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Financial Capability and Poverty
Discussion Paper

July 2004

PRI Project

New Approaches for Addressing Poverty and Exclusion

prepared by

Social and Enterprise Development Innovations (SEDI)

Canada

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Financial Capability and Poverty

Introduction

This paper has been prepared by Social and Enterprise Development Innovations (SEDI) at the request of the Policy Research Initiative (PRI) of the Government of Canada. A national non-profit organization, SEDI has more than 15 years of experience in developing new approaches to address poverty and exclusion. As a leading Canadian organization in the international asset-building field, SEDI actively promotes financial literacy for low-income Canadians.

The objective of this discussion paper is to review available evidence from the research and practice of financial literacy as a complementary strategy to asset building. The first section reviews various definitions of financial literacy and proposes financial capability as an alternative. The second section reviews the major initiatives underway in the United Kingdom, the United States, and Canada to enhance financial literacy or capability, either in the context of savings and asset building, or as stand-alone initiatives. The final section provides a discussion of issues for further consideration by policy makers.

Defining Financial Literacy and Financial Capability

There is little agreement among community practitioners or social researchers on a definition of financial literacy or even agreement on terminology. Financial knowledge, financial literacy, financial education, economic education, economic literacy, financial management, and money management are all used nearly interchangeably in practice and in research. The Canadian Foundation for Economic Education (CFEE) prefers economic capability, which they define as the "extent to which Canadians assume their economic roles and make economic decisions with competence and confidence" (CFEE, 2004).

Financial literacy is perhaps the most commonly used in Canada and the United States (Murray and Ferguson, 2004). A study (Vitt et al., 2000: p. 2) conducted by the Institute for Socio-Financial Studies (ISFS) offers the following definition.

> The ability to read, analyze, manage and communicate about the personal financial conditions that affect material well-being. It includes the ability to discern financial choices, discuss money and financial issues without (or despite) discomfort, plan for the future, and respond competently to life events that affect everyday financial decisions, including events in the general economy.

The ISFS authors differentiate *financial* literacy from *economic* literacy, a term they believe describes knowledge of a far broader macroeconomic context. For example, whereas economic literacy may be primarily concerned with understanding concepts such as productivity and inflation, financial literacy is generally viewed in terms that are more personal or immediate, such as banking, credit, and investing. Cutler and Devlin (1996), in a frequently cited paper, proposed that financial literacy has both a knowledge component (i.e., individuals' performance on objective tests of financial knowledge) as well as a confidence component (i.e., individuals' self-reported knowledge, abilities, and efficacy related to financial matters). This distinction is useful in understanding the differences between measures of what people objectively know and how confident they feel in their financial knowledge and management abilities. Generally, research finds that consumers tend to over-estimate their own financial literacy (Roshco, 1999; DiSpalatro, 2000; Chevreau, 2002), and the positive effects of financial literacy education and training programs may work primarily by increasing participant confidence (Kim, 2001; Vitt et al., 2000).

In the United Kingdom, financial literacy has largely been replaced by financial capability. Noting that "it is a mistake to believe that only those on low incomes or in disadvantaged areas need financial literacy," the UK Department for Education and Skills proposed that "people need to be equipped with the skills, knowledge and confidence to ensure they make informed judgments and take effective decisions regarding their own financial circumstances" (Regan, 2003, p. 3). Following the work of the Adult Financial Literacy Advisory Group, various British departments and agencies collaborated to develop a framework for understanding and increasing financial capability. The distinction between capability and literacy is subtle but significant. The Adult Financial Capability Framework (FSA and BSA, 2002) proposed three interrelated dimensions compared to the two-dimensional concept of financial literacy.

Financial knowledge and understanding: The ability to make sense of and manipulate money in its different forms, uses, and functions, including the ability to deal with everyday financial matters and make the right choices for one's own needs.

Financial skills and competence: The ability to apply knowledge and understanding across a range of contexts including both predictable and unexpected situations and also including the ability to manage and resolve any financial problems or opportunities.

Financial responsibility: The ability to appreciate the wider impact of financial decisions on personal circumstances, the family, and the broader community and to understand rights, responsibilities, and sources of advice or guidance.

As a concept, financial capability may offer several advantages over financial literacy. First, compared to financial literacy, it moves beyond objective knowledge and subjective confidence to include responsible and informed behaviour. Second, it acknowledges there are varying stages of development of financial capability, from basic to extended capability, and that financial capability is concerned with lifelong learning rather than a discrete distinction between being financially illiterate or financially literate. Finally, perhaps because of a conceptual bias toward increasing objective knowledge and imparting financial information, many measures aimed at increasing financial literacy among disadvantaged groups tend to assume the primary need to be programs on budgeting and money management (England, 2004). In fact, many disadvantaged households may be significantly more skilled in some of these areas than are middle- and upper-income households, and may instead require other forms of intervention (Hind, 2003; Kempson, 2003; England, 2004). Financial capability, by contrast, makes fewer presumptions about individual need and focuses instead on moving all citizens along a continuum both in the depth and breadth of their capabilities.

For the purposes of this discussion paper, we return to the term financial literacy when describing example programs or initiatives in Canada and the United States, including individual development accounts (IDAs), since this is the term in widest currency. However, we offer financial capability as a more promising conceptual framework for further consideration by policy makers, researchers, and practitioners.

Financial Capability as a Priority for Public Policy

Enhancing Social and Economic Inclusion

> Individuals with a good knowledge of economic and financial basics can make more informed decisions – to their benefit and to the benefit of the entire economy. Not only can they manage their personal affairs and their households better, they can be more effective and productive members of society. They can also be better citizens, capable of making reasonable judgments on public policy issues that have a bearing on their personal prospects and those of the nation (David Dodge, Governor of the Bank of Canada, 2003).

As yet there is no identifiable comprehensive public policy framework in Canada for enhancing financial capability or financial literacy, but there are multiple reasons for making such a framework a priority. The first set of reasons concerns enhancing social and economic inclusion, or at least reducing social and economic exclusion.

Enhancing financial capability supports an already agreed-upon objective of increasing access to basic banking services among underserved populations. Estimates of the unbanked and underbanked population vary. One 1998 estimate placed the figure at three percent of all Canadian adults and eight percent of all households with annual incomes below $25,000, but acknowledged that these figures likely underestimate the size and scope of the problem (Barradus, 1998). A related problem is increasing reliance among unbanked and underbanked consumers on fringe financial services. Both phenomena – exclusion from mainstream financial services and reliance on high-cost unregulated fringe providers – appear to be at least partly related to financial capability. A recent study by a team of researchers in Winnipeg found that the use of fringe financial services, such as pawn shops and payday loans, among low-income clients was staggeringly high in spite of service fees ranging from 210 to 450 percent (annualized) for even basic services, such as cheque cashing (Buckland et al., 2003). By comparison, the authors found that mainstream financial service providers charge an average of only $44.28 per year for low-cost basic bank accounts. In attempting to understand why consumers who can ill-afford such costly services continue to use them, the researchers concluded that a lack of financial information and awareness as well as a lack of accessible alternatives were the determining factors. A study of unbanked consumers also found that the consumers themselves cited low knowledge as a reason for being unbanked. Enhanced financial capability can address the demand side of strategies aimed at increasing financial inclusion and access to mainstream banking (Regan, 2003). However, even consumers of mainstream financial services have growing needs for financial capability. The rapid growth and complexity of consumer choice in financial service markets makes financial information and the ability to decipher and use that information in decision making critical for consumer protection (Hogarth and Hilgert, 2002; Greenspan, 2002; FSA, 2000).

Second, enhancing financial capability, particularly given its emphasis on understanding rights and responsibilities, can increase participation in, and uptake of, public programs and benefits. Perhaps the most well-known example is the under-subscription of the Guaranteed Income Supplement (GIS) paid to eligible low-income seniors. By best estimates, there are more than 300,000 seniors in Canada who are eligible for but do not receive the GIS. The House of Commons Standing Committee on Human Resources Development concluded that a major barrier to participation was filing an annual income tax return, which largely depended on factors related to financial capability (Canada, 2001). Financially capable individuals are equipped to understand the benefits they are entitled to as well as their role and responsibility in accessing them. Financially capable individuals also have the necessary information, skills, and confidence to negotiate the often confusing or intimidating application processes and documents. As governments in Canada, as in other developed countries, continue to move toward more account-based and individually co-financed systems of delivering benefits, citizens are expected to be increasingly self-reliant in understanding the benefits they are entitled to, accessing those benefits, and making informed individual choices and decisions. For example, compared to previous generations Canadians now need to be able to understand the more varied sources of retirement income, including the Canada Pension Plan (CPP), Old Age Security (OAS), the GIS, employer-sponsored pensions, and private retirement savings, to which they might have access and to make decisions regarding their retirement planning earlier in their working lives.

Third, governments at all levels in Canada are increasingly moving to deliver benefits and transfers to individuals through electronic fund transfers or direct deposit systems. Alberta now requires direct deposit for all social benefit recipients (Grant, 1998). These mechanisms offer significant efficiency gains and cost savings in publicly funded programs. However, they also presume access to mainstream financial services that support direct deposit and electronic banking as well as adequate client capability to make use of those services. As many as 10 to 60 percent of social assistance recipients may not have a bank account with a mainstream financial institution through which they can enroll for direct deposit services (Grant, 1998). Enhancing financial capability will better equip recipients of public benefits to participate in administrative systems that are less costly than paper-based transfers.

A Precondition for Successful Asset Building

A second set of reasons for making financial capability a public policy priority concerns the relationship between financial capability and asset building. Asset building is an innovative new approach to addressing poverty by providing access to savings and assets as well as income support. It views poverty in terms of income and opportunities to save and invest in a better future. Savings and assets can leverage new income, cushion against sudden income losses or planned risks, and build social capital by enhancing inclusion and participation. When provided with the right supports, often including training to enhance financial literacy or capability, research indicates that low-income persons can and do save.

Middle- and higher-income households have long had access to a range of incentives and programs aimed at increasing various forms of asset holding and wealth. For example, Registered Retirement Savings Plans (RRSPs) offer tax-based incentives for personal saving for retirement to those adult Canadians with sufficient income to benefit from a tax deduction for current contributions and expected lower taxable income in retirement when withdrawals are made. However, participating in an RRSP necessarily requires both access to mainstream financial services and adequate financial capability to make decisions regarding the range of RRSP options among providers, planning contribution and withdrawal levels, and managing potential impacts on other sources of retirement income (such as the GIS). Other measures to increase assets such as low- or no-downpayment insured mortgages, micro-enterprise loans and savings for post-secondary education all make the same demand of participants – that they engage with mainstream financial services as informed and active consumers. Asset-building initiatives targeted to low-income groups, such as IDAs or the newly announced Canada Learning Bond, are no exception. All rely, to some degree, on a financial services infrastructure and the financial capability to interact effectively with it.

Second, measures to enhance financial capability can enable participants in asset-building initiatives to reduce or eliminate individual barriers to asset accumulation. These barriers may include credit and debt-related demands on their financial resources or measures to increase their available financial resources by accessing benefits to which they are entitled. There is some evidence to suggest that even in circumstances where IDA participants do not save significant amounts of money, there are other positive impacts of participation, such as credit repair and debt repayment (Myers and Simbandumwe, 2003; Dow, 2001). There is also widespread agreement among the research community that individuals with lower levels of financial literacy are at increased risk for behaviours that may lead to a personal financial crisis and for financial victimization by predatory lenders (NCEE, 2002; Braunstein and Welch, 2002; Kim 2001; Greenspan, 2002; Roshco, 1999).

Third, financial capability may have an impact on levels of personal savings and asset accumulation. Alan Greenspan, Chair of the US Federal Reserve has noted that financial "educational and training programs may be the most critical service…to enhance the ability of lower-income households to accumulate assets. Indeed, analysts have shown that a comprehensive understanding of basic principles of budgeting and saving, at the start, increases household wealth in later years" (Greenspan, 2002). Research on the link between enhancing financial literacy and behaviour has established a relationship between better information and better behavioural outcomes, but the direction of the causality remains unclear (Braunstein and Welch, 2002). Studies of workplace financial training find that it appears to increase participation and savings in employer-sponsored pension plans (Kim, 2001; DiSpalatro, 2000) and studies of high school students who receive school-based financial and economic education find that it enhances their self-reported abilities to plan for the future and engage in financially responsible behaviours including saving (Huddleston, 1999; Sedaie, 1998). Research on the impact of financial literacy training in IDA programs finds that such training does increase both the amount and rate of saving up to a point (Clancy et al., 2001).

The directionality of the relationship between financial capability and saving may be less of a concern when viewed in the context of asset-building theory. In fact, asset-building theorists would propose a virtuous cycle between financial capability and asset accumulation and maintenance (Sherraden, 1991). As individuals increase their financial capability, they are better able to accumulate assets. In turn, as individuals accumulate assets, they are more motivated to act to maintain those assets, leading to enhanced financial knowledge and capability.

Supply of Financial Capability Supports for Disadvantaged Groups

Ample evidence suggests low financial capability is widespread. For example, a national investment literacy test found that two thirds of Canadians are functionally illiterate when it comes to investment knowledge (Chevreau, 2002). Other surveys of financial literacy found that only one in five Canadians are confident in their own knowledge and abilities (Stow, 2002). But there is also evidence to suggest that lower levels of financial literacy are associated with lower levels of income and education (Kim, 2001; Hogarth and Hilgert, 2002).

In addition to low-income groups, demographic shifts create new groups that are disadvantaged in terms of their financial capability (Hogarth and Hilgert, 2002). Youth entering financial independence later in life and with increased levels of education have both more limited experiences with financial capability and more immediate risk of financial crisis. Newcomers arriving in Canada often have no previous knowledge of, or experience with, Canadian banking, credit, and other financial services and providers. What little orientation they receive during their initial settlement period, if any, is unlikely to guarantee their financial capability, and many do quickly fall victim to financial scams (Conway, 2004). Persons with basic literacy and numeracy challenges, residents in rural or remote communities, persons with disabilities, and seniors may also face significant disadvantages in terms of their financial capability or opportunities to enhance their financial capabilities through existing services.

A recent review of financial literacy services in Canada (Murray and Ferguson, 2004) found that there are, broadly speaking, three types of adult target groups for this type of service:

- middle- and upper-income households with financial resources to invest and manage;
- those in a financial crisis, such as persons declaring bankruptcy or seeking credit counselling; and
- those with few financial resources if any but no immediate crisis needs.

The first two groups are relatively well-served. For households with resources to manage and invest, mainstream financial service providers and an industry of financial advisers offer financial advice to clients for fees paid either directly or recouped through investment management fees. For persons in immediate financial crisis, there is a network of credit counselling services, many of which are not-for-profit, that offer financial counselling and credit repair advice to eligible clients. However, those Canadians who do not face an immediate financial crisis and cannot afford the services of a financial adviser have very few support options in increasing their financial capability. Furthermore, there is an apparent disconnect between organizations focused on the production of financial literacy resources and the actual delivery of meaningful financial capability information and education. In other words, there are many producers of many brochures and web sites and very few facilitators and educators.

To date, there have been a few small pockets of highly concentrated levels of activity to meet the needs of this underserved population. Other organizations, such as the Canadian Bankers' Association (CBA), the Canadian Foundation for Economic Education, and the various securities commissions across Canada, have focused their efforts on developing more general educational resources, such as brochures and web-based tools. Many resources are aimed at students in public schools or adult learners who have some pre-existing knowledge and the ability to access information through general media like the Internet or brochures in bank branches. This may not be an effective strategy to reach disadvantaged groups.

The next section briefly reviews key examples of activity to enhance financial literacy or financial capability in the United Kingdom, the United States, and Canada. Where available, evaluation results from programs have been included. Before discussing the various programs and initiatives, the broader context in the United Kingdom and the United States is worth noting. Both countries have, like Canada, made access to basic banking a national policy priority and both countries, like Canada, have generally low levels of personal saving and low levels of financial literacy or financial capability. Both countries have made significant investments in asset-building initiatives aimed at increasing the level of savings and asset holding among lower-income groups. Financial literacy and financial capability have played a role in those asset-building initiatives.

The United Kingdom, as mentioned above, appears to have developed a consensus around the definition and central importance of what they refer to as financial capability. This has been shaped, it appears, by earlier work on financial inclusion as a subset of the UK government's focus on social exclusion. Recognizing that financial inclusion required more than accessible banking products and services, various departments and agencies of the British government moved toward a framework for financial capability which includes children and adults as target groups.

The United States has, outside the IDA field, moved toward making financial literacy education available through recent changes to federal education laws and to federal legislation regulating credit transactions. Youth, particularly high school students, are frequently the targets of interventions through school-based education programs. Both the Chair of the Federal Reserve and the Chair of the newly created Financial Literacy and Education Commission have explicitly tied financial education to the goal of increasing personal savings among US citizens, regardless of income.

Financial Capability Initiatives in the United Kingdom

The Community Finance and Learning Initiative

Launched in January 2002 by the UK Department for Education and Skills (DfES), the Community Finance and Learning Initiative (CFLI) is a two-year pilot to explore and test the effectiveness of different delivery options to meet four simultaneous objectives.

1. Increase awareness and access to adult education and training, including government financial incentives for adult learning, among those excluded from mainstream financial services and mainstream learning opportunities.
2. Build financial literacy skills.
3. Support access to basic financial services.
4. Deliver finance for micro-enterprise development.

The CFLI was developed by DfES in response to evidence that current services to enhance financial capability and reduce financial exclusion among low-income households in Britain was fragmented and not reaching the most marginalized groups. The intent was to test a series of approaches to building more integrated responses to financial exclusion in communities in England previously identified for local economic development. Five separate case study pilots were implemented in nine communities across England at a cost of £160,000 per pilot with a budget of £179,000 for evaluation. In four communities, the CFLI pilot overlapped with pilot sites of the Saving Gateway, a matched savings account for low-income adults intended to initiate more regular personal savings behaviour among participants.

SAFE at Toynbee Hall

As a pilot site for both the CFLI and Saving Gateway, Toynbee Hall has grouped both initiatives within its Services Against Financial Exclusion (SAFE) program, which has several streams, each of which includes an aspect of financial literacy as part of its aim to increase financial capability. SAFE provides support to Saving Gateway clients, debt counselling and advice, assistance with basic banking, and a range of workshops/seminars/taster sessions on money matters. Typical examples of SAFE's work include the following.

- Offer modules of money management as part of existing courses; for instance, a resettlement program or a course helping people get back to work.
- Embed financial literacy in existing programs; for example, using money-based exercises as part of a wider computer course in Excel.
- Contextualize existing programs to incorporate financial literacy; for instance, team teach financial literacy as part of a basic skills literacy program at the local college.

SAFE uses the Adult Financial Capability Framework (AFCaF) developed by the Financial Services Authority/Basic Skills Agency to plan its financial education work.

SAFE has two full-time staff (project co-ordinator and project worker) dedicated to delivering services, building new partnerships, fund raising, developing new service provision, and administration (including evaluation) (Reynolds, 2004).

Local community-based organizations (mostly social housing providers) delivered services aimed at increasing financial capability through a wide range of methods. This included embedding financial training modules into other training courses (such as computer training), providing individual debt and money management counselling, self-directed learning using information technology media, developing and delivering individual financial workshops or accredited money management courses in community locations, and recruiting volunteers to act as para-professional or peer advisers to clients. No targets for participation or service delivery were set. Host organizations were asked to engage in activities to meet the four program objectives according to their own organizational mandates and priorities. The data collection on participation rates was poor making total estimates of the clients served difficult.

The CFLI was earmarked as one potential source of financial information and education for participants in the Saving Gateway pilots (UK, 2001), and it was expected that the CFLI would help recruit participants into the Saving Gateway accounts. In fact, the opposite appears to have been true. Where the pilots overlapped, organizations found it easier to move Saving Gateway participants into CFLI services than vice versa. This may be because the matching money attached to the Saving Gateway offered a more attractive incentive to low-income clients than opportunities to engage in financial education. This is consistent with anecdotal reports from participants in North American IDA programs who emphasize the financial incentive as the initial factor influencing their decision to participate, but the financial training as the factor influencing their success in the program. However, it may also be that, faced with explicit recruitment targets in the Saving Gateway, host organizations put more resources into recruitment for the Saving Gateway (England, 2004).

An interim evaluation conducted by ECOTEC Research and Consulting found the following.

- Most organizations enjoyed a very strong community presence, an important factor for success in such an initiative. However, most still had difficulties identifying and networking with other local organizations to refer clients for training. In nearly all cases, the host community organizations had little success in establishing effective partnerships with local banks and financial institutions. Staff reported that developing partnerships with outside organizations proved to be a more time-consuming activity than expected, and differences in organizational culture and priorities (particularly at local bank branches) proved to be a significant barrier to partnerships. The evaluators recommended that funding for CFLI-like initiatives be made for longer periods to allow adequate time (including one developmental year before service delivery begins) to develop and sustain effective partnerships.
- The host orgnizations had generally not done a formal assessment of the needs of their target population. The evaluators noted that tailoring delivery to the preferences and priorities of the target group and local community is key to a successful implementation. They also noted that some of the services offered under the CFLI may have missed the mark. There was little if any uptake of the micro-enterprise development services. Clients also did not make use of the peer mentors as sources of information and advice, because they understandably wanted to protect the privacy of their own financial information and circumstances from neighbours acting as volunteers.
- Related to the finding above, the evaluators found that host organizations faced a significant challenge in attracting participants to financial education in the absence of an immediate financial crisis. They noted that the prevention of financial problems is a much tougher sell than assistance with an immediate financial crisis. They recommended that other initiatives look for ways to engage target groups using concrete life events (such as the birth of a child or job loss) as an entry point into financial education.
- Finally, the evaluators recommended that organizations be clear in their definitions of financial literacy or financial capability in designing programs and services. However, they also cautioned against assumptions about the value of certain types of information and skills, such as money management and budgeting, at which many low-income households may already be very adept.

The final evaluation of the CFLI will be released this year. The DfES is consulting with stakeholders regarding the future of the initiative.

National Education Curriculums

Personal financial education is included in school curriculums in England, Scotland, and Wales (UK, 2003). However, the number of hours of instruction and the types of financial education students in the UK receive in practice is unclear.

In England, the curriculum adopted the financial capability framework, and guidelines were issued in July 2000 on how to deliver material throughout school education in age appropriate ways. At younger ages, financial capability is not a mandatory component of the curriculum, but was made mandatory for secondary level education in 2002. Specific objectives include teaching participants the basics of "looking after money" and understanding the role of financial services. Curriculum materials and teacher training are supported by the Personal Finance Education Group, a UK charitable organization (PFEG, 2004).

In Scotland, financial education is part of the curriculum for students aged 5 through 18. Guidelines for teachers are set out by the Scottish Centre for Financial Education. Specific education outcomes and ways to connect financial capability education to transferable skills are included in these guidelines (SCFE, 1999).

Financial Capability and the Child Trust Fund

The introduction of the universal Child Trust Fund (CTF), an endowment paid at birth to all children in the United Kingdom beginning in 2005, creates both an opportunity and an impetus for financial capability education. In designing the CTF, government has been explicit in its desire to include educational objectives, particularly through existing school curriculums (UK, 2003). The CTF, it is hoped, will provide UK students with a vehicle for financial education in schools. Some organizations have raised concerns about the impact of this plan on the self-esteem of children from lower-income families who may have much smaller CTF account balances (MacLeod, 2003).

There are also adult education needs for parents and caregivers of children receiving the CTF. Because the funds will be distributed as a voucher for deposit at any eligible financial institution, parents and caregivers will need adequate information to make informed decisions on how to invest their child's CTF. This will involve disclosure by industry providers, marketing, and a role for intermediary organizations that regularly interact with parents and caregivers.

The British government is developing a framework for the disclosure of information by financial service providers during the sale of CTF-eligible products and services. This is heavily influenced by the ability of providers to recoup costs through service fees which the government intends to cap at what it believes is a reasonable level, likely one percent charged annually. The government has hired an outside consultant to investigate the service fee cap and will be moving to clarify provider obligations once the fees have been resolved.

The government is also developing a marketing campaign to publicize the CTF. It will rely on traditional methods, such as brochures, media ads, and a web site. Information will also be provided to parents when they receive an application for the universal Child Benefit income supplement (the administrative trigger for eligibility for the CTF) and when they receive the CTF voucher itself. The annual program costs of the CTF are estimated at roughly £235 million (UK, 2003). The estimated costs for the marketing and information campaigns have not been released.

There is also interest in a role for community organizations that are already trusted intermediaries for information and advice, particularly among disadvantaged groups. The government plans to provide information packages and web-based information to these organizations to encourage them to inform clients about the CTF and how to access it for an eligible child. However, at least one national non-profit organization has argued for a more formal role for these intermediary organizations. The National Family and Parenting Institute proposes that community organizations, such as local public health offices and citizens' advice bureaus, receive funding and training to provide basic financial capability information to interested parents of CTF-eligible children (MacLeod, 2003). The role of this service would be to provide consumers with a basic "primer" so they enter the CTF product sales process with financial service providers as well-informed and empowered consumers. It does not appear, however, that either the financial services industry or the responsible departments within the government support this model.

Financial Literacy Initiatives in the United States

Financial Management Training in IDAs (American Dream Downpayment Demonstration)

More than 10,000 persons in the United States participate in IDA programs offered by more than 350 organizations nationwide (Boshara, 2001). Generally, these programs combine a financial incentive, matching each dollar deposited into the IDA at a fixed rate and for set purposes on withdrawal, with some amount of general financial education and counselling. Practitioners will frequently design the programs to make the financial incentive conditional on participating in the education component of the IDA. Where resources permit, practitioners favour providing education that is specific to the eligible savings goals of the program. This asset-specific training is widely viewed as a best practice among IDA delivery organizations, particularly when participants plan to use their funds for significant and potentially risky investments, such as home ownership or micro-enterprise development. The available research finds a positive relationship between financial education and specific asset-accumulation goals, such as home purchase, but the value of more general financial training is less clear (Braunstein and Welch, 2002).

The largest and most rigorous evaluation of IDAs in the United States was conducted by the Center for Social Development (CSD) as part of the American Dream Downpayment (ADD) demonstration. Researchers collected program and participant information from 13 case study pilots and one experimental pilot. In their 2001 working paper on financial education and savings outcomes in IDAs, the CSD authors noted that financial education in IDAs makes program participants "more aware of financial opportunities, choices and possible consequences. In particular, financial education may help individuals develop skills to accumulate savings" (Clancy et al., 2001, page 4).

Financial education training in IDAs, including the ADD pilots, is generally delivered in a classroom or training course setting over several weeks or even months. Practitioners have access to several existing financial training curriculums in the United States, which they frequently adapt to suit their needs or use as the basis to develop one targeted to their particular program. Generally, these curriculums cover basic banking, household budgeting, understanding credit, setting goals, and managing debt. In delivering the training, IDA host organizations report several challenges:

- translating complex and specialized financial terms and abstract concepts into simple, accurate, and concrete information for participants;
- adapting training to suit a range of literacy and numeracy levels in a single group and addressing cultural differences that affect financial beliefs and behaviours;
- addressing practical barriers to participation in training courses, such as access to transportation, child care, and potential work conflicts; and
- addressing attitudinal barriers to participating in financial education and encouraging participants to consider the potential benefits of attending the classes.

The same study examined the relationship between the number of hours of financial education training received by IDA participants and personal savings outcomes. Asset-specific training was excluded from the analysis, but significant differences remained among the pilots in the total hours of training available and whether the training was a condition for the financial incentive. The researchers found that average monthly net savings and frequency of deposits by IDA participants increased significantly as the hours of general financial education training increased up to 12 hours and then actually declined. The average net monthly deposit for participants who had received no financial training was US$8.01, growing to US$20.38 for participants receiving between one and six hours of training, and growing again to $32.55 for participants who had received between seven and 12 hours of training. For participants with 13 to 18 hours of training, the average monthly net deposit was actually reduced to $26.88. Regularity of saving showed a similar pattern peaking at 64 percent of months in the project among participants with seven to 12 hours of financial training. The authors speculated that the pattern may be due to differences among pilot sites in the number of hours of education participation expected and whether this education is mandatory.

In a follow-up report, Schreiner et al. (2002) again omitted asset-specific training since it is usually only offered once a participant has been in the program and saved enough to think about withdrawing the total funds available for investment in their chosen asset goal. Their analysis confirmed the pattern of positive returns on some general financial education training, but found that the pattern of declining returns appeared after eight hours. In fact, the authors of this second study argued that there was no evidence for an apparent return in higher savings for financial education training lasting more than eight hours. The authors cautioned that there is not sufficient evidence of a causal relationship between financial education training and saving outcomes, particularly in light of declining returns after eight hours of training. It is possible that participants who would have saved smaller amounts regardless of the financial training simply dropped out of the IDA program after eight hours. It is also possible that for a segment of IDA participants, eight hours of training was not sufficient to transform them from so-called non-savers into savers (Schreiner et al., 2002).

National Council on Economic Education

The National Council on Economic Education (NCEE) was established in 1949 as a non-profit organization to improve school-based economic education in the United States. The Council launched a national campaign to position economic education within the national education agenda, develop standards for universal economic education in US schools, and ensure that all US students have some economic skills and understanding.

Outside its public awareness campaign, the organization works primarily by training teachers of kindergarten to Grade 12 students and developing teaching resources through economic curriculum materials and Internet or CD-ROM-based resources available for purchase through its on-line bookstore. The NCEE has also delivered teacher-training programs outside the United States for countries in transition to market economies.

The Office of Financial Education, US Treasury Department

The Office of Financial Education (OFE) was established in May 2002 to focus the Department's financial education policy making and to ensure the co-ordination of financial education within the Department and all its bureaus. The OFE provides organizational support to the Financial Literacy and Education Commission. It is also responsible for making recommendations and developing policy related to access to financial services for low- and moderate-income individuals and communities, including the topics of the *Community Reinvestment Act* and the unbanked; issues that affect financial products and services offered to consumers, including consumer protection and disclosure requirements, consumer credit, fair lending, bankruptcy, debt collection, and consumer electronic banking and payment issues; and Internet gambling.

The OFE is led by a Director of Financial Education reporting to the Deputy Assistant Secretary for Financial Education (US, 2004).

Congressional Financial Literacy and Education Commission

The Commission was established by the *Fair and Accurate Credit Transaction Act* (2003) and is chaired by the US Secretary of the Treasury. It has three legislated requirements.

1. Establish a toll-free public phone number to provide financial education.
2. Establish and maintain an on-line clearinghouse of financial education information and information about financial education programs.
3. Develop a national strategy to promote financial literacy and education among all US consumers.

The Commission aims to co-ordinate financial education activity among 20 US federal departments and agencies including the Federal Reserve, the Social

Participant Responses to the learn$ave Financial Management Training

During the early implementation of the *learn*$ave training curriculum, feedback was gathered from the Toronto experimental site (SEDI, 2002). Participants indicated that the material in the curriculum was informative and helpful (73-94 percent*) and provided new knowledge and insights (65-82 percent*). However, participants felt less certain about whether the training would directly impact their behaviour. When asked whether the training would help them with daily financial planning, a somewhat weaker majority reported that it would (54-88 percent*) and that it would help them to save (47-74 percent*).

Participant feedback during a round of multi-site focus groups was also very positive (Ritch and Holler, 2003).

"Yes I went from saving nothing to now being able to save through learn$ave. I never had a savings account in that sense before; you always ended up spending that money on one thing or another. So yes that is something this program has really brought home, that putting money away actually means something. It has a goal at the end. It's a good thing."

"Actually now that I have done my program for myself and for learn$ave, my wife and I are talking about starting another savings account just for ourselves. So outside of this program we have started to save."

A very few participants in these focus groups indicated that the training was time consuming or demanded too much outside classroom effort to complete homework assignments. However, these criticisms were small in contrast to the strongly positive response to both the content and the delivery of the training (Ritch and Holler, 2003).

* Figures provided represent the range of strongly positive responses for each of five curriculum modules.

Security Administration, the Department of Education, the Treasury Department and the Department of Health and Human Services. During its inaugural meeting, the Chair signalled the Commission's intent to collaborate with existing financial literacy providers outside government, not to replace current initiatives inside or outside government but to provide better co-ordination and institutional support (US, 2004). The Chair was also explicit about the Commission's aim to use financial literacy education as a means to increase personal savings among all US citizens, regardless of income.

The Commission met only once (in January 2004), but in that meeting did agree to form subcommittees to address the legislated toll-free consumer information phone line and on-line information clearing house. The Commission also identified two target groups as priorities for financial literacy education (high school students and recent immigrants to the United States), although it made no mention of specific initiatives to reach these groups.

Financial Literacy Initiatives in Canada

Financial Management Training in IDAs

A handful of IDA programs exist in Canada, delivered by community-based organizations. They include financial management training for all participants, similar to IDA programs in the United States. The exception is *learn*$ave, a federally funded national demonstration of IDAs for adult learning, a project that includes experimental research on the efficacy of IDAs as a financial incentive alone without auxiliary services, such as financial management training.

Small local IDA programs have been or are being delivered in Ottawa, Kitchener-Waterloo, and Abbotsford. The following section briefly reviews the financial literacy training delivered within the three largest ongoing IDA programs in Canada, *learn*$ave, a local IDA program in Calgary, and a local IDA program in Winnipeg.

***learn*$ave:** Developed and managed by SEDI, *learn*$ave is the largest demonstration of IDAs in the world. The project aims to test the effectiveness of providing IDAs to low-income adults for financing education and training. The project includes seven case study sites in a wide range of Canadian communities that are each delivering slightly different program models, but all are providing a financial incentive to save in the IDA and at least 15 hours of financial management training covering budgeting, banking, credit, and developing a savings plan. (Many case study sites have developed their own financial management curriculum.)

The project also includes three experimental sites where participants are randomly assigned to either a group receiving a traditional IDA program including 15 hours of financial management training as well as a financial incentive to save in the IDA, or a group receiving only the financial saving incentive, or to a comparison group receiving no services or intervention. A team of researchers at the Social Research and Demonstration Corporation is conducting the evaluation including an assessment of the project implementation and impacts. Because of the unique random assignment design, project researchers may be able to isolate the impacts of the financial education training traditionally delivered in IDAs and to provide more clarity to the findings of US researchers. The first project report will be available later this year.

In developing the financial education curriculum used in the three experimental sites (and some of the case study sites as well) program partners collaborated with the Prior Learning and Assessment (PLA) Centre in Halifax. Consultants from the Centre contributed their expertise in adult learning and specifically in the Prior Learning Assessment and Recognition (PLAR) pedagogical method which has proved very successful in preparing adult learners (including those with significant barriers) to re-enter formal learning environments or the work force. The resulting product is likely unique among other financial management curriculums in that it delivers much of the same basic personal finance information but uses a developmental approach aimed at enabling individual participants to identify their own strengths and weaknesses related to financial matters and to develop a personal plan or portfolio.

The project includes a total of 4,875 participants across 10 project sites and three project groups. Of these, 2,420 participants are eligible for, and expected to take part in, financial management training. (The balance of participants have been randomly assigned to either the control group or to the project group receiving the financial saving incentive only.) Training is delivered by the local community-based project host organization, usually in a small group setting over a period of several weeks. Among the 2,420 participants eligible to take part in the training, 1,828 had received about 14 hours of financial management training as of March 2004 (SEDI, 2004). Roughly 50 percent of these participants took part in the *learn*$ave curriculum developed by SEDI and the PLA Centre, while the balance took part in various but comparable curriculums developed by project host organizations.

In the experimental sites, the total personal savings in the *learn*$ave IDA accounts of participants receiving some financial management training amounted to $853.46, while total personal savings in the *learn*$ave IDA accounts of participants not eligible to receive any financial management training came to $745.58 (SEDI, 2004). It is important to note that it is too early in the project to draw any conclusions about the impact of the financial management training or to discuss the direction of the relationship between the training and the savings outcomes. Furthermore, while eligible participants are expected to participate in the financial management training, their financial incentive is not conditional on completion of the training course. As a result, some participants may have chosen not to participate in any financial management training yet have high savings outcomes. Ongoing research and analysis may shed more light on the relationship between training and savings outcomes in IDA programs.

Fair Gains: Based on early exposure to asset-building concepts and IDA program models through its relationship with SEDI, MCC-Employment Development Calgary (formerly associated with the Mennonite Central Committee Alberta) introduced a local IDA program in Calgary. Since 1999, the non-profit organization has delivered Fair Gains, an IDA program aimed at low-income residents in Calgary who are interested in saving toward education, micro-enterprise development, skills training, home ownership, post-secondary education for dependent children or to purchase employment-related tools. The program is jointly funded through the United Way of Calgary, the Cooperators Group, and an anonymous donor.

Since 1999, 160 Calgary residents have participated in Fair Gains, saving an average of $68 per month. The program requires that participants take part in an intensive and lengthy financial management training program of 36 hours over the course of one year. The training is delivered bi-weekly or monthly to groups of up to 20 participants. The topics covered include budgeting and money management, understanding credit, taxes, insurance, consumerism, wills and estate planning, the global economy, and goal setting. Participants intending to use their IDA savings to purchase a house are required to complete a further 18 hours of training specific to home ownership.

MCC-Employment Development reports very favourable results, based on participant feedback and self-rated performance at the training mid-point and end. Among the 40 participants in the 2003 Fair Gains program, 82 percent reported they were more confident in their abilities to manage their money and felt a greater sense of control over their personal finances following the training. Ninety percent of participants also reported they were committed to saving, following the training, but only 60 percent indicated they now set financial goals for themselves (Caton, 2004).

Based on the success of Fair Gains, the organization introduced in 2001 an IDA program aimed at youth. Results among Youth Fair Gains participants are comparable in terms of savings performance and self-reported impacts of the financial management training. However, attrition from the program remains higher than among adult Fair Gains participants, and recruitment continues to be more time consuming compared to the adult Fair Gains program, which now enjoys widespread awareness within the community and is routinely oversubscribed.

MCC-Employment Development designed the financial training curriculum for Fair Gains and has adapted it to suit its Youth Fair Gains clients and for delivery outside its IDA programs. In 2003, MCC-Employment Development staff delivered financial education training to just over 400 participants in community-based workshops. These workshops are offered in partnership with other community organizations and focus on specific topics of interest to the target audience. In response to demand, the organization is seeking funding for a full-time staff position to deliver these training workshops and reduce the demand on other staff to fulfill this role in addition to their program demands. Program administrators estimate that the cost to deliver these workshops is roughly $100 to $250 per participant (Caton, 2004).

Based on their experience, program staff strongly recommend making some financial management training mandatory to access the financial incentive in an IDA or similar program. They further recommend that financial management training be delivered in a group setting, rather than individually, to enable peer learning and peer support to take place, and that training courses be developed as long-term initiatives to enable ongoing support and follow-up with participants. They caution, however, that in delivering financial training, organizations must be prepared to deliver material in a very sensitive manner to disadvantaged groups and to be prepared to help participants address some very personal issues that may be raised by topics covered in the training material.

SEED Winnipeg: Similar to MCC Employment Development and informed by its early contact with SEDI, SEED Winnipeg launched a local IDA program in Winnipeg's north end in 2000. The program is also heavily influenced by the organization's participation in Winnipeg's Alternative Financial Services Coalition, an inter-agency collective concerned with the flight of mainstream financial institutions from Winnipeg's inner city and the consequences of the growth of high cost alternative services, such as pawn shops, payday lenders, and cheque cashing outlets. The SEED IDA program is funded by several sources including the United Way, the Government of Manitoba, and private and anonymous donors.

The Winnipeg IDA program offers roughly the same asset purchase choices as the Calgary program, but includes renovations to a house and excludes the purchase of employment-related tools. Since the program start, 68 participants have enrolled and saved an average of $80 per month.

Like the Calgary program, the Winnipeg IDA requires participants to complete an extensive course on financial management training. The Winnipeg program offers 18 hours of core training delivered through group workshops on topics, such as goal setting, banking, credit, and problem solving. Asset-specific workshops are offered to participants aiming for home ownership. Special topics, such as rights and responsibilities under social assistance, are covered in peer support groups.

To respond to the needs of a largely urban Aboriginal target population, the training curriculum was developed in consultation with an Aboriginal elder to ensure the materials were culturally appropriate while covering many of the same topics as other financial literacy curriculums, such as banking, credit, budgeting, and goal setting. Asset-specific workshops are offered to participants aiming for home ownership and special topics, such as rights and responsibilities under social assistance, are covered in peer support groups.

Since the launch of its IDA program, SEED has expanded its financial literacy activities. Money management training is now delivered to participants in SEED's IDA and savings circle programs as well as a stand-alone training initiative. Training is delivered by SEED staff or through partnering organizations such as the Independent Living Resource Centre. The annual budget for SEED's money management training program is about $265,000. In 2003-04, nearly 150 low-income participants received SEED's money management training program either in full or components of the curriculum.

Financial Literacy Outside IDAs

A very small number of community organizations in Canada are also engaged in financial literacy services outside an IDA program context. Like IDA programs, they aim to reach disadvantaged groups that may be lower income, may not have more limited access to mainstream financial services or may not otherwise be able to afford fee for service financial advice.

SEDI – Metro Credit Union: Based on the success of the *learn*$ave training curriculum, SEDI has adapted the curriculum for delivery outside an IDA program. In a pilot project, SEDI partnered with Metro Credit Union (MCU) in Toronto to deliver financial management training to 90 clients of the MCU. Participants took part in a series of five three-hour workshops for groups of 15 to 20 participants. These workshops covered the same basic financial content as the *learn*$ave training curriculum, such as setting savings goals and overcoming personal barriers, understanding financial terms and money management delivered using the PLAR pedagogical method. A SEDI staff facilitator provided the overall guidance through the PLAR process while more specialized financial information was delivered by guest speakers from the MCU. Training courses were delivered at a cost of $4,500 per course to the MCU and free for the first three groups of participants. The last two groups of participants were asked to pay a fee of $50.

Compared with *learn*$ave participants, and perhaps because of their attachment to a mainstream financial institution, MCU clients generally demonstrated a higher level of prior financial knowledge (Goldberg-Leong, 2004). However, the opportunity to engage in peer learning and a facilitated process proved to be very valuable. Results, based on feedback from course participants and the MCU, have been very positive. One MCU representative stated that the program "is an important part of our educational mandate… its impact on our membership has been remarkable." (SEDI, 2004A) Course participants also indicated positive impacts on their awareness and use of financial services, and on their ability to set and meet financial goals. The partnership between SEDI and the MCU also proved to be mutually rewarding and may present a replicable model.

The initiative did encounter at least two challenges (Goldberg-Leong, 2004). First, finding a time to schedule training workshops to be accessible (in light of family and work responsibilities) to the target group proved to be difficult. Second, the capacity to meet both the technical content as well as the developmental facilitation required by the course proved to be challenging and project staff noted that it would be extremely rare to find this combination of skills within one trainer. The model used in this case (supplementing the facilitation with technical guest speakers) is one possible approach.

St. Christopher House: St. Christopher House is a non-profit organization serving central and west-end Toronto. St. Christopher House has been concerned by the withdrawal of mainstream banking services in the lower income neighbourhoods it serves and by a range of indications of growing financial exclusion among its clients. The organization partnered with RBC Royal Bank to develop the Parkdale Community Banking Project and eventually RBC's Cash & Save, a low-cost storefront alternative to both traditional bank branches and to costly cheque-cashing outlets. The model has proved valuable to both RBC and community residents, and is being replicated in another location in Toronto. St. Christopher staff now maintain an ongoing relationship with Cash & Save as an accessible mechanism to introduce or reintroduce clients to mainstream banking.

In early 2003, St. Christopher House introduced a stand-alone financial literacy initiative called FAPS – Financial Advocacy and Problem Solving. Based on its experience with low-income clients in disadvantaged neighbourhoods in Toronto, the organization decided to broaden the range of services to tackle financial exclusion from access to basic banking and savings (through its involvement with the Cash & Save and *learn*$ave projects) to also include:

- information and advice on debt, credit, income tax, benefits eligibility, investment, and protection from financial scams;
- assistance and, where necessary, advocacy in navigating bureaucracies associated with social assistance and other public benefits;
- public awareness and education; and
- advocating for systemic change to address issues of financial exclusion.

The target is the low- and modest-income families in west-end Toronto, many of whom are recent immigrants to Canada, do not yet have sufficient knowledge of Canadian financial services, public benefits, and consumer protection, and are more vulnerable to financial victimization. The program's services are delivered through a variety of ways including regular visits to local food banks to provide highly condensed (15 to 20) individual consultations, debt and credit counselling services for those clients refused by credit counselling agencies, and group workshops on topics of popular financial education (such as smart banking, consumer awareness, reasons to file income tax and benefit entitlements). These workshops are delivered in response to direct requests from clients or other partnering community-based organizations but have also been embedded within longer-term life skills training programs offered by other agencies (Conway, 2004).

The FAPS program is a three-year initiative funded by the Metro United Way and serves about 40 to 50 clients per month in addition to its annual income tax preparation assistance (Conway, 2004). The community workshops are almost always oversubscribed, suggesting a significant demand for this service, as in Calgary for the Fair Gains workshops.

Project staff observed that initiatives such as FAPS may affect clients' financial security and ability to save and accumulate assets by encouraging them to engage in long-term thinking and planning. They caution that it would be a mistake to presume low-income clients lack skills at saving. In fact, FAPS clients often have very well developed day-to-day budgeting skills but simply do not think about saving in the context of longer-term goals or rainy-day funds.

Other Initiatives

Outside the community-based sector, other organizations are involved to varying degrees in financial literacy initiatives. However, these are aimed at a more general audience, presuming a higher level of prior knowledge and experience, and are not explicit in any aim to increase personal savings or asset building through financial education.

At the federal level, the Financial Consumer Agency of Canada (FCAC) was created as part of changes to Canada's banking legislation. Included within its mandate is consumer education on rights and responsibilities, and on financial products and services. To fulfill this function, the FCAC maintains a toll-free consumer help line and an on-line clearinghouse of publications on a range of topics, such as access to financial services, credit cards, mortgages, and insurance. The FCAC also produces brochures and publications to deliver consumer information on topics, such as understanding consumer rights under new banking regulations.

At the provincial/territorial level, provincial and territorial securities commissions all provide some form of consumer financial education through on-line self-directed learning materials on investment. Most also produce brochures on basic investment information and several provide free or low-cost investment education seminars in community-based settings. In Quebec, the provincial securities commission was recently restructured as the Autorité des marchées financières, intended to act as a unified regulatory body for the financial sector and a single window for consumer information. Included in the organization's mission statement is a commitment to provide "assistance to consumers of financial products and services through education programs, processing complaints and dispute resolution" (Autorité des marchées financiers, 2004). In practice, financial literacy services offered by the Autorité do not differ significantly from other provincial/territorial securities commissions.

Provincial/territorial governments also have opportunities to deliver financial literacy education through public school curriculums. Some form of financial education is included in the curriculums for Ontario, Manitoba, Quebec, and Alberta, and is likely included in other provinces and territories as well. However, in all cases, the financial education is only at secondary levels and is not mandatory for graduation. The recent changes to the Quebec curriculum actually diluted the economic content of a previously compulsory economics and personal finances course to add geography and modern history components. In Alberta, the province introduced the Centennial Education Savings Plan available as a grant to all Alberta children beginning in 2005. Program officials at the provincial department for education, Alberta Learning, have stated that there are plans to integrate the grant with education on personal finance in the provincial school curriculum; however, no details are yet available (MacDonald, 2004).

There is also a role for private sector financial service organizations including major banks and their industry association, the Canadian Bankers' Association. Financial service providers have an interest in ensuring their clients have some level of financial capability for at least two reasons. First, financially capable clients may pose less of a risk to financial institutions for defaulting on or misusing credit and loans. Second, financially capable clients may be more inclined and better equipped to use bank products and services that generate revenue for the bank. All major chartered banks in Canada surveyed for this paper provide some form of financial educational tools and information aimed at existing or potential clients. General information is made available through web site and Internet-based resources for self-directed learning or through brochures available in branches. These types of resources may guide clients in making decisions about specific products and services or may provide basic information on product or service terms and conditions. More personalized information and advice is provided by bank staff to existing clients during one-on-one exchanges as part of the sales and product disclosure process. For example, a licensed bank employee may provide information and advice to a current or prospective client interested in investing in mutual funds. However, since the advice is aimed at an audience with resources to invest who are either current or prospective clients of a mainstream financial institution, this presumes a high degree of numeracy and literacy, and a pre-existing level of basic financial knowledge. There is still a need for impartial and basic advice.

The Canadian Bankers' Association does aim to supplement the information provided by its member organizations. In 1998, it launched the Building a Better Understanding initiative in response to a survey of consumers that confirmed a widespread demand for more financial information among Canadian consumers as well as a widespread belief among consumers that additional financial information would enhance their ability to engage in sound financial planning. The CBA now makes available a series of information booklets, on-line or in print, on a range of topics such as "Understanding Service Fees" and "Saving for Your Child's Education." The other CBA activities are aimed largely at high school youth. Since 1999, the CBA has delivered a series of classroom seminars to high school students in communities across Canada, and reports that 79,000 Canadian students have participated in 2,600 such seminars although there are no reports on the impact or student responses to these seminars. Finally, the CBA has launched a youth-focused web site <www.yourmoney.cba.ca>. The web site is intended to be an integrated clearinghouse for web-based financial information aimed at youth, their parents, and youth educators.

Finally, one charitable foundation in Canada, the Canadian Foundation for Economic Education (CFEE), has a specific mission to enhance the "economic capability" of Canadians, that is, the "extent to which Canadians assume their economic roles and make economic decisions with competence and confidence" (CFEE, 2004). Established in 1974 as a non-profit organization, the CFEE produces educational resources aimed primarily at students in the public school system. For example, it co-ordinated the development of the new Ontario high school business curriculum for the Ontario Ministry of Education, and has also developed a set of proposed guidelines for economic capability to stimulate and shape future discussion on this topic. The proposed guidelines include:

- a set of basic concepts Canadians should be able to understand, such as economic performance indicators, saving, and interest;
- key areas where economic capability can be applied, such as effective personal financial planning and unemployment;
- attributes present in an economically capable person, namely both confidence/efficacy as well as a behavioural element;
- target skills for economic capability including the ability to plan and set goals, and the ability to engage with technology; and
- factors underlying economic change that Canadians should be equipped to understand and deal with, including the fiscal position of governments and globalization.

The CFEE's activities are aimed at enhancing the economic capability of all Canadians, not specifically disadvantaged Canadians, and its methods are largely aimed at youth in high school as a primary audience. It is not clear to what extent the proposed economic capability guidelines have impacted other Canadian stakeholders, particularly those concerned with meeting the needs of underserved groups or of delivering services that support asset-building objectives.

Areas for Further Consideration

Seeking Clarity and Consensus

The continued use of several diverse but overlapping terms and definitions in the dialogue about financial literacy in Canada (and the United States) is perhaps both a reflection of, and a contributing factor to, the very fractured community of stakeholders in this field. When the broadest net is cast, as in this paper, it is clear that there exists already in Canada a diverse network of organizations involved in measures to improve financial literacy among Canadians. However, it is also clear that these organizations do not necessarily share an explicit conceptual framework. The result is a series of disjointed areas of activity with no clarity or agreement on objectives or direction for future investments. Contrast this with the experience of the community involved in financial capability in the United Kingdom. There, the presence of a relatively well-accepted lexicon and working definition of the concept appears to have enabled stakeholders to move forward in a much more co-ordinated way. Perhaps the first major challenge to the field in Canada is to work toward a clearer and more shared working definition of what is meant by financial literacy. The Adult Financial Capability Framework used across the United Kingdom might be a useful starting point in the development of a model for Canada.

Understanding the Market

While much of the research on the implementation and impacts of financial literacy training initiatives confirms that the design and delivery of the training must be highly tailored to the specific target market, there has been no effort in Canada to better understand Canadians' needs, demands, and preferences related to financial literacy. Based on available information, it would be a serious mistake to assume a uniform level of need for information, a uniform level of demand for financial literacy training or uniform preferences for how that information or training should be conveyed. For example, research conducted by the US Federal Reserve found very different preferences for the delivery of financial information among different sub-groups in the United States (Hogarth and Hilgert, 2002). The current range of financial literacy activities in Canada can be grossly segmented into youth/student- and adult-focused initiatives. However, much more research needs to be done to learn about the following differences.

The actual current levels of financial literacy/ financial capability among various groups: Available research suggests that many disadvantaged groups including those on low income, those with basic literacy or numeracy limitations, and those with less education may have lower levels of financial knowledge, skills, and confidence. When measured against a clearer definition of the concept, this would provide some sense of the real level of need for financial literacy services in Canada.

The actual levels of demand for financial information and training among various groups: Available research suggests that the uptake of financial literacy training may be lower where no immediate motivation (such as a financial crisis, financial incentive, or life event) exists. Further research would provide better information on how and when Canadians can be expected to make use of financial information and training programs and services.

The range of preferences for the delivery of financial information and training among various groups: Available research suggests that not all target groups are equally capable or interested in using information delivered in certain media or formats, such as the Internet, brochures, or classroom-style training programs. Further research would provide better information to tailor the design of financial information and training initiatives so they are truly accessible to the target market they are seeking to reach.

There may be several target groups that can be identified for this work, but of particular interest should be those disadvantaged groups facing greater challenges in terms of need and access to current services. These include, but are not limited to:

- Canadians living in low-income or poverty situations;
- Canadians with literacy and numeracy challenges;
- Canadians who are unbanked or only tenuously connected to mainstream financial services;
- newcomers to Canada, particularly those from developing countries or countries with significantly different financial systems;
- Canadians with disabilities, particularly those with communications-related disabilities;
- Canadians living in rural or remote communities; and
- Aboriginal Canadians.

Setting Objectives

Based on the outcomes of the dialogue on the conceptual framework and research to better understand the current market, stakeholders will need a series of clear objectives to guide future investments in financial literacy initiatives. Again, the Adult Financial Capability Framework in the United Kingdom may serve as a useful starting point in developing a model for Canada. Research on individual programs suggests the presence of clear objectives is critical to the success of any measure to increase financial literacy/financial capability to direct activity and to measure progress and impact. At the same time, it is worth noting that any objectives related to financial literacy/financial capability will always be moving targets as the environment within which consumers are expected to function continues to change and evolve.

In setting objectives, stakeholders should consider carefully their expectations regarding behavioural outcomes, such as increased savings and asset-building. The research suggests that financial behaviour cannot be neatly predicted from financial training, and individuals are not always rational actors. However, the research on financial literacy connected to asset-building initiatives suggests that participants do respond to the ancillary service. It may be useful to think of financial literacy/financial capability as a necessary precondition for asset-building.

Determining Appropriate Roles

There are at least four current stakeholders involved in the development and delivery of financial information and training in Canada: the Government of Canada, provincial and territorial governments, the private sector (financial services in particular), and the voluntary sector. Each stakeholder brings certain resources and interests in contributing to greater financial literacy/financial capability but also certain limitations. The Government of Canada has already elaborated a series of policy priorities (such as ensuring access to basic banking) and maintains a series of direct transfers (including several that are asset-based) to individuals that create both opportunities and imperatives to support financial literacy. Similarly, provincial and territorial governments have certain policy and program imperatives, as well as opportunities to shape public school curriculums. The private sector, particularly financial services, have both significant expertise in financial information and training as well as a vested interest in contributing to a more informed and capable consumer population. Finally, voluntary sector organizations have a critical role in providing information and services to disadvantaged groups. Available research strongly suggests that, for disadvantaged target groups, the presence of a trusted community organization is critical to the success of financial capability initiatives. Voluntary organizations have the advantage of offering multiple services and multiple points of entry to hard-to-reach clients. They also have the advantage of being sources for trusted advice and counselling unlike the private sector' sales-driven providers. But outside a handful of organizations already very active in the delivery of financial literacy training, voluntary sector organizations will require significant support and resources to build their capacity in this field.

It is almost certain that achieving a set of objectives related to financial literacy/financial capability will require partnerships among stakeholders. The available research suggests that when these partnerships are properly established and supported, they can be extremely effective.

Implementation Challenges

This concluding section has already hinted at several of the likely challenges to the implementation of any large-scale financial literacy/financial capability initiative, but it is worth discussing these in greater detail.

First, policy makers and program designers will need to *find ways to generate demand* where it is currently weak. Financial literacy is comparable to other social marketing challenges – citizens may widely agree that it is valuable but are unlikely to take action without some additional motivation or incentive. Evidence from research and practice suggests that consumers may be more receptive to financial literacy/financial capability information and training when they have an immediate financial crisis but there is not an appropriate level of intervention to reach all target groups or to prevent financial exclusion. New programs with financial incentives, such as the Canada Learning Bond announced in the 2004 federal budget, create both opportunities and imperatives for financial literacy/financial capability strategies. Other asset-building initiatives, such as IDAs, function in a similar way by providing consumers with a financial asset they are then motivated to protect. Research also suggests that major life events, such as unemployment or the birth of a child, offer entry points for financial literacy/financial capability.

Second, while the need for financial literacy/financial capability may be universal, policy makers and program designers will need to develop much more tailored approaches to the delivery of services in this field. Evidence from research and practice is clear that the delivery of financial information and training must be tailored to the particular target group it seeks to reach. This includes measures to accommodate specific needs, levels of demand, and learning preferences. Given the diversity of the Canadian population, the delivery of financial information and training in Canada must also take cultural, linguistic, and regional differences into account. There is a wide range of possible approaches to the delivery of financial information and training but so far only three, quite divergent approaches have been taken: the universally available but very generic sources that can be accessed on-line or in other passive, self-directed media, for-fee services very tailored to the needs of individual clients, and the very intensive training programs offered by a handful of community-based organizations either inside or outside of IDA programs. However, there are real questions about the cost effectiveness, efficiency, and appropriateness of those more intensive approaches in any attempt to design an initiative targeting large numbers of people. In the first two instances, there are also serious concerns about accessibility and usability among disadvantaged groups.

Given that the needs of the marketplace are likely segmented, there is ample ground for a range of accessible and cost-effective financial information and training products and services. New and innovative models need to be developed, based on information about the target markets, and tested.

Third, policy makers and program designers will need to evaluate impacts despite the apparent difficulty of doing so. Most evaluations have relied on self-reported data from program participants to assess impacts. While this may be adequate to capture attitudinal and psychological changes, a fuller evaluation of financial capability must also look for changes in objective measures of knowledge and skills as well as behaviour. As with all good evaluations, the framework must relate directly to the objectives established and shared across the field. At the same time, in setting the bar for evaluations, policy makers and program designers must be prepared to expect more limited behavioural changes without declaring the initiative a failure.

Finally, for policy makers and program designers interested in the goals of asset building, they will need to acknowledge that financial information and training is a *necessary but limited response*. Financial information and training alone will not provide the financial incentives that will enable Canadians to save and build assets. Nor will it provide the financial services infrastructure necessary for the accumulation and maintenance of financial assets or to access other forms of assets (such as home ownership). Particularly for disadvantaged Canadians, financial incentives with real value and an accessible financial services sector are key ingredients for the success of any asset-building initiative alongside measures to support financial capability.

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