

# Financial Literacy: Lessons from International Experience

**Larry Orton**

CPRN Research Report  
September 2007



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## **Foreword (CPRN)**

The ability to understand, analyze, and use information about financial decisions in day-to-day life and to plan for the future is important to the well-being of Canadians. Our level of “financial literacy” affects our ability to provide for our families, to invest in our education and that of our children, and to contribute to our communities, all important aspects of citizenship in our society. Difficulties with financial literacy can affect Canadians at all income levels. And the penalty for financial illiteracy can be severe, especially for low-income families, who stand to lose the most proportionally from poor financial decisions.

This report, by CPRN Senior Research Fellow Larry Orton, outlines why financial literacy is of growing importance; reviews the international experience with financial literacy initiatives, with a focus on the United States, the United Kingdom, Australia, and New Zealand; and identifies what Canada might learn from these programs.

Orton identifies several steps that could improve financial literacy in Canada, including improving access to and awareness of information on financial decision-making, developing model curricula for financial education that can be used in the schools and in workplaces, and taking a closer look at other countries’ best practices. He notes that financial literacy is a long-term goal that requires an integrated approach involving multiple government programs. And he identifies viable public policy actions that can be taken to achieve financially literate citizens.

I would like to thank Larry Orton for his valuable contribution to our understanding of the importance of financial literacy and what can be done to improve it. Larry completed this research project on behalf of the Financial Consumer Agency of Canada, a federal government agency responsible for implementing a financial literacy program for youth.

Sharon Manson Singer, Ph.D.  
September 2007

## Foreword (FCAC)

The Financial Consumer Agency of Canada (FCAC) was created by Parliament in 2001 to consolidate and strengthen oversight of consumer protection measures in the federally regulated financial sector and to expand consumer education activities across the country. Since 2001, FCAC has developed a comprehensive program aimed at protecting and informing Canadian consumers.

A key aspect of FCAC's consumer education work has been to partner with other organizations to better meet our mandate. In 2005, FCAC partnered with Social Enterprise Development Innovations, a non-profit organization focused on poverty alleviation, and Policy Research Initiative, a federal government organization, to host a symposium on financial capability. The synthesis report, *Why Financial Capability Matters*, clearly sets out the issues faced by Canadian consumers as they navigate the financial marketplace. This document can be found on FCAC's website (see Appendix A).

In 2007, FCAC made it a strategic priority to further enhance its consumer education program by looking more broadly at consumer behaviour as it relates to financial capability. To do this, FCAC contracted with Canadian Policy Research Networks (CPRN) to explore in depth programs existing in Canada and internationally, with the objective of better understanding the issue of financial literacy/capability.

The Government of Canada, in its budget of March 19, 2007, allocated \$3 million toward FCAC's activities in the area of financial literacy over a two-year period. This funding will be used to develop and implement a financial literacy program aimed at youth.

This paper, prepared by Larry Orton, has given us a good basis for developing a financial literacy program by providing a good understanding of the issues related to financial literacy and the programs available in other countries. We would like to take this opportunity to thank Larry Orton and CPRN for this important work.

Jim Callon  
A/Commissioner  
Financial Consumer Agency of Canada

## Executive Summary

Financial education has been part of the school system for some time, yet a broader concern with financial literacy, or financial capability, among the population as a whole is relatively new. The reasons for this are explored here. Those dynamics have led the Organisation for Economic Co-operation and Development (OECD) to undertake a two-part financial literacy project and to the creation of national agencies and strategies in the United Kingdom, the United States, and Australia. The US agency appears to be concentrating its efforts on the coordination of existing materials; the agencies in the United Kingdom and Australia appear to be especially successful in developing new materials.

Those national agencies are making rapid progress. National strategies have been conceptualized and documented. Websites have been created. Baseline surveys have been designed, undertaken, and published. Programs have been proposed and implemented to improve the financial literacy of specific populations such as school-aged children and adolescents, those who are working, the un- and under-banked, and those with credit problems. Evaluations have been undertaken of some of these programs.

The newness of the field is reflected in variations in the terminology used. The OECD's landmark study does not use the term *financial capability*, and even though the report has "financial literacy" in its title, it does not define the term.

Although the field of financial literacy is new, principles have been suggested and many programs have been created. The OECD's study resulted in principles and good practices such as promoting unbiased, fair and coordinated financial education; separating financial education from commercial advertising; starting financial education in primary school; ensuring that financial education is an integral part of the good governance of financial institutions; focusing on important life-planning aspects, such as basic savings, debt, insurance, or pensions; and promoting specific websites and warning systems on high-risk issues (such as fraud).

These principles and the experiences in other countries provide lessons that Canada can use. The lessons learned go beyond the concern raised in some of the literature about financial literacy for the marginalized and disadvantaged to reflect a realization that financial literacy concerns all income levels.

Canada could establish a single national website and find ways to develop quality generic advice that could be used on that site and elsewhere; use a life cycle model; understand that an integrated approach involving multiple government programs would have greater success in convincing Canadians to take an interest in their own financial literacy; be prepared to undertake pilots before a complete plan has been developed; and develop model curricula that could be used in the schools and in workplace learning. In undertaking this work, Canada might borrow from and build on the best experience available in other countries. FCAC's consumer education mandate makes it the logical agency to undertake this work. It may not be necessary for Canada to do everything on its own: FCAC could initiate the sharing of materials among agencies in Australia, the United Kingdom, and the United States.

## **Acknowledgements**

This report was contracted by the Financial Consumer Agency of Canada (FCAC). To begin the process, FCAC provided a great deal of material that the Agency's staff had gathered from many sources.

The author is grateful to numerous people outside Canada who provided information on developments. In particular, researchers and officials in the Organisation for Economic Co-operation and Development and in Australia were especially helpful. The author is especially grateful to Jennifer Robson, Director of Policy Research and Development with Social and Enterprise Development Innovations in Ottawa, for her careful and very informed review of the paper.

# Financial Literacy: Lessons from International Experience

## Introduction

The Financial Consumer Agency of Canada (FCAC) contracted Canadian Policy Research Networks (CPRN) to gather information about efforts to improve financial literacy in the United Kingdom, Australia, the United States, and the Organisation for Economic Co-operation and Development (OECD). This report uses that literature to analyze and compare how financial literacy is being addressed internationally. The report assesses whether there is any international work with respect to the evaluation of financial literacy programming.

## Financial Consumer Agency of Canada

The Financial Consumer Agency of Canada was established by the Government of Canada in 2001 to strengthen the oversight of consumer issues and expand consumer education. FCAC's specific responsibilities are to

- ensure that federally regulated financial institutions comply with federal consumer protection laws and regulations;
- monitor financial institutions' business practices (known as voluntary codes of conduct) concerning small business lending and the use of debit cards;
- educate consumers about their rights and responsibilities; and
- help consumers get the information they need to be more informed about financial products and services.

As a federal regulatory agency, FCAC is responsible for enforcing many of the federal laws that protect consumers in their dealings with financial institutions. The financial institutions that fall within the mandate of FCAC are all banks and all federally incorporated or registered insurance companies, trust and loan companies, and co-operative credit associations.

## Core Documents

At the outset of the project, FCAC provided 124 core documents to be included in the review. The majority of those dealt with Canadian concerns, 16 with the United States, and nine with the United Kingdom; two were published by the OECD. Additional documents were identified, primarily through Internet searches, bringing the total to the approximately 175 items included in the References and considered in preparation of this report.

Certain publications should be considered essential reading. The OECD's 2005 landmark study, *Improving Financial Literacy: Analysis of Issues and Policies*, deals with all 30 member countries (OECD, 2005b). The study contains excellent discussions of the factors that have spurred activity on financial education and describes six financial literacy surveys for which there is detailed information on methodology, results, questions asked, and target groups. The study also describes selected financial education programs dealing with saving and investing for

retirement, using credit and debt, and bringing the un-banked into the financial system. Key findings of the OECD study are summarized below.

In Canada, numerous outstanding studies have been published recently. The Investment Dealers Association of Canada (IDA) established the Task Force to Modernize Securities Legislation. Two research studies commissioned by the Task Force and published in mid-2006 under the general heading *Canada Steps Up* are particularly useful, even though they are oriented to investor education: Caroline Cakebread's *Investor Education in Canada: Towards a Better Framework* and Julia Black's *Involving Consumers in Securities Regulation*. The Consumers Council of Canada commissioned a study of the entire financial services industry from the consumers' perspective. Published as *The Scorpion and the Frog: A Consumer View of Canadian Financial Services and Ways to Transform Them* (Yudelman, 2001), the report and its appendices provide an overview of the mainstream Canadian financial services industry and include excellent information on materials available to consumers. Appendix 6 of the report is a selective bibliography that deals separately with Australia, Canada, the United Kingdom, and the United States.

In Canada, there has also been the work undertaken by the Policy Research Initiative (PRI), FCAC, and Social and Enterprise Development Innovations (SEDI). In 2004, the *Financial Capability and Poverty Discussion Paper* reviewed research and practice in the United States, the United Kingdom, and Canada and proposed broad direction for future action in Canada (PRI, 2004). In 2005, *Why Financial Capability Matters* presented a synthesis on the national symposium held by PRI in June 2005 (PRI, 2005). And in 2006, the *Environmental Scan of the Supply of Financial Capability Information, Education and Advice in Canada* reported on a survey to look at the accessibility and relevance of financial literacy products and services in Canada (SEDI, 2006a). Key findings of these reports are noted below.

There has also been fundamental thinking published about matters related to money and investing. Some of the more interesting thinking concerns the development of "behavioural economics," which attempts to understand behaviour that classical economics sees as irrational or inconsistent. Eldar Shafir (2005), Hilgert, Hogarth, and Beverly (2003), and Mike Dixon (2006) take this behavioural perspective. The work of Davis and Mantler (2004) provides another perspective in *The Consequences of Financial Stress for Individuals, Families, and Society*.

The documentation available on the national strategies in the United States and the United Kingdom, and the comparable documents in Australia, are also key documents and are identified later in this report. Finally, the websites that have been built in the United Kingdom, the United States, and Australia are "must-reads."

## **Overview**

This report begins with a summary of the major reasons why financial literacy has appeared on the agenda for many governments and with definitions of the frequently used terms. The review of major international experience that follows begins with the OECD's work and then summarizes the impressive gains made in the United Kingdom, the United States, and Australia

since the United Kingdom created the first central financial literacy agency in 2000. Those countries' experiences are considered under headings intended to reflect their major accomplishments: Agencies Created; National Strategies Developed; Websites Created; and Research, Surveys, and Evaluations.

The report then outlines the major “lessons learned” from this review of international experience. Rather than identifying programs that might be adapted to Canada, the Lessons Learned section attempts to abstract broad principles. It begins with the principles and elements of good practice that the OECD has passed on to national governments and that the US Treasury Department has passed on to agencies and state governments. The section then presents ideas that this project has gleaned from the work undertaken in the United Kingdom, the United States, and Australia.

Financial literacy programs need to be appropriate to their situation – perhaps especially because of the cultural sensitivity of the subject – and, for that reason, the next section identifies major points for consideration in the Canadian context.

Very late in this work, our research identified work under way in New Zealand; that work is described in a brief separate note on New Zealand that precedes the Summary and Conclusions. The Summary and Conclusions consolidate and extend the actions proposed throughout the report.

The appendices provide key abbreviations and websites.

## **The Importance of Financial Literacy**

Documentation from the United Kingdom, the United States, Australia, Canada, and the OECD reference many factors that make financial education increasingly important.<sup>1</sup> Broadly speaking, the demographic profiles are changing, financial sectors are growing complex, personal savings are decreasing while personal indebtedness is increasing, and government resources are limited.

### **Demographics Are Changing**

- The baby boom generation had fewer children than their parents; therefore, as the baby boom generation retires, there will be fewer workers to support a greater number of retirees.
- At the same time, life expectancy has increased, so the baby boom generation will likely spend more time in retirement than previous generations and may need to be supported for a longer time.
- This situation results in the need for more savings to cover the increase in living expenses and the severe demands on individual and public finance.

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<sup>1</sup> These sources are particularly useful: OECD, 2005b: 11, 28-34; OECD Financial Education Project overview; Donald Johnston, OECD; STC Planning report, p. 5; and Braunstein and Welch, 2002. Others have similar thoughts: HM Treasury, 2007 (see the Introduction and para 4.11 et seq.); and Office of Financial Education, 2004 (see Message from Secretary Snow, first article).

## Financial Markets Continue to Change

- Technological change and market innovation have changed the nature of wholesale and retail banking, and it is likely that it will continue to change.<sup>2</sup> At the retail level, technology has increased the amount of credit available (Bernanke, 2006: 1), and the Internet has increased both the amount of information about investment and credit and the availability of these products. Electronic banking makes it necessary to at least have a bank account, yet a significant percentage of the population does not participate in the conventional financial system.
- The number, availability, and complexity of financial products have increased. Information technology and telecommunications have made it possible to tailor products to specific markets. As the number of financial products has increased, consumers have become able to choose with respect to fees, interest rates, and maturities. The complexity and choice of products can make it difficult for consumers to assess them.<sup>3</sup>
- In Canada, there has been an increase in the number of alternative financial service providers. Research points to various factors for the increase in the market for alternative financial services.

## Employment and Pension Systems Are Changing

- Employment trends are changing such that fewer people have long-term, continuous employment. Part-time, contract, and non-permanent employment require a different set of financial management skills than those needed by full-time, permanent employees (Vosko, Cranford, and Zukewich, 2003). Related to this, a growing segment of the workforce lacks traditional benefits.
- At the same time, a major trend in pension systems has been the change from defined benefit to defined contribution pension schemes. In the former, employers assume responsibility and risk. In the latter, individuals assume responsibility for investing and the risk of the investment.<sup>4</sup>
- Governments have been changing benefit programs, an example being the need to apply for Old Age Security (OAS) and the Guaranteed Income Supplement (GIS) through the tax system.
- These changes have taken place at the same time as the baby boom generation and the increase in life expectancy mean that more retirees with longer retirements will need adequate retirement incomes. Jim Stanford (2007) has recently built on these observations to predict a “pension shortfall” in Canadians’ Registered Retirement Savings Plans (RRSPs).

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<sup>2</sup> For a discussion at the global level, see Commonwealth Business Council and VISA, 2004.

<sup>3</sup> In Canada, this situation was underlined in 1998 by the MacKay report from the Task Force on the Future of the Canadian Financial Services Sector. The report noted: “Information and basic education may not keep pace with what is happening in the market, and products may become increasingly complex and risky without customers’ understanding or being properly advised about the risks they are incurring or the choices available to them” (p. 32).

<sup>4</sup> Eric Beauchesne (2007) reported that employer pension plans are declining in relative importance and that “the proportion of workers covered by such plans has dropped to less than 40 per cent.”

- The changes in pension arrangements mean consumers need to become involved with financial markets.

### **Consumers Are More Involved in Financial Markets**

- More people now have funds to invest,<sup>5</sup> so there are now more individual investors. Among the reasons for this situation are the larger numbers in the baby boom generation, that generation's success in accumulating assets, and the general increase in personal income.
- More households are investing directly in stocks. When indirect investments through mutual funds and retirement accounts are included, the percentage of households investing in stocks is even higher.

### **The Consequences of Poor Financial Decisions Are Becoming More Serious**

- The aging of the baby boom generation and the erosion of social safety nets are making individuals' financial decisions more important (MacKay, 1998: 32). Other sources of increasing financial insecurity, such as changes in employment, mean that there is greater risk and fewer resources to cushion individuals and households from the impact of poor decisions.
- The increasing numbers of consumers, the pace of change in types of services, the introduction of new technologies to deliver them, and the level of complexity have led to more aggressive marketing and fraud.<sup>6</sup> Consumers may be convinced to invest in products that are not in their best interests. Sales agents may not always make clear the potential risks of some investments. Consumers are at risk from their own financial ignorance.
- The growth in the number of alternative financial institutions such as payday loan businesses and retail cheque cashing outlets is a special concern.
- Consumer debt is at an all-time high. Increases in income mean that more people are buying on credit, taking out loans, and buying homes.<sup>7</sup> Even though deregulation may have resulted in more competitive credit rates, the increased competition for credit card holders has likely contributed to the number of young people with high debts at a time when they are starting families and buying homes.

### **Financial Literacy Levels Are Low or Inappropriate to Changed Circumstances**

- Surveys indicate that many consumers do not have an adequate financial background or understanding. The OECD's *Improving Financial Literacy* concluded that financial understanding is low among consumers across OECD countries, especially among the less educated, minorities, and those at the lower end of the income distribution (OECD, 2005b).

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<sup>5</sup> In *The Scorpion and the Frog*, Yudelman (2001: 7) noted that "Canada is changing from a nation of savers to a nation of investors."

<sup>6</sup> Many sources reference the possibility of fraud. See, for example, *OECD's Financial Education Project* (OECD, 2007: 224).

<sup>7</sup> The *Clayton Housing Report* for June 2005 (Clayton Research, 2005) notes the explosion in annual growth in mortgage debt in Canada. Much has been written about credit card debt. Staten and Barron's (2006) paper *College Student Credit Card Usage* is useful. The Saint Paul Foundation's 2003 report on credit card debt explores why consumers have trouble managing and suggests steps to help them cope.

- Consumers need to be convinced of the importance of saving and wise investment choices.
- The array of financial products has also become more complex. Alan Greenspan understood this point when he said the following:

Today's financial world is highly complex when compared with that of a generation ago. Forty years ago, a simple understanding of how to maintain a checking and savings account at local banks and savings institutions may have been sufficient. Now, consumers must be able to differentiate between a wide range of financial products and services, and providers of those products and services. Previous, less-indebted generations may not have needed a comprehensive understanding of such aspects of credit as the impact of compounding interest and the implications of mismanaging credit accounts.

—Alan Greenspan (as quoted by Donald Johnston, December 12, 2005)

### **Widespread Financial Literacy Can Contribute to Social Cohesion**

Stated simply, various observers have noted that improving financial literacy benefits all levels of the economy and supports the financial services sector. Social and economic exclusion is reduced. Spending power, innovation, and competitiveness increase. Loan defaults decrease (Currie, 2005: slide 3.)<sup>8</sup>

The Secretary-General of the OECD painted a much broader context (Johnston, 2005: 1-2.):

Financial education is important to both the security of individuals and the security of nations. Enlightened societies today strive to ensure social cohesion as an integral part of economic progress. That cohesion can be seriously undermined by major imbalances of wealth within nations. One way to avoid (imbalances) is to ensure that everyone participates in the creation and distribution of wealth ... Financial education can play a key role.

One might add another broad category concerning the increasing level of migration. While not unique to Canada, it is certainly noticeable in this country, and there is research that specifically identifies the need for immigrants to learn about the financial practices and institutions in their new country.

For all these reasons, financial literacy has become a priority issue for numerous governments, resulting in a substantial amount of activity on the part of governments and organizations. This work is so recent that 65% of financial literacy programs in the United States began in the 1990s, and almost 75% began since the late 1990s (Financial Literacy and Education Commission, 2006: 97). Given the relative newness, a common, systematic approach to developing financial literacy and delivering financial education is still lacking.

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<sup>8</sup> For a more complete discussion, see PRI, 2004.

## Definitions

The terms *financial capability* and *financial literacy* are often used interchangeably, and sometimes the terms *economic literacy* and *economic capability* are used, even though the latter pair has a different meaning. Recent usage favours *financial capability* and *financial literacy*, and also distinguishes between the two. *Financial capability* is the term in common use in the United Kingdom and, increasingly, in Canada. *Financial literacy* is the term in common use in Australia and, fairly extensively, in the United States, although the longer expression *consumer and financial literacy* is often used in Australia.

It is very interesting that, although the OECD's (2005b) report *Improving Financial Literacy: Analysis of Issues and Policies* has "financial literacy" in its title, it gives no definition of the term. The report makes greater use of the term *financial education* and defines that term; it does not use the term *financial capability*.

A discussion of definitions in PRI papers published in 2004 and 2005 distinguishes between financial capability and financial literacy (PRI, 2004: 5-6; PRI, 2005: 4-5). The 2005 paper suggests that "financial capability" is preferred as a more "accurate and fulsome" term "that makes sense equally for policy makers, practitioners, and the public" (PRI, 2005: 4). Dixon (2006: 7) also refers to financial literacy as being a narrower concept than financial capability.

### Financial Capability

Financial capability is understood as being a set of financial knowledge, skills, and behaviours among individuals, with each part defined as follows (PRI, 2005: 4):

**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.

Thus, "a financially capable individual is one who has the skills and confidence to be aware of financial opportunities, to know where to go for help, to make informed choices, and to take effective action to improve their financial well-being while an enabling environment for financial capability building would promote the acquisition of those skills" (SEDI and St. Christopher House, 2006: 4).

## Financial Literacy

Financial literacy is a narrower concept that “emphasize(s) objective knowledge on specific topics related to money, economics, or financial matters, and subjective measures of self-reported confidence” (PRI, 2005: 4). The term has been defined as follows (PRI, 2004: 5):

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.

## Financial Education

The term *financial education* is commonly used. Intuitively, based on the usage of the terms *education* and *literacy*, one would assume that financial education leads to literacy. In practice, however, the meaning is not so clear. The OECD’s 2005 study has five chapter headings that use the term *financial education*, including the chapter dealing with definitions. The OECD’s definition includes elements of information, instruction, and advice and is very broad so as to be as inclusive and comprehensive as possible (OECD, 2005b: 13, 26).

Financial education is the process by which financial consumers/investors improve their understanding of financial products and concepts and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being.

## Economic Capability

Economic capability can be defined as “developing the knowledge and skills relevant to one’s society that enables a person to undertake life’s economic decisions and actions with confidence and competence.”<sup>9</sup> While personal financial management remains a core component, economic capability also includes notions of economic citizenship and reference to the need for a better understanding of how macro-economic and micro-economic forces and the labour market relate to daily life and decisions.

One also finds the terms *economic education* and *economic literacy*. David Dodge has been quoted as saying that economic education results in “better citizens, capable of making reasonable judgments on public policy issues that have a bearing on their personal prospects and those of the nation” (PRI, 2005:5) Economic literacy is concerned with understanding concepts such as productivity and inflation. By comparison, financial literacy is concerned with more personal or immediate matters such as banking, credit, and investing.

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<sup>9</sup> Garry Rabbior, as cited in PRI, 2005: 5.

## Other Expressions

Other expressions in common use have intuitive meanings. The literature refers to the “banked,” the “under-banked,”<sup>10</sup> the “un-banked,”<sup>11</sup> and the “under-served”<sup>12</sup> to describe the extent to which people are engaged in the conventional banking system. The terms *financial exclusion* and *marginalization* are used to describe individuals who do not have adequate access to or information about the basic goods and services provided by the financial services sector and by governments. The un-banked and the under-banked are generally considered financially excluded, marginalized, and sometimes “vulnerable”<sup>13</sup> consumers.

One also finds the terms *inadequately banked* or *improperly banked* used to describe individuals who have access to financial products but lack the understanding and ability to take advantage of broader services and opportunities that can be accessed through the financial services sector and to those who may have financial products that do not correspond very well with their needs and circumstances (PRI, 2005: 6)

To describe financial services and practices that are not part of the mainstream, the expressions *fringe lending*, *fringe financial services*, *alternative banking*, *alternative financial services* (AFS), *predatory lenders*, *predatory lending*, *high-cost alternatives*, *unregulated practices*, and *predatory practices* are commonly used. The literature also contains references to *criminal interest rate(s)*, defined in Canada’s Criminal Code as “an effective annual rate of interest ... that exceeds sixty per cent.”<sup>14</sup>

The term *financial phobia* is used to describe people who shy away from anything to do with financial information – from bank statements to savings accounts to life assurance.<sup>15</sup>

## International Experience

This section attempts to analyze and compare how financial literacy is being addressed in the United Kingdom, the United States, Australia, and the OECD countries, and to identify work that has been undertaken in those countries with respect to evaluation of financial literacy programming. Although such experience in these countries is recent, a great deal has been accomplished. Central agencies have been created with responsibility for financial literacy, and those agencies have created websites, undertaken baseline surveys, developed strategies for financial literacy, and piloted and evaluated new programs.

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<sup>10</sup> Those individuals whose engagement with mainstream financial services is very limited or tenuous (PRI, 2005: 6).

<sup>11</sup> Those individuals who do not have any relationship at all with a mainstream financial institution (PRI, 2005: 6). The term *un-banked* is widely used to describe individuals who do not have an account with any traditional financial institution (Financial Literacy and Education Commission, 2006: 67). These individuals can also be described as operating outside of the financial mainstream.

<sup>12</sup> See OECD, 2005b: 76.

<sup>13</sup> See OECD, 2005b: 76.

<sup>14</sup> See *The Criminal Code of Canada*, Part IX, 347(2).

<sup>15</sup> It is reported that nine million people in the UK are financially phobic (Clementi, 2004).

## OECD

The OECD's Financial Education Project set out in 2003 to assess how much financial literacy individuals need and to develop principles for improving financial education and literacy standards. The project was to proceed in two phases. Phase One surveyed member countries to collect the information needed to describe the types of financial education programs that exist, analyze their effectiveness, and develop a methodology to compare strategies and programs for improving financial literacy. Phase One focused on programs outside of schools and resulted in the first major study of financial education at the international level: *Improving Financial Literacy: Analysis of Issues and Policies* (OECD, 2005b). The study describes effective financial education programs in member countries, evaluates their effectiveness, and analyzes countries' financial literacy surveys.

Phase Two of the Financial Education Project has been delayed, but a schedule for implementation is expected sometime in 2007 (Flore-Anne Messy, OECD, personal communication, February 22 and April 23, 2007). As originally conceived, Phase Two was to deal with programs in schools and universities, the production of guidebooks for regulators and policy-makers to assist with the implementation of financial education programs, and the development of an in-depth survey of the financial literacy of individuals that interested countries would conduct. Until Phase Two gets under way, the OECD's work on financial education in 2009 is likely to include the development of methodology and criteria to assess the level of consumers' financial capability and to evaluate programs on financial education in schools; the identification of good practices on financial institutions selling financial products (especially the pension and insurance sector); and the challenges of financial education and programs in emerging economies.

In a related development, the European Union has indicated some interest and, in June 2005, convened the European Conference of Experts. The resulting report, *Improving Financial Literacy as a Way to Prevent Overindebtedness*, includes 16 articles dealing with issues in nine countries (European Conference of Experts, 2005).

### Agencies Created

In 2000, the United Kingdom established the Financial Services Authority (FSA).<sup>16</sup> In 2003, the United States created the Financial Literacy and Education Commission. In 2005, Australia created the Financial Literacy Foundation (FLF). The legislation that created the UK and Australian bodies is very enabling; by comparison, the American legislation is somewhat directive in prescribing precisely what the Commission is to do. The FSA has broad regulatory authority as well as a consumer education mandate. The FLF has no regulatory authority, and it appears that the American Commission has no regulatory authority either.

In the United Kingdom, the FSA was created by an Act of Parliament (the *Financial Services and Markets Act*) as the statutory regulator for the financial services industry. It was created to

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<sup>16</sup> 2000 is the official start date found in the literature, yet a document dated November 1998 was found, written and published by the FSA: *Promoting Public Understanding of Financial Services: A Strategy for Consumer Education*.

maintain market confidence, promote public understanding of the financial system, secure the appropriate degree of protection for consumers, and fight financial crime. The FSA's budget comes from a levy on the firms regulated, with government funding delivery in schools. Although other agencies in the United Kingdom (the Personal Finance Education Group, the Resolution Foundation, and the Basic Skills Agency) have specialized roles in financial literacy, the FSA perhaps has the most comprehensive role, even though its responsibility centres on regulation.

In the United States, the Financial Literacy and Education Commission was created by an Act of Congress (the *Financial Literacy and Education Improvement Act*) to encourage government and private sector efforts to promote financial literacy; coordinate financial education efforts of the federal government; develop a national strategy to promote financial literacy and education; establish a national financial education website as a point of entry for information about federal programs and grants related to financial literacy and education; and establish a toll-free hotline for those seeking materials. The Act also directed the Comptroller General to survey consumers' financial literacy.

In Australia, within approximately a year and a half, the Commonwealth government created a task force, accepted that group's key recommendation, and created the FLF. The Consumer and Financial Literacy Taskforce was created in 2004. By August, the Taskforce had submitted its key recommendation for the creation of a national financial literacy body to facilitate improved cooperation, efficiency, and effectiveness among provider organizations. The Taskforce expected the new body to advance consumer and financial education in schools and in the workplace; commission and conduct national research that would, among other things, set benchmarks; change attitudes toward financial literacy; provide a clearing house website; and facilitate collaboration between industry, government, and community organizations. That recommendation was acted upon very quickly, and the FLF was created in 2005.

## **National Strategies Developed**

The national strategies and approaches taken in the United Kingdom, the United States, and Australia differ significantly. Although the US Financial Literacy and Education Commission is mandated to develop and disseminate materials, its actions to date appear to assume that sufficient suitable materials already exist and that the need is to coordinate and provide access to those materials. In Australia and the United Kingdom, the assumption has been that there is a need for original, simple, impartial material.

In the United Kingdom, the FSA's strategy to meet its consumer education responsibilities was published as *Building Financial Capability in the UK* in 2003 (FSA, 2003a), following a lengthy consultation that began before the agency had been formally created in law (FSA, 1998). The strategy sets seven priorities or projects, each with its own working group: schools, work, borrowing, young adults, families, advice, and retirement. The strategy notes the need for a baseline survey "to establish the current state of financial capability in the UK" (FSA, 2003a: 10) and emphasizes the importance of measuring progress against stated outcomes. In 2006, three years after the strategy was published, the FSA published the results of the baseline survey (FSA, 2006b) and an accompanying document, *Financial Capability in the UK: Delivering Change*

(FSA, 2006c), to outline a program that includes addressing the needs of vulnerable consumers. Then, in 2007, HM Treasury published *Financial Capability, the Government's Long-term Approach*, a 60-page report that officially sets out the government perspective.<sup>17</sup> That approach emphasizes financial education in schools, so that when young people leave school they will have the skills and confidence to manage their money well, providing adults with high-quality generic financial advice and developing government programs to help vulnerable consumers.

In the United States, the Financial Literacy and Education Commission (2006) published *Taking Ownership of the Future: The National Strategy for Financial Literacy*, following a public consultation that began in August 2004. *The National Strategy* is a 130-page review of savings issues (general saving, home ownership, retirement saving, credit, and consumer and investor protection), issues related to financial literacy (the un-banked, multilingual and multicultural populations, and financial education in the school system), and the evaluation of programs and need for coordination of government programs. The strategy includes several “calls to action” for significant steps to be taken by mid-2007. These actions include public awareness campaigns and conferences or round tables. The former – some of which would involve use of the new website – deal with issues such as savings, information for small businesses on retirement issues, improving credit literacy among consumers, and identity theft. The conferences or round tables include large employers on retirement saving, best practices on banking of the un-banked, topics of special concern to specific communities, and the integration of financial education into the core school curriculum. One commitment is for the US Treasury Department and the Cooperative State Research, Education, and Extension Service to convene a symposium of researchers by September 30, 2007; the symposium will result in a survey of current financial education research. Another noteworthy commitment was by the US Treasury Department to host an international summit on financial education by June 30, 2007.

Australia's FLF has no comparable strategy document. The closest things are the report of the Consumer and Financial Literacy Taskforce and the Government's 2004 election policy, which promised creation of the FLF. The full version of the Taskforce report (Australia, 2004b) was published in 2004 as *Australian Consumers and Money: Full Version. A Discussion Paper by the Consumer and Financial Literacy Taskforce*.

## Websites Created

Each of the new agencies has created a website to improve financial literacy. The United Kingdom's FSA has “*MoneyMaddclear*,” the US Financial Literacy and Education Commission has “*MyMoney*,” and Australia's FLF has “*Understanding Money*.” Website addresses are given in Appendix B.

By creating these sites, the three countries are underlining the importance of financial literacy and attempting, sometimes explicitly, to create single sources for sound, impartial advice. “*MoneyMaddclear*,” for example, has a masthead that reads as follows: “Impartial information from the FSA, the United Kingdom's financial watchdog. No selling. No jargon. Just the facts.”

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<sup>17</sup> In 2005, *Thrifty Scots? Steps to Improve Financial Literacy* dealt with the similar but somewhat unique situation in Scotland (McCormick, Chapman and Elrick, 2005).

Two very different approaches have been taken. Whereas the US “MyMoney” site coordinates existing materials, the UK “*Money made clear*” site and Australia’s “Understanding Money” site present original materials. Whereas the American site is organized primarily by topic, the Australian and UK sites make it possible to access materials by life stage as well as by topic.

The US website provides links to materials developed by other agencies that deal with financial issues and markets rather than original materials prepared by the Commission. The Australian and UK sites provide very few links. Instead, the sites provide what appear to be original materials by topic and by major life events.

The differences in approach give each site a very different look and feel. The US approach means the information tends to be somewhat dense and oriented toward government benefits. For example, clicking on “Responding to life events” takes one to “Marriage, Divorce and Name Changes,” which links to a single short page on the Social Security Administration’s site that discusses the requirements and benefits of the federal social security program. The UK and Australian approaches have led to more user-friendly sites and materials. Together, the three sites deal with the wide range of topics summarized in Table 1.

Self-assessment and interactive tools are noticeable features of the UK site, which has nine tools dealing with mortgages, budgeting, starting a family, debt, loans, insurance, pensions, a financial snapshot, and product comparisons. The last of these has comparisons for pension annuities, mortgages, savings accounts, pensions, and various investments.

The Australian site has three self-assessment and interactive tools: budgeting, loans, and a financial snapshot. The US site appears to have just one – a link to the Department of Labor, which provides pension (social security) estimators – although the main site has an interactive quiz of 20 multiple choice or yes/no questions with explanations of why an answer is right or wrong. The US site appears to be the only site with materials specifically for children.

There are some noteworthy features. The Australian site provides information on seminars scheduled by the agency. It is easy to find a list of all the seminars scheduled in any state, organized by topic. Most interestingly, the site links to 11 “online seminars” that appear to be independent study programs rather than “seminars” per se. Ten of these seminars deal with stocks and investing.

The Australian site either provides or gives links to materials for educators or trainers. First, there is a link for those interested in materials and methods for educating young people and adults, and for workplace training. Second, it makes it possible for educators and trainers to network and to obtain news and case studies. That section has a subsection dealing with the development of education materials. This subsection makes clear that the FLF has developed standards for quality educational materials and a method for assessing materials before they are placed on its site: these are the Essential Elements for Financial Literacy Assessment, or EEFLA. Third, although it is on a separate website – perhaps because of jurisdictional issues similar to those in Canada with respect to educational matters – there are curriculum guidelines for financial literacy. Referred to as the “National Consumer and Financial Literacy Framework” (Australia, n.d.), this material can be accessed in an interactive form on the website

operated by the Ministerial Council on Education, Employment, Training and Youth Affairs (MEETYA). It appears to be an excellent model, providing general and specific objectives (for Knowledge and Understanding, Competence, Enterprise, and Responsibility) for four levels of the school system corresponding to Canadian Grades 3, 5, 7, and 9.

**Table 1. Topics Addressed by Three Countries' Websites**

<b>Topic or Product</b>	<b>UK</b>	<b>US</b>	<b>Australia</b>
Budgeting		Yes	Yes
Taxes		Yes	
Bank accounts	Yes		
Credit / Credit cards	Yes	Yes	Yes
Controlling debt			Yes
Loans	Yes		
Insurance	Yes		Yes
Disability		Yes	
Health insurance		Yes	
Consumer protection *	Yes	Yes	Yes
Getting advice / Financial planning		Yes	Yes
Savings	Yes	Yes	Yes
Investments	Yes	Yes	Yes
Buying a (mobile) phone			Yes
Starting a job / Starting work	Yes		Yes
Buying a car			Yes
Leaving home / Living on your own	Yes		Yes
New parents / Starting a family / Having children	Yes	Yes	Yes
Families and money			Yes
Buying/owning a home	Yes	Yes	
Mortgages / Reverse mortgage / Equity release	Yes		
Starting a small business		Yes	
Education – Paying for children's education		Yes	
Education – Continuing education / Paying for education		Yes	Yes
Losing your partner			Yes
Losing your job			Yes
Getting a windfall			Yes
Retirement **	Yes	Yes	Yes
Funeral plans/arrangements	Yes	Yes	
<p>* Consumer protection includes headings such as "Protecting your money," "Warnings," and "Making complaints."</p> <p>** Retirement includes headings such as "Approaching retirement," "Superannuation," and "Pensions."</p>			

Another feature concerns language. The American website allows a user to switch between English and Spanish. The Australian site is in English only but provides information on how to contact the FLF for material in seven additional languages (Arabic, Chinese, Greek, Italian, Korean, Spanish, and Vietnamese). None of the sites have ready access for the visually impaired. None of the sites provide obvious links to evaluation studies that might provide site statistics or surveys of users.

The use of websites in these countries is perhaps consistent with SEDI's finding that online products are by far the most common format for delivering financial literacy products in Canada, with 66% of products available only online and 81% relying on electronic delivery (SEDI, 2006a: 9). SEDI goes on to note that online delivery can present access problems for the poor and those in rural areas, for those with limited literacy and "digital literacy" skills, and for those with certain communications disabilities. SEDI also questions the reliability of online products and whether a lack of human interaction in online delivery may limit opportunities to build confidence.

## **Research, Surveys, and Evaluations**

Besides the reviews of specific areas of the literature identified below, there are reviews that set out to be more comprehensive. Although oriented to British literature, Coben, Dawes and Lee (2005) provide a useful review of professional, scholarly, and policy publications. More recently, Marcolin and Abraham (2006) set out to review, compare, and analyze studies conducted in Australia, the United States, and the United Kingdom and to propose new areas for research such as the evaluation of strategies to improve financial literacy, the link between various components of financial literacy and a country's economic well-being, the experience that is most important in the development of financial literacy, and the testing needed for consistent determination of benchmarks.

The international summit on financial education and the research symposium mentioned in the US national strategy document (Financial Literacy and Education Commission, 2006) [see National Strategies Developed section above] are likely to be rich sources of updates on academic and government research. Nonetheless, perhaps the most fundamental evaluation is a "baseline survey" that provides benchmarks against which changes can be measured and that can be analyzed and reported on. There are also evaluations of individual programs that can be designed and used to make improvements.

### ***Baseline Surveys***

Baseline information can come from general consumer surveys or from surveys designed specifically to deal with financial literacy. They can be designed and undertaken or commissioned by government or by private industry. They can look either at the entire population, those of school age, or the adult population, and they can use either subjective or objective measures or a combination of the two. Subjective measures ask respondents for a self-assessment or for their perceptions of their financial understanding and knowledge, as well as for their attitudes toward financial instruments, decisions, information, and its receipt. Objective measures use tests of respondents' knowledge and understanding of financial terms and of their

ability to apply financial concepts to particular situations. Governments regularly undertake general surveys; the financial industry sometimes commissions general surveys but is more likely to survey specific issues.

A comprehensive source of information on baseline surveys is the OECD's *Improving Financial Literacy*. The study reported that "half of the OECD countries (15 countries) had or intend to conduct financial literacy surveys" that would help policy-makers "to identify the financial skills and knowledge most lacking among consumers and to establish a baseline measurement of financial literacy with which to assess the effectiveness of financial literacy programmes" (OECD, 2005b: 42). The OECD reported that results were available in 12 countries, although these results may include general surveys as well as surveys of financial literacy. For example, the report included Japan's Public Opinion Survey on Household Financial Assets and Liabilities and the Consumer Survey on Finance (OECD, 2005b: 97).

In any case, the OECD report found that all surveys identified a low level of financial understanding; that financial understanding was correlated with education and income levels; that respondents believed they knew more than they actually knew; and that consumers found financial information difficult to find and understand (OECD, 2005b).

The OECD report includes the United Kingdom, the United States, and Australia, where surveys have been undertaken to deal specifically with financial literacy. No such survey has been undertaken in Canada, although the planning for one is now at the stage of testing a questionnaire (Arrowsmith, Pignal and Kleim, 2006; Jean Pignal, personal communication, February 8, 2007).

The United Kingdom and Australia (Roy Morgan Research, 2003) have used subjective or opinion measures of the adult population. The United States has used objective measures of the Grade 12 population. In the United Kingdom in 2004, the FSA commissioned studies of the general population (FSA, 2004b) that guided a 2006 study (FSA, 2006b) to establish benchmarks in the population as a whole. The plan is to repeat the benchmark survey in three to four years (HM Treasury, 2007: 42). The 2006 study has provided the base for academic research such as Dixon's (2006) "Rethinking Financial Capability" and Kempson and Atkinson's (2006) *Overstretched: People at Risk of Financial Difficulties*. In the United Kingdom, the FSA also undertook a benchmark survey of students' knowledge, and the results were published in June 2006 as *Personal Finance Education in Schools: A UK Benchmark Survey* (FSA, 2006d). The same month, the FSA underlined the changes needed in *Creating a Step Change in Schools* (FSA, 2006a); the FSA emphasized the importance of raising the profile and status of personal finance education, integrating it with the existing curriculum so as not to overburden the system, and providing comprehensive support to teachers to ensure they are confident and competent to deliver that education.

In Australia, adult financial literacy surveys were commissioned by the ANZ Bank in 2003 (Roy Morgan Research, 2003) and 2005. These have been the most comprehensive surveys of financial literacy to date conducted in Australia. Although the Australian Government did not have a role in funding the surveys, and they are not considered government surveys, a representative of the Australian Securities and Investments Commission (ASIC, the

Government's consumer protection regulator for financial services) participated in the Steering Committee to oversee the 2005 project.

Since the 2005 ANZ survey, the FLF has been established and has commissioned a national financial literacy survey of Australians aged 12 to 75. The report is expected to be released in the first half of 2007. The study is based on self-assessment and is said to look at what motivates, or acts as a barrier, for people to improve their skills and understanding about managing money. Compared with the ANZ survey, the Foundation's survey is larger (7,500 people); covers a wider age range (from 12 to 75 years); and uses self-assessment, where the ANZ survey also includes some objective tests of financial literacy. This survey apparently was done to build on the ANZ survey rather than to duplicate it.

Private industry has commissioned many surveys, some of which were included in the core documentation provided for this project. Seidman, Hababou and Kramer's 2004 study of low- and moderate-income households in Los Angeles is an example.

### **Evaluations**

Braunstein and Welch (2002: 449) observed that, while "financial literacy training programs have ... proliferated, research measuring the effectiveness of the training has not kept pace" and that "objective research generally concludes that financial literacy training yields some benefits." O'Connell (2007) drew a similar conclusion and proposed a framework to improve evaluation research on the topic. The OECD identified one reason for the lack of research when it observed the following: "Finding ways to measure whether financial education has achieved its aims, such as increased consumer awareness or changed behaviour, is not easy and is costly for governments, so not all programs have been evaluated" (OECD, 2006b: 5). The OECD went on to draw the same conclusion as Braunstein: "When programs have been evaluated, they have been found to be effective."

Nonetheless, a considerable number of evaluations appear to have been undertaken. This report was not able to identify a comprehensive review of the evaluations. Since such a review is beyond the resources of this project, those summaries that were found are identified here.

References to evaluations can be found in various non-academic documents, such as Bernanke's (2006: 1, 4-5) testimony to a US Senate committee. Among the more academic reviews are the early article by Braunstein and Welch (2002) and the more recent and thorough reviews by Dixon (2006) and by Lyons and colleagues (2006). Dixon commits a chapter to research and evaluation. He notes at the outset that "there is a dearth of rigorous, systematic longitudinal data and analysis proving what works" even though the United Kingdom "has seen ... extensive piloting and evaluation [as] a standard part of [the development and implementation of] most major policy initiatives" (Dixon, 2006: 69). He goes on to review some 17 initiatives from around the world that have been "properly evaluated." He looks at approaches that "place education centre stage ... that use incentives to change behaviour (and) programmes and products that are designed to make it easier to change behavior" (Dixon, 2006: 69). The evaluations of education programs go beyond those based in schools to include programs in the workplace, those of voluntary organizations, and programs that are peer-based. Much of the

research reviewed is American. Dixon cites evidence that school-based financial education can change behaviour, that workplace education is an effective way to reach large numbers and to change behaviour, and that the voluntary sector and peer networks can have a “profound effect” (p. 75) and be a “powerful influence” (p. 76) in the delivery of financial education.

Dixon’s observation about the use of pilots and evaluation in the United Kingdom explains why the FSA website refers frequently to the evaluation of pilots of methods and delivery channels. It was not possible to pursue all of those references.

Lyons and her colleagues (2006) review the literature as part of Lyons’ own study of effective program evaluation in the United States. Her intention is to build capacity for more effective program evaluations. She starts with the suggestion that evaluations are lacking because those involved in financial literacy lack basic evaluation capacity, which partly means that agencies lack time, money, and skills. She concludes with the proposal that an electronic “evaluation toolkit” is needed. This would consist of an evaluation manual and an online database that would make it possible for instructors or agencies to construct evaluation instruments.

There are also evaluations, such as the action research reported by Collard, Kempson, and Whyley (2001), that deal with attempts to extend financial services and literacy to specific groups.

Evaluations of the materials being produced to improve financial literacy are also beginning to appear. An example is the report by Coben, Dawes, and Lee (2005) on the provision and accreditation of financial literacy education in England. Other examples would be Staten and Barron’s (2006) *Evaluating the Effectiveness of Credit Counseling* and The Saint Paul Foundation’s (2003) *Credit Card Debt: Helping the Consumer Become a Better Financial Manager*. The latter goes beyond evaluating to examine why consumers have trouble managing credit card debt and to suggest steps to help consumers. Those steps include changes in industry practices that may improve cardholders’ understanding, providing earlier intervention, and establishing educational and public awareness measures. Additional context for the evaluations of credit is found in Staten and Barron’s (2002) *College Student Credit Card Usage*, included in the core literature provided for this review.

## Lessons Learned

Other countries’ experiences offer many program ideas that could be readily adapted to the Canadian situation. These ideas might be for curriculum materials for schools, for reaching vulnerable consumers, for providing programs for adults in the community or in their workplaces, or for changing procedures and/or regulations. The remainder of this paper attempts to abstract broad principles, or “lessons learned.”

Ideas found in other countries are reflected in important Canadian thinking. For example, the Standing Senate Committee on Banking, Trade and Commerce (Canada, 2006) recommended that the federal government “increase funding to enable federal departments and agencies to carry out better their consumer information and education functions, particularly with respect to the financial services sector” and that the “the federal government, in partnership with

provincial/territorial ministries of education, the Financial Consumer Agency of Canada, educational institutions, consumer organizations and other stakeholders, develop a model curriculum to provide education about the full range of consumer issues, including financial matters” (Canada, 2006: 57). The Committee went on to state the following: “In designing the curriculum, consideration should be given to the development of information and education that is appropriate to different financial circumstances and situations; suitable for delivery by a variety of institutions and agencies; and capable of being understood by people throughout their lifetime, beginning at the earliest levels of primary education and continuing throughout post-secondary education and beyond.”

The Senate Committee also singled out the needs of vulnerable consumers (Canada, 2006: 55). On this topic, SEDI has gone into greater depths in its recommendations for further study and action (SEDI and St. Christopher House, 2006: 21-22, 29-30). For example, SEDI suggests research on how to deliver information to vulnerable consumers, on the factors that affect low-income earners and the training needed to work with them, and on the gap that exists between need and demand and between demand and delivery, along with research and action on building partnerships and coordinating efforts. SEDI is particularly forceful about the “vacuum of expertise within the financial industry that looks specifically at low-income earners” (SEDI and St. Christopher House, 2006: 21), noting that this vacuum includes an understanding of appropriate advice as well as a lack of skilled staff to provide the advice.

This review of other countries’ experiences has not identified any practice that addresses the concerns that SEDI has identified for dealing with vulnerable consumers.

## **Principles and Elements of Good Practice**

The OECD’s (2005b) *Improving Financial Literacy* included seven principles and 19 good practices. These can be seen as the lessons that the OECD has learned from its research. They have been summarized as follows:<sup>18</sup>

1. Governments and all concerned stakeholders should promote unbiased, fair and coordinated financial education;
2. Financial education should start in primary school;
3. Financial education should be an integral part of the good governance of financial institutions to encourage accountability and responsibility;
4. Financial education should be clearly distinguished from commercial advertising and codes of conduct for the staff of financial institutions should be developed;
5. Financial institutions should encourage clients to read and understand information, especially when related to long-term commitments or financial services with potentially significant financial consequences; small print should be discouraged;
6. Financial education programs should focus particularly on important life-planning aspects, such as basic savings, debt, insurance, or pensions;

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<sup>18</sup> This summary can be found in Johnston (2005) and OECD (2006b: 3). The complete principles and good practices can be found in OECD (2005d).

7. Programs should be oriented towards financial capacity building, targeted on specific groups and “personalised” where appropriate;
8. Future retirees should be made aware of the need to assess the financial adequacy of their current public and private pensions schemes;
9. National campaigns, specific Web sites, free information services and warning systems on high-risk issues for financial consumers (such as fraud) should be promoted.

While the OECD’s principles are directed at national governments, the United States has suggested guidelines that any government or organization can use to steer the development of new programs or to enhance existing program strategies. These eight elements of a successful financial education program, developed by the Treasury Department’s Office of Financial Education (Financial Literacy and Education Commission, 2006: xiv), suggest that, to be successful, programs need to be focused, be tailored to intended audiences, reflect a commitment to public outreach, set specific goals, and have results that can be replicated.

1. Focus on Basic Tenets – Focus on one or more of four building blocks to achieving financial security: basic savings, credit management, home ownership, and retirement planning.
2. Tailored to Target Audience – Take account of language, culture, age, and experience to tailor the program to its target audience.
3. Local Distribution – For greatest impact, deliver the program through a local distribution channel that makes effective use of community resources and contacts.
4. Participant Follow Up – Follow up with participants to reinforce the message and ensure that participants are able to apply the skills taught.
5. Specific Program Goals – Establish specific goals and use performance measures to track progress toward meeting those goals.
6. Demonstrable Impact – Use testing, surveying, and other objective evaluation to demonstrate a positive impact on participants’ attitudes, knowledge, or behaviour so as to prove a programs’ worth. Measures of success would be whether participants increased savings, opened bank accounts, saved for a home, or qualified for a mortgage at higher rates than non-participants.
7. Replicability – Programs can be easily replicated on a local, regional, or national basis.
8. Built to Last – Programs have continuing financial support, legislative backing, or integration into an established course of instruction.

These principles and elements of good practice are very important “lessons learned.” In addition, the following points summarize this review’s findings from work undertaken in the United Kingdom, the United States, and Australia.

## National Agencies, Strategies, and Baseline Surveys

Each of the countries considered has a national agency that has a clear mandate and is well funded and staffed. The funding comes either from direct government support or from the agency's ability to obtain funding from the institutions it regulates. Each agency either has its own staff or is able to draw on other staff through a central coordinating structure.

National strategies in the United Kingdom and the United States make clear the direction those agencies intend to take on multiple fronts, and the reasons for their choices. The strategies – especially in the United States – have relied heavily on coordination across government bodies. Although Australia has no comparable strategy document, the clarity apparent in their actions suggests that the report of the Taskforce and the governing party's position paper provide sufficient direction.

Each of the countries has undertaken surveys to deal specifically with financial literacy. They have not relied on surveys that have been designed for other purposes – what have been referred to as “ill-suited government surveys” (Dixon, 2006: 30).

The agencies have very clear and ringing statements of their challenge. Whether intended or not, such statements are likely to motivate agency staff and those who work for related organizations. In the United Kingdom, for example, the Government makes clear<sup>19</sup> that it intends that “children and young people have access to a planned and coherent programme of personal finance education, so they leave school with the skills and confidence to manage their money well; [and that adults] have access to high quality generic financial advice to help them to engage with their financial affairs and make effective decisions about their money”; and “particularly to help those who are most vulnerable to the consequences of poor financial decisions.”

## Websites

Each of the national agencies considered has used websites in striking and impressive ways to organize and disseminate materials to promote financial literacy. Collectively, the creative results of the investment of time and money in such a relatively short period are quite remarkable.

Of course, the use of websites by the FSA (United Kingdom), the Financial Literacy and Education Commission (United States), and the FLF (Australia) reflects the exponential growth of the Web in recent years and its use by financial institutions to deliver products.<sup>20</sup> The trend is irreversible and, indeed, is to be encouraged since it offers such clear advantages.

Having said that, there are clear and serious limitations in using the Web for any “literacy” effort. Deliberate and determined steps must be taken to compensate for those people who do not have access to the Web because they do not have a computer, do not have the Internet connection needed, or do not have the literacy skills. Numerous observers who have dealt with financial

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<sup>19</sup> UK announcement, January 15, 2007, press release on HM Treasury site.

<sup>20</sup> SEDI (2006: 9) found that online products such as websites were the most common media format for delivering products.

literacy matters have noted these limitations,<sup>21</sup> and some have even singled out FCAC.<sup>22</sup> It was beyond the resources of this project to go further than to note that these limitations have concerned other countries; the approaches they have taken to address these limitations would be a useful topic for a conference session or for separate research.

Other countries have accepted the Web as the tool of choice and are finding means to address its shortcomings. With appropriate permissions, any such use in Canada could use the best of the ideas that have already been developed in the United Kingdom, the United States, Australia, and elsewhere. The site could adopt some of the organizational ideas, and it could combine the use of original materials, as in the United Kingdom and Australia, with the links to existing materials that drive the American site. It would be important to develop and to publish on the site a clear set of criteria for evaluating materials that might be linked from other sites, in the same way that Australia does for school-based material. Although this project has not been able to identify general criteria in use on the sites reviewed, it is suggested that matters such as the revision schedule or currency, readability or plain language, and impartiality or degree of orientation toward selling a product or service would be important criteria.

Canada's governments, national organizations, and private sector have already done important work that can provide a foundation. The FCAC site is oriented toward the banking industry and provides an excellent base that can be added to either with new materials or by linking in the American sense to other sites. The Canadian Foundation for Economic Education (CFEE) has a site that, as the name implies, is heavily oriented toward economic education rather than financial literacy.

There is also the "YourMoney Network," managed by the Canadian Bankers Association (CBA), a web portal resource guide developed with partner organizations involved in the financial world. The site gives a brief statement on a limited number of topics such as Canada's financial system, earning, managing, borrowing, protecting money, and making money work for you. For each topic there is a hyperlink to partners' sites; these are either organizations or federal or provincial government departments and agencies.<sup>23</sup> "YourMoney Network" has some limitations. The

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<sup>21</sup> Speaking specifically about its educational use, Braunstein and Welch (2002: 456) note that the Internet "has limited utility for consumers who cannot access a computer, have limited language or reading skills, or need a more personalized training experience."

<sup>22</sup> Buckland and Martin (2005: 45) note that FCAC must "address the educational needs of inner-city residents.... It is unlikely that this education can be achieved through the agency's Web page."

<sup>23</sup> A complete list of the partners provides insight into the number and variety of organizations involved. The headings (in bold) are as given on the site. **Organizations:** Bourse de Montréal Inc., Canadian Bankers Association (CBA), Canadian Investor Protection Fund (CIPF), Canadian Life and Health Insurance Association Inc. (CLHIA), Canadian Life and Health Insurance OmbudService, Canadian Payments Association (CPA), Credit Counselling Canada, Credit Union Central of Canada, Insurance Bureau of Canada, Interac Association, Investment Dealers Association of Canada, Mutual Fund Dealers Association of Canada, The Canadian Depository for Securities Limited, The Investment Funds Institute of Canada, The Ombudsman for Banking Services and Investments (OBSI), TSX Group. **Federal Government:** Bank of Canada, Canada Deposit Insurance Corporation (CDIC), Canada Education Savings Program, Canada Investment and Savings, Canada Millennium Scholarship Foundation, Canada Mortgage and Housing Corporation, Canada Pension Plan and Old Age Security, Canada Revenue Agency, Canada Student Loans Program, Employment Insurance, Financial Consumer Agency of Canada, Office of the Superintendent of Bankruptcy Canada, Office of the Superintendent of Financial Institutions, Royal Canadian Mint, The General Insurance OmbudService (GIO). **Provincial Government:** Securities Commission of Newfoundland and Labrador, Prince Edward Island

text-heavy presentation of useful material on each of the topics is likely to deter most youth. Furthermore, since all of the links tried led to general sites rather than to material dealing with the topic being discussed, it would appear that users would need considerable time and patience to locate the information promised in the site's statement that each link must provide young people with neutral, informative, and objective online financial information. The site is most useful as a way to identify and access the organizations and government departments and agencies that are concerned with money issues and, in that sense, is perhaps most comparable to the US Commission's "MyMoney" site.

## Life Cycle Model

Implicit in much of the work reviewed – particularly in the United Kingdom and Australia – is the extent to which a "life cycle," or "life events," model is used as a framework for thinking about the financial literacy materials that are needed, for developing programs, and for ensuring that they interest the public. The major points in peoples' lives constitute an ancient and powerful organizing model that societies use consciously and unconsciously, and there is little doubt that, as individuals approach and enter a new phase, they have a heightened willingness to take on the learning needed for new responsibilities. These stages, each of which carry financial responsibilities, would include finishing high school and perhaps going to university or college (and getting a student loan), graduation and getting the first job, buying a car, paying taxes for the first time, marriage and divorce, buying a house, having a baby, having a child finish high school and planning to attend a post-secondary institution, and getting close to retirement.

These key windows leave people open to investing time in increasing their skills and knowledge. It is important for planners to take advantage of these points, rather than to wait until people seek assistance because they are in financial crisis.

## Integrated Approach

In the countries considered, while the responsibility for financial literacy rests with a single, central agency, there is recognition that success requires action on the part of many government departments and programs as well as the involvement of the private and not-for-profit sectors. Financial literacy is not seen as the responsibility of a single group. Instead, it is seen as requiring collaboration among many groups.

In Australia, for example, the policy document that led to the creation of the FLF speaks of the need to involve "government, business, community and education groups" (Liberal Party of

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Securities Office, New Brunswick Securities Commission, Nova Scotia Securities Commission, Régie des rentes du Québec (Quebec Pension Plan), Autorité des marchés financiers (AMF), Ontario Securities Commission, Investor Education Fund (The Fund was established by the Ontario Securities Commission and is funded through OSC enforcement settlements.), The Manitoba Securities Commission (MSC), Saskatchewan Financial Services Commission, Alberta Securities Commission, British Columbia Securities Commission, Nunavut Securities Registry, Northwest Territories Securities Registry, Yukon Securities Registry. **Honorary Members:** ABC CANADA Literacy Foundation, Canadian Foundation for Economic Education (CFEE), CBC's StreetCents, Consumers Council of Canada, Frontier College, Junior Achievement of Canada, Office of Consumer Affairs (Industry Canada), SchoolNet (Industry Canada), Social and Enterprise Development Innovations (SEDI).

Australia, 2004: 8). In the United Kingdom, the national strategy calls for using “government levers” and for “working across government” (HM Treasury, 2007: 43, 52). Such an integrated approach makes it possible to adjust or implement a wide range of government programs, and the strategy outlines ideas under seven headings, such as Children, Young People and Families, and Information for Parents. There are frequent references to the work with low-literacy consumers done by the Basic Skills Agency (BSA).

In Canada, the importance of employer involvement has been noted in the press,<sup>24</sup> and important bodies have at least touched on the issue. In its *Vision for the Sector*, the MacKay Task Force: 72) notes the need for industry and government to support consumer education.

### **Pilots, Consultation, and Coordination**

Two aspects of the UK experience contain lessons that need emphasis. First, the FSA appears to make extensive use of pilots and evaluations and has been very forthcoming about the results, whether successful or not. In fact, some of the FSA’s work gives the impression that they are engaged in “action research.” Rather than waiting for definitive results from extensive research, the FSA has gone ahead with implementation and undertaken evaluations to make improvements as the project has unfolded. A related observation is that private sector and philanthropic sources in the United Kingdom have willingly invested in pilots and evaluations (Jennifer Robson, SEDI, personal communication, June 2007).

A somewhat less obvious characteristic of the FSA’s work is its use of consultation. Consultations began before the FSA was legally created, and consultation continues with the development of new policies and programs. The process followed involves publication of a discussion document, a suitable and well-publicized period and process for feedback, and publication of a conclusion, followed by implementation.

The American emphasis on coordination emphasizes materials that are available from other government departments and agencies. The Financial Literacy and Education Commission created its website to be accessible and helpful to the general public, although it does not appear to be as appealing as the UK and Australian sites. As structured, it may be more accessible to other intended audiences: community educators and not-for-profit organizations that need to find resources. In any case, the important lesson is that such an approach should result in a fairly immediate reduction in overall costs since it makes it easy to identify duplication. At the same time, a by-product is the need to facilitate the identification of gaps and overlaps in useful financial literacy materials (Financial Literacy and Education Commission, 2006: 7-8).

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<sup>24</sup> Coffee and Nares (2007) note the following: “Some employers, especially those with unionized work force, offer pension planning seminars to employees. They can do more by offering workplace-based learning on a wider range of financial topics such as insurance, estate planning, income tax preparation and education planning for employees with children.”

## Generic Advice

There is a difference between providing information/education, and advice, and it can sometimes be difficult to know which is being referred to in the various countries' literature. To varying degrees, the United Kingdom, the United States, and Australia have all recognized the importance of going so far as to provide "generic advice," which has been defined as advice that "doesn't involve selling a product or service" (Coffee and Nares, 2007), that is "personalized but unregulated,"<sup>25</sup> and that

takes account of the specific financial circumstances of an individual, but ... does not result in a product recommendation. [It] helps individuals to understand their current financial position, their available choices, and how to take further steps to meet their needs. It should be distinguished from debt advice, which addresses the single issue of helping an individual to deal with problem debt (HM Treasury, 2007: 49).

In January 2007, on top of its already significant accomplishments, the Government of the United Kingdom made clear its intention to make a substantial "increase in the provision of generic financial advice" (HM Treasury, 2007: 49). The same month, the United Kingdom announced the creation of a task force to "research and design a national generic financial advice service – ensuring that every person, including those on the lowest incomes, can get quick, easy and simple access to good quality financial advice" and the creation of an interdepartmental "Ministerial group [to] co-ordinate the Government's work plan to ... ensure Government programmes link effectively to the new advice service."<sup>26</sup> The group is to report its plan to the Government by the end of this year.

In Canada, although the need for generic advice has been identified even in the press,<sup>27</sup> little appears to have been done.

## Start in School

All three countries considered appear to be taking seriously the OECD's emphasis on the importance of the school system for financial education.

Australia's "Understanding Money" website reflects a concerted attempt to support educators by developing curriculum materials, by establishing standards for quality materials (the EEFLA), and by adopting curriculum guidelines (the National Consumer and Financial Literacy Framework.)<sup>28</sup>

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<sup>25</sup> UK announcement, January 15, 2007, press release on HM Treasury site.

<sup>26</sup> UK announcement, January 15, 2007, press release on HM Treasury site.

<sup>27</sup> Coffey and Nares (2007) note: "The private sector can put its money and expertise to good use by working with educators, trainers and voluntary groups to make more information and some generic advice ... available at low or no cost to consumers on-line, in the media and in their communities."

<sup>28</sup> The guidelines were adopted by the Australian Education Systems Officials Committee (AESOC).

Acting on the UK Government's policy to ensure that school leavers have the skills and confidence to manage their money well, the FSA has taken steps to ensure that financial education is now part of England's national curriculum and has also provided training and materials for teachers. In addition, the FSA has developed TV programs for teachers and pupils and made those programs available online.

In the United States, the Financial Literacy and Education Commission's (2006) strategy deals with financial education in the school system, including proposing conferences or round tables to address the integration of financial education into the core school curriculum, and the Commission's meetings have dealt with the need for teacher training.<sup>29</sup>

In Canada, the Canadian Securities Administrators have developed the "Financial Fitness Challenge" on their website to teach basic financial skills to youth and young adults. That same site has a "Teacher Resource Centre" tab that leads to materials teachers can use in their classroom; the materials available concern money, budgeting, saving, investing, and creating a budget.

Provincial responsibility for education complicates this issue in Canada. FCAC can work with the appropriate bodies to consolidate and improve materials that various national bodies have already prepared either as resource materials for teachers' use in schools or as reference materials for students. Such consolidation would involve making certain that materials are available for both teachers and students at each grade level. Improvements would include creating an advisory group of curriculum experts and designers to ensure that materials are of the highest quality.

### **Continue throughout Life**

It is clear from the countries considered that tools and resources have been developed for organizations that work with young adults and that approaches for communicating with out-of-school youth have been piloted and changes made in the language, the trigger points (mainly around leisure), the media used, and ways to foster co-operation between independent organizations. In the United Kingdom, curriculum materials have been mapped to the adult curriculum for literacy, language, or numeracy, and the BSA has undertaken projects to deliver financial education to hard-to-reach adults such as lone parents, refugees, and asylum seekers. With respect to the workplace, the FSA continues to develop the means to reach large numbers of employees in the private, public, and not-for-profit sectors.

These are examples of extending the "integrated approach" referenced earlier to include the development of learning materials for all stages of life. Examples can be readily identified of financial literacy forming part of workplace learning and of employers and unions being involved. There are also examples of special attempts being made to reach vulnerable consumers.

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<sup>29</sup> The minutes of the Financial Literacy and Education Commission's meeting of September 22, 2004, have references (pp 17-18) about the need to train teachers.

## Vulnerable Consumers and Alternative Financial Services

The literature shows an emphasis on the un-banked, the under-banked, and alternative financial institutions. The literature stresses the need for services for those people who must deal with the challenges of low literacy or of being illiterate. Programs to extend services and savings incentives to these groups have been proposed and tried.<sup>30</sup>

The literature either states or suggests that the closer individuals are to being illiterate, the more likely it is that they will be un-banked, served by fringe financial institutions, and subject to unregulated or predatory practices, as illustrated in Table 2. It has even been suggested that it would be possible to use literacy data to construct a proxy measure of financial literacy.<sup>31</sup> The literature also states or suggests that high-income individuals don't need as much help because they are able to access private sector advisors.

There is an occasional acknowledgement that the alternative financial industry may be legitimate,<sup>32</sup> and some observers have noted the advantages that the industry offers. One source observed that, until relatively recently, some borrowers had few alternatives to what we now call alternative financial institutions (Comptroller of the Currency, 1997: 2). However, because “sufficiently robust statistical data on the ... people using [alternative financial services are lacking]” and more research is needed, it has been recommended that “a comprehensive study of alternative financial services providers, including the payday loan industry” be completed by June 30, 2007 (Canada, 2006: 79). A Statistics Canada study published in April 2007 provides additional research, although it is based on earlier survey data (Pyper, 2007).

**Table 2. Literacy and Financial Services**

Literacy Level	High Literacy	Low Literacy	Illiterate
Use of mainstream financial institutions	Banked	Under-banked	Un-banked
Served by	For-fee financial advisors Mainstream financial institutions	Fringe lending/financial services Alternative banking/financial services Predatory lenders/lending High-cost alternatives	
Subject to		Unregulated and predatory practices	

<sup>30</sup> For an idea on the use of technology to extend services to the un-banked, see page 33 (and separate article beginning on page 43) of *Financial Access in the 21st Century* (Comptroller of the Currency, 1997). Buckland and Martin (2005: 45) make recommendations on inner cities.

<sup>31</sup> Scott Murray (2005: 14-15) suggested a proxy indicate of financial literacy based on literacy data. A similar reference is found in *Thrifty Scots?* (McCormick, Chapman and Elrick, 2005: 9): “Financial literacy problems are strongly associated with basic literacy and numeracy difficulties, but are a result of other factors as well, including changing personal circumstances.”

<sup>32</sup> One American report notes: “We discussed whether, in fact, there even is a problem.... there are thoughtful people around this table who would say this population is not really underserved, it is merely served differently” (Comptroller of the Currency, 1997: 56).

Nonetheless, far more has been written from the assumption that alternative financial services are “predatory” and that their clients should be served by mainstream institutions. The literature deals with the growth and regulation of alternative services, the rates they charge, whether they contribute to the cycle of poverty and the integration of immigrants, and the ways in which their clients might be attracted to mainstream institutions, perhaps through competitive alternatives (Bair, 2005).

From the perspective of financial literacy, a major issue is whether individuals have the information and skills needed to make good decisions on the wisdom of using these services. The first steps are to ensure that good sources of advice are available and that they are used by those who now use alternative services.

## **Wealthy Consumers**

Research shows that financial literacy is an issue at all income levels. Seniors, who have significant wealth per capita, may have particular difficulties since they sometimes struggle with digital literacy and communications disabilities, and may not be current with a changed market. All wealthy consumers can be prey to “predatory financial advisors” motivated by the fees and sales, just as low-income Canadians need some protection from fringe financial institutions.

Related observations have been made in the OECD’s (2005b: 15) *Improving Financial Literacy*, which noted that, although financial understanding is correlated with education and income levels, “highly educated consumers with high incomes can be just as ignorant about financial issues as less educated, lower income consumers.”

This line of thinking serves to remind us that financial literacy initiatives need to include Canadians at all literacy and income levels. As with all programs, the difference is in finding appropriate programs and delivery mechanisms for each group.

## **Public Acceptance of the Importance of Financial Literacy**

One might have the best generic advice in the most attractive packages possible, but unless people know about it and believe there is a compelling need to use it, the advice is of no use. The OECD (2006b: 5-6) notes that “persuading consumers that they need financial education” is a key element, as well as “enabling them to access it.”

It is against that background that the materials reviewed recognize the need for “much greater awareness ... of the benefits of using generic advice” (HM Treasury, 2007: 49), and concerted attempts are being made to raise awareness.

Like preparing materials, raising awareness is best done if an integrated approach is taken. In Canada, there are opportunities for departments to collaborate, not just in preparing materials but also in ensuring that the importance of the message is delivered. There are ways in which these departments might work with business, community, and education groups.

The work of raising awareness is related to consumer education and consumer protection. The link can be found very readily in the OECD (2006b: 2) literature, which begins with the need for financially educated consumers, the worrying level of financial literacy revealed in studies, and the serious consequences for individuals and societies. The connection between consumer education, consumer protection, and financial literacy is a theme implicit in other countries' materials. The policy document that led to the creation of Australia's FLF, for example, places "consumer and financial literacy" together and makes clear that the FLF was being created as "a clearinghouse for consumer and financial literacy education and information" and "to build capacity in relation to consumer and financial literacy" (Liberal Party of Australia, 2004: 5).

## **Savings Incentives**

Various attempts have been made to encourage low-income people to save. While the saving per se may not be seen as financial literacy, such efforts are often tied to deliberate efforts to improve financial literacy. In the United States, Individual Development Accounts (IDAs) are an example of efforts that have received considerable attention. In the United Kingdom, there has been the Savings Gateway project to "encourage saving among people that do not normally save and to promote [their] engagement with mainstream financial services." A final evaluation of the Savings Gateway project is to be published in spring 2007 (HM Treasury, 2007).

The attempt to encourage people to save goes beyond the vulnerable consumer to the entire population, especially with policies to improve retirement savings. The United Kingdom is experimenting with "personal accounts" (HM Treasury, 2007: 43) that will make it possible for "as many as 10 million more [new pension savers] ... to save for their retirement through a ... portable workplace pension scheme" that offers "automatic enrolment into a pension ... a national minimum employer contribution of 3 per cent [and no requirement] to make active choices." Since these new personal accounts will have an impact on the demand for information, the long-term approach makes provision for individuals to receive information to support decisions to opt out or save additional amounts, to choose a fund, and when and how to draw a pension.

Braunstein and Welch (2002: 448) suggest that employers that offer defined contribution plans need to offer financial training to ensure their employees' retirement security. One might extend the scope of such an initiative to involve unions and financial institutions that sell group and locked-in RRSPs.

## **Sharing Materials, Methods, and Research**

Much of the international experience seems quite directly applicable to Canada. Furthermore, it is likely that materials developed in the countries discussed either could be used directly or could be adapted. The overall and detailed structures of existing websites are obvious possibilities. The interactive tools in use on those sites hold promise. The curricula developed for use in schools and the materials developed for workplace learning could be adapted. As well, Canada might adopt the steps countries have taken to increase awareness.

Other countries are undoubtedly taking an active interest in developments elsewhere and will be following those developments either directly, as Canada is doing in the case of this review and as the United Kingdom has done in the case of New Zealand (Pensions Policy Institute, 2006), or indirectly, through the OECD's research and reporting. Just as there are lessons for Canada in other countries' work, so there will be Canadian ideas and materials of interest to other countries. Research such as that undertaken for FCAC on how to orient materials for low-literacy consumers (FCAC, 2004) would likely be welcome in other countries. Statistics Canada's work on a baseline survey will likely contain improvements to surveys undertaken elsewhere. It has also been suggested that Canada might contribute to work under way in Australia and the United States on the development of a framework for the evaluation of financial literacy programs (Susan Murray, Acting Deputy Commissioner, FCAC, personal communication, March 28, 2007).

In addition to the exchange of ideas that is part of conferences that FCAC and other Canadian decision-making organizations sponsor and attend, Canada could arrange for the sharing of materials among the agencies that have been established in Australia, the United Kingdom, and the United States. This could be as simple as the exchange of e-mails with officials in those countries. It may involve electronic or in-person meetings to explore the exchange of materials on specific topics. And it may involve the creation of task groups to visit another country to explore the details of work being done or the technicalities of obtaining or adapting electronic materials.

Canada could also work with other countries' agencies to encourage and support international research and development networks. To do this, Canadian policy groups and academic centres that have suitable expertise might be invited to propose research and development projects. Canada could then support selected projects to work with counterparts in the United Kingdom, the United States, and Australia on clearly defined agendas. This support would need to include meetings of the networks and research conferences. The invitation to propose work either could be open-ended or could invite proposals in specific areas such as the nature of financial education needs at various stages in the life cycle, how to attract the attention of people busy with jobs and families, or measuring the success of financial education programs. Alison O'Connell (2007: 22-23) has already proposed a framework for the evaluation of the effectiveness of financial education.

## **Canadian Context**

Countries' approaches to personal financial matters can be affected by fundamental differences in geography, population, culture, political structure, and financial regulatory framework. Canada has some unique characteristics that will impact the approaches taken here.

Canada is highly decentralized compared with the United States, the United Kingdom, and Australia, and it has 13 provinces and territories and a complex regulatory framework that includes federal and provincial jurisdictions and self-regulatory bodies. Canada is also an enormous country with a multicultural population and two official languages. The increasing concentration in and around major cities and the growing importance of high-speed Internet connections to navigate many aspects of daily life combine to increase the communications

problems that have always been part of living in a country the size of Canada. Generally, the high-speed connections most suitable for efficient electronic exchanges of all sorts, from learning to conducting financial transactions, are more available in major population centres.

Canada's multicultural nature presents special problems since some concepts behind financial literacy are culture-dependent. Though the underlying aims – planning and making ends meet – are common (Jennifer Robson, SEDI, personal communication, June 2007), cultures differ in their views of government, banks, planning, money and its use in buying financial security, and home ownership. Some cultures place a greater value on supports from extended family than on individual savings, and for some people assets are more valuable when they are used to help parents, siblings, or cousins than when they are used to buy personal security. Or, looked at differently, their personal security comes from ensuring that their families are secure and family relationships are maintained.<sup>33</sup>

Canada's financial institutions, industry associations, securities regulators, and governments produce consumer information. Some of this information is intended to protect against fraud or provide information on registering a complaint (Ontario Securities Commission, n.d.); other information is more general in its attempt to improve financial capability. Relative to other countries, Canada seems unique in the large number of governments and regulatory bodies involved and the lack of a central authority. There seems to be some consensus that this situation creates a problem, and attempts have been made to address one or another aspect, but there has not been a concerted attempt to deal with it in its entirety by the provincial governments working together, by the federal government, by regulatory bodies, by industry, or by any of these bodies working forcefully with others.

Any action needs to allow for these cultural, political, and regulatory factors. Some important steps have already been taken:

- Canada has a federal agency in the form of FCAC.
- The Government of Canada's budget of March 2007 provided FCAC with \$3 million over two years specifically to address financial literacy.
- A survey to establish a Canadian baseline is at the testing stage.<sup>34</sup> The results should provide the basis for assessing needs and making plans. In the meantime, Canada has numerous established surveys that provide an excellent foundation for understanding.<sup>35</sup> Other research provides some benchmark information.<sup>36</sup>

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<sup>33</sup> In the American context, *Taking Ownership of the Future* (Financial Literacy and Education Commission, 2006) recognizes the importance of cultural differences in a chapter called "Multilingual and Multicultural Populations." The importance of cultural issues was discussed in early meetings of the Commission (Financial Literacy and Education Commission, 2004: 15).

<sup>34</sup> The article by Coffey and Nares (2007) makes clear that the Government of Canada's plans to invest in the first-ever national survey of financial literacy are well known. The article notes that the survey will be launched this year and will be an important national benchmark to measure our progress as a country.

<sup>35</sup> A recent example is Wendy Pyper's (2007) article "Payday Loans," based on Statistics Canada's Survey of Financial Security. Other surveys provide context or have dealt with specific topics related to financial capability. Contextual surveys include the Census, the General Social Survey (GSS), the Survey of Labour and Income Dynamics (SLID), the 1999 Survey of Financial Security (SFS), the Survey of Household Spending (SHS), the Workplace and Employee Survey (WES), and the Survey of Consumer Finances (SCF). These and

- Various bodies have undertaken research and prepared reports that identify issues and possible solutions.<sup>37</sup>
- Canada has several websites that provide a strong foundation for building a central source of generic financial advice. In particular, there is FCAC's own site, the Canadian Foundation for Economic Education's site, and the "YourMoney Network" managed by the CBA.
- Canada has a small network of financial literacy providers who could expand their capacity, if given sufficient resources.
- Generally speaking, provinces' curricula could integrate financial literacy education.

Recent experience suggests that there is growing and widespread interest in supporting the improvement of financial literacy in Canada. There are private and not-for-profit organizations that are able to partner with government departments and agencies that have indicated an interest, either directly or indirectly. These include the Department of Finance, Industry Canada (Office of Consumer Affairs), and Human Resources and Skills Development Canada (HRSDC). In addition, the Standing Senate Committee on Banking, Trade and Commerce has made recommendations strongly supportive of increasing attention to financial literacy (Canada, 2006).

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others provide the data for the analysis by those interested in advancing financial capability in Canada. A special issue of *Perspectives on Labour and Income* (Statistics Canada, 2005b) included articles dealing with family finance and pension. One of the articles reported the finding that "many workers do not clearly understand their retirement plan coverage and ... confuse RPPs and group RRSPs."

<sup>36</sup> In 2006, the Canadian Securities Administrators published the *CSA Investor Index*, reporting on a survey that included the degree to which Canadians invest and whether they have the necessary knowledge and skills to invest appropriately. The study attempted to benchmark Canadians' understanding of investment, their experience with financial fraud, and their awareness and expectations of securities regulators. Various industry groups or individual businesses undertake their own surveys on specific issues, some of which make headlines. Ipsos Reid's annual RRSP surveys have been variously reported. In some articles, RBC Financial Group is credited with the survey (Investment Executive, 2005; RBC Financial Group, 2006); in other articles, BMO Group is credited (BMO Financial Group, 2005b and 2005c). Desjardins Financial Security (2006) contracted another firm to survey other aspects of Canadians' retirement plans. The findings of such surveys can be published by the industry involved (BMO Financial Group, 2005a). While these surveys reinforce other findings, they generally address special topics. Because they are undertaken by business, they are not seen as "neutral."

<sup>37</sup> In 2001, the Consumers Council of Canada published its survey of individuals working in the Canadian financial services sector and in Government or regulatory bodies as *The Scorpion and the Frog* (Yudelman, 2001). Some evaluations of specific programs reference consumer concerns and financial literacy. For example, Consulting and Audit Canada's (2004) *Survey of Overhead Charges of RESP Promoters* notes public policy issues related to consumer awareness and the fairness and/or legality of plans with respect to the transparency of rules governing transfers. The report recommends an assessment of the ability of low-income families to understand the provisions of RESPs.

## A Note on New Zealand

Very late in this project, our research identified work under way in New Zealand. In 1995, that country created the Retirement Commission as an autonomous crown entity to help New Zealanders prepare financially for their retirement. The Commission's responsibilities include raising awareness of the need to plan for retirement; providing education on financial management and planning tools; collecting research on retirement planning behaviour and attitudes; and providing information that aids development of national policies impacting on retirement.

The Retirement Commission appears to have very comprehensive responsibility for the oversight of legislation related to retirement. Nonetheless, the Commission's work is about lifetime financial planning and includes financial education in schools, through post-secondary education and an adult's working life. The Commission's main communication tool is its "Sorted" website ([www.sorted.org.nz](http://www.sorted.org.nz)), which may be more comprehensive and include more tools than those in the United Kingdom, the United States, and Australia. An indication of the significance of the New Zealand work may be that, in 2006, the Pensions Policy Institute in the United Kingdom published its own review of the Commission's work on financial awareness and advice (Pensions Policy Institute, 2006).

## Summary and Conclusions

Financial literacy concerns Canadians at all income levels and is sufficiently important that it deserves greater attention. Canada has taken important steps toward financial literacy, including the creation of FCAC, the provision of some funding for that agency to achieve its consumer education mandate, and plans to undertake a baseline survey. There are additional steps that might be considered:

- Industry, national associations, and provincial governments and the federal government might work to create a national strategy.
- As part of that work, Canada could establish a single national website that incorporated the best ideas that have already been developed in the United Kingdom, the United States, Australia, New Zealand, and elsewhere.
- Canada could use a life cycle model in developing and presenting materials containing quality generic information that could be used on that website and elsewhere.
- Canada needs to concentrate resources on public awareness and education programs to ensure that such information is used, especially by clients of alternative financial services.

Strong international engagement will help to ensure that Canada remains current with important work under way in other countries. Canada can go beyond participating in significant international conferences and research conferences, such as those planned for the United States this year, to become proactive with respect to international work. Canada might consider:

- creating task groups that would focus on specific areas of other countries' best practices (including the United Kingdom, the United States, Australia, and New Zealand, and areas

such as school curricula, workplace learning, community outreach, and serving vulnerable consumers);

- establishing relationships with those countries so as to learn from, borrow from, and build on the best experience available (including the sharing of materials among agencies); and
- working with other countries' agencies to encourage and support international research and development networks.

This engagement can be separate from and in addition to whatever involvements might follow from work with the OECD. As part of its mandate, FCAC can take steps to ensure that either FCAC or appropriate organizations do this work.

With respect to the development of educational materials, while provinces are responsible for education it may still be possible for FCAC to

- assist in developing model curricula for financial education that can be used in schools and workplace learning; and
- work with the appropriate bodies to consolidate and improve materials that various bodies have already prepared either as resource materials for teachers' use in schools or as reference materials for students. Such consolidation would involve reviewing gaps and overlaps to make certain that quality materials were available for both teachers and students at each grade level, as well as for adults. Advisory groups of curriculum experts and designers could be used to ensure that materials were of the highest quality.

FCAC might also work with teacher organizations and faculties of education to improve teacher preparedness in the area of financial literacy.

Perhaps most importantly, given the preconditions, financial literacy is a long-term goal that requires an integrated approach involving multiple government programs.

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## Appendix A. Key Abbreviations

<b>General</b>	
AFS	Alternative Financial Services
DD	Direct Deposit
EFT	Electronic Funds Transfer(s)
ETF	Electronic Fund Transfers
IDA(s)	Individual Development Account(s)
IFA	Independent Financial Advisor
IOSCO	International Organization of Securities Commissions
ISFS	Institute for Socio-Financial Studies
LICO	Low Income Cut-Off
MCC	Mennonite Central Committee
OECD	Organization for Economic Co-operation and Development
PLAIN	Plain Language Association International
<b>Australia</b>	
AESOC	Australian Education Systems Officials Committee
ASIC	Australian Securities and Investments Commission
EEFLA	Essential Elements for Financial Literacy Assessment
FLF	Financial Literacy Foundation
MCEETYA	Ministerial Council on Education, Employment, Training and Youth Affairs
<b>Canada</b>	
ACEF	Association coopérative d'économie familiale
AFSC	Alternative Financial Services Coalition
CACFS	Community Financial Service Providers (now CPLA)
CAPSO	Canadian Association of Pension Supervisory Authorities
CARP	Canadian Association of Retired Persons
CBA	Canadian Bankers Association
CCC	Consumers Council of Canada
CESG	Canada Education Savings Grant
CFCS	Canadian Financial Capability Survey
CFEE	Canadian Foundation for Economic Education (compare with NEFE in the US)
CFIE	Canadian Foundation for Investor Education
CFSO	Canadian Financial Services Ombudsman
CLB	Canada Learning Bond

CPLA	Canadian Payday Loan Association (formerly CACFS)
CUSP	Community Undertaking Social Policy
EAP	Education Assistance Payment
ESP	Education Savings Plan
FACEF	Fédération des Acef du Québec (1993)
FAPS	Financial Advocacy and Problem-Solving Program
FCAC	Financial Consumer Agency of Canada
FSCO	Financial Services Commission of Ontario
GIS	Guaranteed Income Supplement
GSS	General Social Survey
HRSDC	Human Resources and Skills Development Canada
IDA	Investment Dealers Association of Canada
ILA	Independent Living Account
ISAP	Immigrant Settlement and Adaptation Program
Learn\$ave	A national demonstration project of the IDA funded by HRSDC
LIRA	Locked-In Retirement Account
MER	Management Expense Ratio
NCB	National Child Benefit
NECRC	North End Community Renewal Corporation (in Winnipeg)
OAS	Old Age Security
OHOSP	Ontario Home Ownership Savings Plan
OSC	Ontario Securities Commission
PIAC	Public Interest Advocacy Centre
PRDG	Policy Research Data Group
PRI	Policy Research Initiative
RESP	Registered Education Savings Plan
RPP	Registered Pension Plan
RRSP	Registered Retirement Savings Plan
SEDI	Social and Enterprise Development Innovations
SEED	Supporting Employment & Economic Development (in Winnipeg)
SFS	Survey of Financial Security
SLID	Survey of Labour and Income Dynamics
SRDC	Social Research and Demonstration Corporation
WIRA	Winnipeg Inner city Research Alliance

<b>United Kingdom</b>	
ABCUL	Association of British Credit Unions
AdFLAG	Adult Financial Literacy Advisory Group
BSA	Basic Skills Agency
CAB	Citizens Advice Bureaux
DWP	Department for Work and Pensions
FSA	Financial Services Authority
NACAB	National Association of Citizens Advice Bureaux
NPSS	National Pension Savings Scheme
PFRC	Personal Finance Research Centre
<b>United States</b>	
401K	An employer established pension plan named after a section of the US federal tax code.
ACORN	Association of Community Organizations for Reform Now
ADD	American Dream Demonstration
CEDTAP	Community Economic Development Technical Assistance Program
CSD	Centre for Social Development
CSREES	Cooperative State Research, Education, and Extension Service
ESA	Education Savings Account
FACT (Act)	Fair and Accurate Credit Transaction Act. Title V of this Act concerns Financial Literacy and Education Improvement
HHS	(Department of) Health and Human Services
IPPR	Institute of Public Policy Research
ISED	Institute for Social and Economic Development
NBER	National Bureau of Economic Research
NCEE	National Council on Economic Education
NEFE	National Endowment for Financial Education (compare with Canada's CFEE)
OCC	Office of the Comptroller of the Currency
OFE	Office of Financial Education (US Treasury Department)
ORR	Office of Refugee Resettlement
SSRN	Social Sciences Research Network

## Appendix B. Key Websites

### Australia

[www.understandingmoney.gov.au](http://www.understandingmoney.gov.au)

The “Understanding Money” website of the Financial Literacy Foundation

[www.mceetya.edu.au/mceetya/default.asp?id=14429](http://www.mceetya.edu.au/mceetya/default.asp?id=14429)

The National Financial Literacy Framework site provides curriculum in printed and interactive form.

[www.cfltaskforce.treasury.gov.au/content/discussion.asp?NavID=4](http://www.cfltaskforce.treasury.gov.au/content/discussion.asp?NavID=4)

Australia’s Financial Literacy Foundation has not published a strategy. The closest things are the report of the Consumer and Financial Literacy Taskforce, available on the Treasury Department’s website, and the Government’s 2004 election policy, which announced the establishment of the Foundation.

[www.liberal.org.au/2004\\_policy/Super\\_for\\_All\\_and\\_Understanding\\_Money\\_merged.pdf](http://www.liberal.org.au/2004_policy/Super_for_All_and_Understanding_Money_merged.pdf)

### New Zealand

[www.retirement.org.nz/](http://www.retirement.org.nz/)

New Zealand Retirement Commission (main site)

[www.sorted.org.nz/](http://www.sorted.org.nz/)

New Zealand’s Retirement Commission maintains “Sorted,” a comprehensive site that provides well-organized materials and tools for different ages and stages of life (from kids through retirement).

### Canada

[www.fcac-acfc.gc.ca/eng/default.asp](http://www.fcac-acfc.gc.ca/eng/default.asp)

Financial Consumer Agency of Canada

[www.cfee.org/](http://www.cfee.org/)

Canadian Foundation for Economic Education

[www.yourmoney.cba.ca/eng/index.cfm](http://www.yourmoney.cba.ca/eng/index.cfm)

Your Money site, managed by Canadian Bankers Association

[www.ida.ca](http://www.ida.ca)

Investment Dealers Association of Canada

[www.financialfitnesschallenge.ca/en/](http://www.financialfitnesschallenge.ca/en/)

The IDA has a link to the “Financial Fitness Challenge,” run by the Canadian Securities Administrators and designed to teach basic financial skills to youth and young adults. That same site has a “teacher resource centre” tab that leads to materials teachers can use in their classroom.

[www.kidscansave.gc.ca](http://www.kidscansave.gc.ca)

This site has been “under construction” in recent weeks.

[http://chp-pcs.gc.ca/CHP/index\\_e.jsp](http://chp-pcs.gc.ca/CHP/index_e.jsp)

Canada Health Portal

### United Kingdom

[www.fsa.gov.uk/](http://www.fsa.gov.uk/)

Financial Services Authority

[www.moneymadeclear.fsa.gov.uk/](http://www.moneymadeclear.fsa.gov.uk/)

The Financial Services Authority’s “Money Made Clear” site

[www.basic-skills.co.uk/site/page.php?cms=8&p=1402](http://www.basic-skills.co.uk/site/page.php?cms=8&p=1402)

The Basic Skills Agency’s Adult Financial Capability Framework

[www.pfeg.org/](http://www.pfeg.org/)

The Personal Finance Education Group is an educational charity created in 2000 to help young people gain confidence, skills, and knowledge in financial matters.

[www.resolutionfoundation.org/](http://www.resolutionfoundation.org/)

The Resolution Foundation is an independent research and policy organization concerned with how people on low to moderate incomes fare in today's mixed welfare economy.

### **United States**

[www.mymoney.gov/default.shtml](http://www.mymoney.gov/default.shtml)

Financial Literacy and Education Commission

[www.jumpstart.org/](http://www.jumpstart.org/)

Jumpstart Coalition

### **International**

[www.plainlanguagenetwork.org/](http://www.plainlanguagenetwork.org/)

Plain Language Association International

## Our Support

**Funding for this report was provided by:**

- **Financial Consumer Agency of Canada**

**Financial support for CPRN has been provided by the following organizations.**

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Many *e-network* subscribers and friends of CPRN

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The Wilson Foundation

***Associations and Other Organizations:***

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Centre of Excellence for Children and Adolescents with Special Needs  
City of Calgary  
City of Ottawa  
Healthy Balance Research Program  
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University of Alberta  
University of Toronto



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