

REFRAMING THE EXPECTATIONS OF FINANCIAL LITERACY EDUCATION:

bringing back the reality

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There is no agreed framework for financial literacy education (FLE) and considerable debate in the academic literature about whether it can improve financial literacy and decision making, thereby enhancing the overall financial well-being of individuals. Based on a review of the literature and reflections on the outcomes of various FLE programs, this paper develops a framework which incorporates enabling factors, levels of content and desired outcomes for these levels. Our model seeks to achieve alignment between the expectations of FLE and its actual delivery and content.

Financial literacy¹ education (FLE) is available in most developed countries. It is often taught at schools in core subjects such as mathematics with teachers typically receiving some form of professional development in financial education. Informally, FLE is delivered predominately by financial institutions or by community organisations receiving financial support from banks and government departments. The move to increase financial literacy levels is a global initiative (OECD 2013). Despite this, many academics have begun to question FLE in terms of (1) its ability to improve financial decision making of participants (Mandell et al. 2009); (2) the appropriateness of the content and method of delivery (Lusardi and Mitchell 2013; Lyons et al. 2006; Worthington 2013); (3) the underlying conflicted motivation of some providers of FLE (Pinto 2012a); (4) the lack of post program follow-up (Worthington 2013); and (5) the potential danger in the provision of short programs for individuals to develop a false sense of capability, leading to poor decision making (Willis 2008). Indeed, the evidence from the US has shown that after a decade of work in schools, little can be demonstrated in terms of the financial decision making capacity of school leavers (Mandell et al. 2009). Essentially, there is a lack of consensus about the benefits (and evidence to support this) of most facets of FLE (modality, content, tailoring, underpinning knowledge and the link to financial advice to name a few). For example, at present, individuals attending a FLE workshop are left with a large binder full of financial information (or electronic equivalent), but very limited contact to answer any queries they might have. Often specialised and individualised advice regarding the specific

circumstances an individual is facing is lacking from these FLE programs (or unable to be provided due to legal constraints) and is likely best advised by a financial planner/counsellor. Thus the neutral content of most FLE programs is suitable for a basic understanding of concepts only (Pinto 2009).

This paper explores the evidence on outcomes and concerns over FLE that have emerged in the literature and then combines this with our experiences in delivering FLE to develop a model of FLE (Brimble and Blue 2013). The model provides a structure that maps the journey of the individual from financially illiterate to financially capable, while acknowledging the fact that in the vast majority of cases effective financial decision making involving anything other than the most basic of products will require some form of independent financial advice. We argue that development of FLE programs aligned with such a structure will have a much better chance of success in terms of improving financial decision making and, ultimately, financial well-being.

FLE: Importance and the desired outcome

The 2008 global financial crisis (GFC), the existence of increasingly complex financial markets and the widespread growth of alternative or predatory financial services are all valid reasons for FLE. It is well positioned to enable individuals who have missed opportunities to learn how to make simple financial decisions (such as basic personal banking and money management) to increase their knowledge and/or develop new personal finance skills (Pinto 2009). However, its ability to assist with more complex financial decision-making may be limited and unwarranted.

The ultimate aim/outcome of FLE is to increase financial literacy levels while improving the financial well-being of individuals (OECD 2005) through optimal financial decision making. It is generally believed that improving one's financial literacy levels will lead to an increased demand for higher quality financial services, increased competition and further innovation in the market with individuals less likely to react unpredictably to market conditions (OECD 2013). Moreover, it is expected that this will also reduce government taxes aimed at '...assisting those who have taken unwise financial decisions' (OECD 2013, p. 141). This outcome places the responsibility on the individual to make the best financial decisions for their government, which may not necessarily align with the best decisions for the individual or their family.

FLE's role is to enhance the financial literacy levels of society and is politically motivated (Arthur 2012; Pinto 2012a; Willis 2008). This theme is central to the debate in the literature in relation to the efficacy of FLE with some arguing improved financial literacy can lead to positive behaviour changes (Bernheim et al. 2001; Cole et al. 2011; Lusardi et al. 2008); however, not all academics share this (West 2012; Willis 2008).

Concerns about FLE

The allure of FLE is the widely held belief that an individual gaining this knowledge will become literate and then apply that knowledge and make effective financial decisions for the betterment of the individual, their family and society (OECD 2013; Willis 2009). However, Willis (2008, p. 54) examines the dangers inherent in such belief, where consumers are duped '...into thinking they can master the financial services market, while placing blame upon them for their failure to do so...'. This highlights the misguided expectation inherent in current FLE strategies that may lead to unwarranted outcomes, such as marginalising/blaming the victim/individual, pointing to the need for FLE to be relevant to all individuals including those who may not always choose the most financially desirable decision. Arthur (2011) argues that it must be determined whom FLE serves and what the main aims of FLE ought to be.

Presently, FLE appears to serve individuals with a wealth accumulation focus and governments wishing to reduce spending on individuals who make poor financial choices.

Concerns have also been raised about 'the one-size-fits-all' approach to teaching FLE with regard to gender differences (Pinto 2012b; Pinto and Coulson 2011) and cultural differences (Brimble and Blue 2013; Lahn 2008; Pinto and Chan 2010). It has been argued that the current FLE models are lacking a critical component (Arthur, 2012). We concur that the critical component is lacking from many FLE programs — whereby individuals examine the FLE teaching and decide whether it is appropriate for their needs.

Overall, the approach to FLE needs to be far more sophisticated and targeted than it often is and increased financial policy is likely required (Willis 2008). It is clear that: much of the FLE effort fails to develop effective financial decision making capacity; it fails to promote engagement with independent financial advice professionals; it is often not linked to a program of developing underpinning knowledge (numeracy, literacy, information literacy); and it is often delivered using ineffective education methods. There is also a lack of focus and content on behavioural and relational issues and skills, and thus insufficient focus on the capacity to put FLE knowledge into practice. Indeed, much of the work does not clearly articulate a purpose, other than providing the FLE, and few studies evaluate the impacts of the program, particularly in the longer term.

A model of FLE

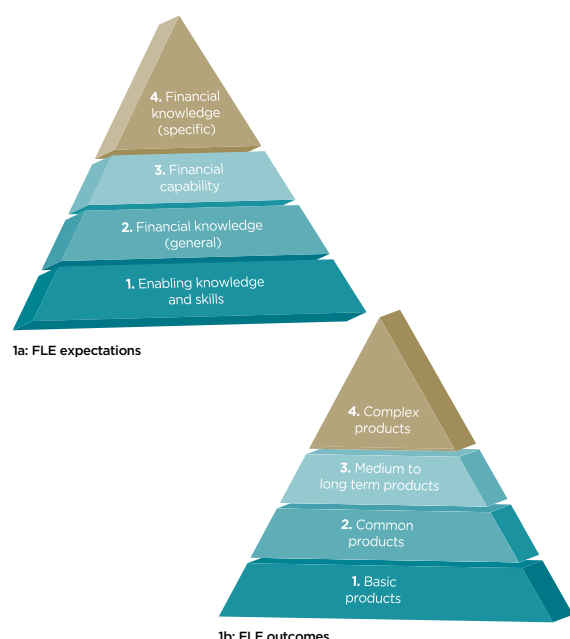
The foundation of our model is the reality that the financial system, markets, products and money are complicated and, hence, FLE must be both developmental and expectations/outcomes focused. Accordingly, our model has three key elements to it: (1) levels of expectations in managing financial decisions (Figure 1a); (2) the level of independence (the outcome) of financial decision making suitable to each of these levels (Figure 1b); and (3) the characteristics of FLE programs essential to facilitating the achievement of these (Figure 2).

Expectations and outcomes of FLE

We posit that the complexity of FLE is confounded by the lack of structure around approaches to curriculum/content design, which fails to recognise the range of elements involved. Accordingly, we propose that a four-level hierarchy of participant development towards effective financial decision making be embedded in FLE. The first stage involves gaining basic knowledge and skills that underpin the specific financial education and skills developed in FLE (levels 2–4) (Figure 1a). This would be contextualised to personal finance, and the knowledge areas would include general literacy,

information technology literacy, numeracy, and financial system/market terms and basic products (deposit accounts). This would support effective independent financial decision making for simple products and services (such as bank accounts). We argue that while these areas are particularly relevant to some constituencies, it is difficult to assume competency for any particular group.

FIGURE 1: Realistic expectations and outcomes of FLE



The second level develops general financial knowledge that provides the foundation of financial literacy that will inform the skills and behavioural framework to put this into action (financial capability in level 3). The foundation knowledge includes the common FLE areas² with emphasis on communication, attitudes, values and the principles of financial markets and financial decision making. This would ideally be delivered in an experiential learning model and include a variety of group and action learning strategies tailored to the modality and constituency. This would support effective independent financial decision making for common products and services (such as bank accounts, credit cards, small personal loans and common insurance products).³

Level 3 focuses on supporting and encouraging participants to confidently implement the knowledge they have acquired in previous levels. This is a critical and challenging task for FLE, and one that will require interaction over time, mentoring and peer group support systems to encourage positive behaviours and continual development and learning.

That is particularly the case given behavioural biases and the difficulties many have in implementing financial knowledge. Level 3 should also produce a high degree of awareness of one's financial situation (including a clearly articulated set of short-, medium- and long-term goals) and develop the cautious financial consumer. This would support effective independent financial decision making for common products and services over longer terms and with higher risk (larger capital involved) products such as home loans, car loans and investment bank accounts).

The fourth and final level includes specific financial knowledge that is relevant to individual circumstances (often driven by a combination of life stage and financial position). Given the increased complexity (and risk) in these knowledge areas (for example, equity and property investments, retirement planning, estate planning, insurance, investment debt), we argue that mastery of levels 1-3 is ideal, and that this stage should also be heavily supported/linked with professional independent financial advice. Ideally this would be delivered as a suite of individual learning activities that draw and build upon levels 1-3.

We argue that if FLE activities adopted such a framework, consumers would be encouraged to: (1) develop a lifelong learning approach to FLE; (2) establish where particular FLE programs/activities contribute to their financial capability (in order to discriminate between them); (3) manage their progression to higher levels (if desired); and (4) manage all stakeholder expectations in relation to FLE outcomes. In addition, program providers would be able to use this in the design of their FLE and articulate clearly where their program sits. The result would be a clear set of expectations from different levels of FLE in relation to the intended confidence and ability of participants to make particular types of financial decisions, and enable support structures around such decisions to be developed.

Enabling characteristics of FLE practice

The third element of the FLE (Figure 2) captures the enabling characteristics of FLE practice that supports the ability of the participant to utilise the knowledge and skills provided across all four levels in terms of the expectations and outcomes, and also utilise these for effective financial decision making outcomes. There are four factors that are drawn from the literature and our experiences in the field with FLE community projects.

The first of these is to ensure that the FLE is tailored to the particular audience to ensure relevance and maximise engagement. The literature clearly argues for this and suggests it is a key factor undermining FLE outcomes to date (Brimble and Blue 2013; Lusardi and Mitchell 2013; Pinto 2012b).

FIGURE 2: FLE program design characteristics.



Second is to ensure the program outcomes are measured and reported. This will promote continuous improvement and knowledge sharing. We believe the establishment of this feedback, reporting and dissemination process is critical to developing rigour within FLE practice.

Third is to establish mechanisms for participant learning, behavioural improvements and implementation to be sustained over time. At this stage, we are ambivalent about whether this group is driven by money circles, a club model, a lifelong learning model or a direct advice model.⁴ Overall, we argue that unless FLE is designed to achieve sustainable, lifelong learning, much of the short-term outcomes from the substantive FLE program will be lost in time.

Finally, we argue that the blue sky view of FLE in terms of developing effective independent financial decision makers is misguided.

In our view, the complexity of the markets, products and human participants is simply too great to allow most people to effectively navigate financial decision making beyond the most basic of financial products/services, without support. We suggest that our proposed model addresses the concerns raised in the literature and it will provide participants, program designers and program facilitators with a framework that is useful to manage the expectations of participants and other stakeholders in terms of the expected outcomes of FLE.

Conclusion

Presently, FLE may be nothing more than a false promise that tends to 'blame the victim' (Gross 2005; Willis 2008) if they fail to transfer their newly acquired financial knowledge into action-initiated financial well-being. As such, governments around the world in both developed and emerging countries that are focusing their efforts on increasing the financial literacy levels of their citizens through FLE will continue to be challenged as the outcomes and agendas of FLE are scrutinised.

We do not debate that FLE is important, but argue that the current outcomes associated with its teachings are likely unrealistic. This is also complicated by the lack of a framework that integrates expectations, outcomes and facilitating characteristics of the programs to adequately recognise, and allow for, the complexity of the financial markets, products and participants. Within this context, we develop and present a model of FLE that is individually focused, in which expectations are tied to the values and life goals of each individual as they decide how to live the life they want, and content is taught in such a way as to critically engage the learner.

We argue that our proposed structure will inform FLE program design, better communicate and manage stakeholder expectations of outcomes from different FLE activities, and focus on building the long-term capacity of participants to make effective financial decisions and improve financial well-being. This also opens up significant areas for further research in terms of empirically examining the proposed framework through experimental, longitudinal research that is focused on determining how to best realise these outcomes from FLE. A further critical issue for research is how this can be operationalised across various constituencies. In essence, we aim to bring back reality to the FLE debate and develop evidenced-based approaches to improve participant outcomes.

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Endnotes

- 1 Financial literacy is defined as the 'knowledge and understanding of financial concepts and risks, and the skills, motivation and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society, and to enable participation in economic life' (OECD 2013).
- 2 For example money values (habits, attitudes, communication, fears, beliefs), savings, earning, spending, debt, understanding your financial position, and goal setting and planning
- 3 The nomination of these products/services is based on our experience in community FLE, however we acknowledge that empirical evidence is required to more closely evaluate these.
- 4 Due to the lack of empirical evidence to discriminate between such models in the FLE context.

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