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National Strategy for Financial Literacy



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FOREWORD

With involvement from many individuals and organisations across the public, private and voluntary sectors, New Zealand's National Strategy for Financial Literacy was launched in June 2008.

The strategy sets the direction for improving financial literacy in New Zealand. It provides a range of approaches that will achieve this improvement. Its focus is on developing the quality of financial education, extending its delivery, sharing what works and working together. These strategies together will help achieve our goal of a financially literate population. The better equipped New Zealanders are to make informed decisions, the better off we will all be in the long-term. However, we still have a long way to go.

New Zealand's National Strategy for Financial Literacy is a cornerstone for better co-ordination of financial education activities. At the Financial Literacy summit in June 2009 the Minister of Finance asked that the Strategy Advisory Group report to him twice a year. We welcome the Government's interest.

The worldwide economic downturn and finance company collapses in New Zealand have highlighted the importance of financial literacy. It's high on the agenda in New Zealand and internationally. Around the world, the impact of the crisis on ordinary people has created what we call a 'teachable moment' for financial literacy - people are more aware that they need to manage their money well, but unfortunately their knowledge of how to do it is patchy.

Although the ANZ-Retirement Commission Financial Knowledge Survey in 2009 showed some improvement over the same survey in 2006, it is a reminder that we still have much to do. There was little change in the number of New Zealanders with a low level of financial knowledge. The survey also highlighted gaps in knowledge and areas for improvement, with low income or less education not necessarily being predictors of low financial literacy levels.

The take-up of financial education is varied, at school level and beyond. Evaluation of what works best in terms of delivery is still being developed.

As we look for ways to help New Zealanders understand more about the increasingly complex and challenging financial environment we have revised the strategy to ensure it is relevant for today.

Many private, not-for-profit and public sector organisations have also been working to lift the nation's financial literacy. We look forward to continuing to work with them.

On behalf of the Advisory Group I'd like to thank the numerous organisations and strategy supporters who have contributed to the revised strategy. It's a collective effort and we look forward to continuing to work with you to achieve our shared vision – personal financial wellbeing for all New Zealanders.



Sean Carroll

CHAIR

NATIONAL STRATEGY FOR FINANCIAL LITERACY
ADVISORY GROUP

NOVEMBER 2010

INTRODUCTION

The over-arching goal of New Zealand's National Strategy for Financial Literacy is to achieve a financially literate population.

Financial literacy empowers people to make informed decisions about their money that fit the circumstances of their lives.

The National Strategy for Financial Literacy is a high-level framework which outlines a clear direction for New Zealand. It creates a co-ordinated approach to initiatives and helps to minimise duplication of effort and to maximise resources to fill the gaps.

This revised strategy is the outcome of wide consultation with a range of key stakeholders. A five-year action plan has been created during the consultation process and implementation rests with the many stakeholders involved.

The strategy and action plan are aimed at encouraging everyone to work together towards a shared understanding of goals and the commitment and pathways to achieve them. In this way we can gain the greatest value from the work we are all doing to ensure that all New Zealanders have the opportunity to benefit from financial education and information.

It is the right of every New Zealander to have access to accurate and impartial knowledge.

Who we are

The Commission for Financial Literacy and Retirement Income is the secretariat for the strategy and hosts the website financialliteracy.org.nz which is home of the National Strategy.

The website is co-funded by three finance industry bodies – the Financial Services Council of New Zealand, the New Zealand Bankers' Association and Workplace Savings NZ.

An Advisory Group reports on progress every six months to the Minister of Finance, stakeholders and the public.

The Advisory Group membership is:

Alan Bollard, Chair (Governor, Reserve Bank)

Diana Crossan (Retirement Commissioner)

Manuka Henare (Associate Dean Māori and Pacific Development/Director Mira Szászy Research Centre, University of Auckland Business School)

Sean Hughes (Chief Executive, Financial Markets Authority)

Lesley Longstone (Chief Executive and Secretary for Education)

Kirk Hope (Chief Executive, New Zealand Bankers' Association)

Peter Neilson (Chief Executive, Financial Services Council of New Zealand)

WHAT IS FINANCIAL LITERACY?

Financial education is a process which leads to financial literacy. The OECD's definition of financial education is:

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.¹

The diagram below reflects the range of information and different levels of skill and knowledge that everyone needs to live in a modern economy.

The key guiding principles of financial education are that it should be:

- » impartial
- » appropriate for the audience
- » non-judgemental
- » accessible
- » timely
- » evidence-based.



¹ OECD. (2005). Improving Financial Literacy: Analysis of Issues and Policies. P26

SETTING THE SCENE

In 2010 the need for financial literacy has never been greater.

More and more countries are developing tailored financial education strategies and programmes and introducing financial education into school curricula to improve financial literacy.

The recent worldwide economic downturn and finance company collapses in New Zealand further highlighted the importance and the need for financial education.

In 2009 the OECD Secretary General Angel Gurría said: *'the low level of financial literacy observed in most countries has been, if not a direct cause of the crisis, at least one of the aggravating factors'*.

Other key contributing factors to the need for financial literacy include:

- » an ageing population which threatens the viability of public pay-as-you-go pensions
- » the changes in pension arrangements, with a shifting of risk from governments to individuals, from defined benefit to defined contribution schemes, in some countries
- » an increase in life expectancy with people's savings having to support them for longer than ever before
- » the complexity and proliferation in the number of financial products
- » the low levels of literacy and numeracy for many people
- » the erosion of trust/confidence in the financial services industry
- » an increasing level of consumer debt
- » the ease and availability of credit products to an increasing proportion of the population.

While the recession has resulted in reduced use of credit cards, slowing debt growth and indications of some households repaying debt, it has also led to significant loss of value in financial assets and property, affecting the net worth and retirement incomes of many who are approaching retirement. The economic outlook remains uncertain.

In addition, the need to make a personal decision around KiwiSaver provides a compelling incentive for people to appreciate the need for, and to absorb, personal financial information and education.

Recent developments in education have increased the awareness in schools for financial education in teaching and learning programmes.

The New Zealand Curriculum (NZC) and Te Marautanga o Aotearoa (TMOA) set the direction for learning in New Zealand schools and Kura. Financial capability was included in the NZC in 2007 and is promoted across learning areas and within the key competencies such as 'Managing self'.

'Links between learning areas should be explored. This can lead, for example, to units of work or broad programmes designed to develop students' financial capability, positioning them to make well-informed financial decisions throughout their lives.'

In this environment, the New Zealand National Strategy for Financial Literacy has been revised to ensure it is relevant for today. It now includes a five-year action plan and progress will be measured and reported on against this plan.

VISION

Personal financial wellbeing for New Zealanders

Personal financial wellbeing results from people making informed financial decisions that fit the circumstances of their own lives.

At one level it is simply about people functioning efficiently in society. Financial literacy contributes to this vision as it gives people choices, helps

to protect them from unexpected events, fraud and scams, and enables them to have a voice as consumers and citizens.

Beyond this, at an aggregate level, personal financial wellbeing contributes to the efficiency and prosperity of the national economy.

Contributors to personal financial wellbeing



MISSION

New Zealanders are financially well-educated and can make informed financial decisions throughout their lives.

An informed financial decision might be to find out the true cost of debt before signing up, opting out of KiwiSaver if you can't afford it or choosing the right savings plan to suit your personal circumstances.

This mission supports the vision of achieving personal financial wellbeing in today's environment. Although legislation in New Zealand mandates the disclosure of certain information

about financial products and advice, insufficient understanding of risks and returns of different financial products does have an impact on decisions made by the consumer.

Many factors affect personal financial wellbeing. Focusing on consumer understanding of products being fit for purpose – fees disclosed, understood and compared – will help to establish a more prosperous environment for all New Zealanders.

FOCUS

The focus of New Zealand's National Strategy for Financial Literacy is on developing quality, extending the delivery of financial education, sharing what works, and working together in order to achieve the outcome of a financially literate population. These four areas are reflected in the Strategy Map overleaf.

Developing Quality

If financial education and information is to be effective it has to be timely, relevant, impartial and presented in accessible formats.

The development of core competencies (a set of competencies a financially literate person is expected to achieve) will enhance the existing financial literacy framework and will provide a much needed focus in the delivery of financial literacy programmes.

Extending Delivery

The National Strategy seeks to promote flexibility, multiplicity of channels and cultural fit in order to reach those who need financial education most. The delivery of financial education will be extended to bring the benefits of financial education and information to as many New Zealanders as possible.

Sharing What Works

There is a scope to improve the evaluation of the financial education programmes. The Commission for Financial Literacy and Retirement Income has taken the lead in bringing together interested parties to implement an evaluation programme which in time will build a strong evidence base. The sharing of best practice and experiences through which others may learn is an ongoing process.

Working Together

Financial education works best when organisations work together towards a common goal. Public and private partnerships are important in order to maximise resources, encourage collaboration and strengthen existing relationships.

STRATEGY MAP

VISION

Personal financial wellbeing
for New Zealanders

MISSION

New Zealanders are financially well-educated and can
make informed financial decisions throughout their lives

FOCUS

Delivering quality

- All information and education is free of product promotion and endorsement.
- High quality financial education resources and professional development programmes are in place to enable effective teaching throughout various sectors of the community.
- A national benchmark is developed for evaluating inter-agency financial education programmes.
- A monitoring plan for financial education and information initiatives is in place to increase participation and reduce barriers for target groups.

Extending delivery

- Target groups, needs and gaps are identified and processes are in place to build on existing initiatives which are working well.
- Financial education is focussed on where it is needed most.
- Awareness is created so that different components of financial literacy will be relevant to different people at different times e.g. budgeting, saving and investing.
- The benefits of a 'financially literate population' for New Zealand's economy are promoted through appropriate channels.

Sharing what works

- The primary information base financialliteracy.org.nz is further developed to facilitate the sharing of knowledge and research findings.
- Financial literacy strategic initiatives are aligned with other government initiatives.
- The systematic assessment, evaluation and reporting of financial education programmes are developed and promoted.

Working together

- Partnerships with industry, business, education and community sectors to deliver financial education are developed and strengthened.
- Partnerships with Māori and Pacific Island communities are encouraged and supported to extend the delivery of relevant and culturally appropriate financial education programmes.
- An inter-agency collaboration model is in place to coordinate financial education activities, minimise duplication and maximise resources.
- A framework with stakeholders is developed for consultation, collaboration and sharing best practices.



HOW DO WE KNOW FINANCIAL EDUCATION IS WORKING?

The OECD definition of financial education makes it clear that the expected outcomes include behavioural change as well as better developed skills:

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.²

Education programmes are seen as one important way of helping to change people's attitudes and behaviour in order to deal with financial pressures and make more effective decisions about their personal finances. A number of financial education programmes have been developed in recent years to address the financial education needs of target populations. However, research measuring the effectiveness of these programmes has not kept pace. There are a number of reasons why limited research is available.³

The need to evaluate the effectiveness of financial education programmes is vital to provide national and international benchmarks. Evaluating a financial education programme can help develop new insights into what works, assist in rollout from pilot to full programme, help with project and programme improvement and increase knowledge among the public and financial education specialists.

However, it has been recognised that evaluation of financial education is inherently difficult. There are still a number of programmes being developed and delivered without built-in evaluation. The need to have a clear consensus on a 'robust' evaluation model that allows impact to be measured and independent reporting of results has been widely recognised both in New Zealand and around the world.

A number of countries are either developing their own evaluation guidelines or trialling the OECD developed evaluation guidelines - 'Are We Making a Difference – a Guide to Evaluating Financial Education Programmes' (The Evaluation Guide).

In 2005, the OECD Recommendation on Principles and Good Practices for Financial Education and Awareness stressed the importance of planning, designing and conducting evaluation of financial education programmes within the broader national strategy framework. Furthermore, the development of methodologies to evaluate financial education programmes has been identified as a key priority by the OECD committee in charge of the project - the International Network of Financial Education (INFE). The INFE has established a dedicated expert subgroup to work on the issue.

The OECD commissioned initial analytical and comparative work on existing methods of evaluating financial education programmes and on the main findings from these evaluations. The paper, published by the OECD in 2008, also provided some guidance on developing methods to evaluate financial education programmes. Building on this preliminary work, the INFE expert subgroup has begun designing evaluation methods for financial education programmes that could be applied in different countries and to different kinds of programmes.

In addition, the OECD will oversee a financial literacy component that could be added to the OECD's Programme for International Student Assessment (PISA) from 2012.⁴

² OECD (2005) p. 13

³ Anderson, Zhan, & Scott, 2004; Lyons, 2005; Lyons et al., 2006; Lyons & Scherpf, 2004

⁴ The PISA test measures the comparative ability of 15-year-old students in 65 countries across a range of subjects.

The Ministry of Education has agreed along with around 20 other countries to trial the financial literacy component of the PISA test in 2011. The Ministry is funding the field trial and the success of the field trial will determine the future of a main study in 2012.

New Zealand's participation in the PISA financial literacy option will mean that 15-year old students will be assessed as a sub-sample. Currently there is no specific assessment tool available that measures nationally representative data on students' achievement in financial literacy. Participation in the PISA financial literacy option will provide this and will also enable international comparisons to be made.

The information from the study will be available at the end of 2013, when international results are released. It will notably provide a first international benchmark on the level of financial literacy of students when they finish compulsory schooling and may provide a key policy instrument to assess gaps, needs and strengths.

There are funding implications (estimated to be \$400k) of participating in the potential main study if it goes ahead.

Financial knowledge survey

The first ANZ-Retirement Commission Financial Knowledge Survey, carried out in 2005, formed a benchmark for assessing adult financial literacy in New Zealand. A Financial Knowledge Framework was developed for the survey in order to describe and define the abilities, understanding and awareness that people would demonstrate at different levels of financial knowledge, from a basic level to an advanced level.

The second ANZ Retirement Commission Financial Knowledge Survey was carried out in 2009. Although it is still too early to determine long-term trends, the survey indicates that it is possible to improve financial knowledge, but that it may be more difficult and may take more time to improve financial knowledge from a low base. Financial education and information alone may not be enough to improve the position of those with low financial knowledge - e.g. low literacy and numeracy skills may also need attention.

This survey is broadly comparable to surveys conducted in Australia in recent years, and the findings indicate that the financial knowledge of New Zealanders and Australians is largely aligned, with both having a reasonable level of knowledge but there are some areas that require attention and a strategic approach.

The Financial Knowledge Framework developed in 2005 has been used as the basis for selecting priority areas for the delivery of financial education programmes. This evidence-based approach has been combined with input from a stakeholder consultation process carried out in 2010 to ensure that current issues which have arisen since 2005 have been taken into account in the 2010-2015 Action Plan.

The third national financial knowledge survey will be carried out in 2013.

financialliteracy.org.nz
BUILDING FINANCIAL CAPABILITY

Email: office@financialliteracy.org.nz

Phone: **04 499 7396**

Website: www.financialliteracy.org.nz