

### **Other Initiatives**

As mentioned above, Canada has several social development programmes aimed at young or disadvantaged groups which provide financial literacy education. Many are coordinated or delivered in partnership with Social and Enterprise Development Innovations (SEDI). Its programmes include asset building, self employment, youth self sufficiency and financial capability.

#### ***Learn\$ave***

SEDI partnered with the Social Research and Demonstration Corporation (SRDC) to design and implement the Learn\$ave individual development account programme. Beginning in 2001, the fundamental objective of Learn\$ave is to deliver financial management training coupled with a matched savings element – very much like IDAs in the US. An additional element is that the savings must be used for an educational purpose – either training, such as a business set-up course, or returning to education. It receives federal government funding, and is supported by RBC Royal Bank.<sup>24</sup>

Learn\$ave staff also provide follow-up support for all participants to ensure the continuation of positive saving habits beyond the end of the training course.

#### ***The Canadian Foundation for Economic Education***

The CFEE is a not for profit independent organisation which promotes financial capability through a variety of projects and programmes, including developing a curriculum for schools; helping teachers improve their knowledge and teaching techniques in financial education; producing print and multimedia resources for use in classes across the country; and assisting government departments in their information and communication efforts. Although CFEE promotes financial education at all levels of learning from elementary to college and to the general public, they are most directly involved with school age students. It is currently creating a network of contacts in the school sector to promote financial education, including 2,000 school-based educators involved in economic and entrepreneurship education; a network of 5,000-7,000 community-based, youth service agencies working to help young people build successful futures; and a network of libraries across Canada that wish to work on a community level in the area of economic development.<sup>25</sup>

<sup>24</sup> <http://www.fsatoronto.com/programs/learnsave.html>

<sup>25</sup> <http://www.cfee.org/cgi-bin/go.cgi?lang=en&file=/en/progres.shtml>

### ***Local Initiatives***

There are also some other less well known examples of community-driven initiatives which operate on a smaller scale. These include St Christopher House, which seeks to provide financial education as part of a broader literacy campaign for those on low incomes. Staff at St Christopher's also assist clients with budgeting, debt issues, filing tax returns, opening bank accounts and checking eligibility for social assistance.<sup>26</sup>

### **Conclusions about the Canadian approach**

Third sector activity to promote financial capability seems to be very strong in Canada, and there are many examples of positive cooperation between government, industry and community organisations. The federal government also seems to be attempting to coordinate such programmes with the development of the national strategy and more debate on the issue in public arenas. However, during the National Symposium on Financial Capability, held in 2005, Canadian government, financial and third sector representatives highlighted some key challenges in taking this agenda forward.

Firstly, they could not reach agreement on a conceptual framework for financial capability. This, the representatives believed, was because financial capability had not figured prominently on the policy research agenda in Canada, and so more analysis of the levels of financial capability among the population was needed first.

It was also acknowledged that evidence indicates that disadvantaged subgroups are often seriously under-served by financial literacy programmes. During the symposium, it became clear that the issue of financial capability would need to be considered within the context of two separate populations. The first is the majority of Canadians with "decent" earnings and assets, who appear to be served effectively by mainstream financial institutions and support (although concern continues to be expressed about investor knowledge, particularly regarding retirement decisions). The second group, with lower incomes and often on the fringes of society, are often excluded from the products and services they need.

### **Further Information**

SEDI: <http://www.sedi.org>

Canadians and Their Money: A National Symposium on Financial Capability  
[http://policyresearch.gc.ca/page.asp?pagenm=fin\\_cap](http://policyresearch.gc.ca/page.asp?pagenm=fin_cap)

FCAC: <http://www.fcac-acfc.gc.ca/eng/default.asp>

RBC Bank: <http://www.rbc.com/>)

Lifeskills: <http://www.rbcroyalbank.com/lifeskills/>

Canadian Youth Business Foundation: <http://www.cybf.ca/>

Banking 101: <http://www.cibc.com/ca/student-life/banking-101.html>

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<sup>26</sup> <http://www.stchristhouse.org/adults/financial-advocacy/>

CIBC: <http://www.cibc.com/ca/personal.html>

St Christopher House: <http://www.stchrishouse.org/>

Canadian Foundation for Economic Education: <http://www.cfee.org/>

Cassie d'économie Desjardins: <http://www.desjardins.com/en/accueil.jsp>

Learn\$ave:

[http://www.sedi.org/DataRegV2-unified/sedi-Publications/InfoKit\\_English.pdf](http://www.sedi.org/DataRegV2-unified/sedi-Publications/InfoKit_English.pdf)

Learn\$ave evaluation:

[http://www.sedi.org/DataRegV2-unified/sediReports/L\\$AnnualReport.pdf](http://www.sedi.org/DataRegV2-unified/sediReports/L$AnnualReport.pdf)

SRDC: <http://www.srdc.org/>