



Financial Literacy:

Improving understanding,
creating opportunity

Summary



National Adult Literacy Agency

An Áisíneacht Náisiúnta Litearthachta do Aosaigh

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Supported by

EBS
BUILDING SOCIETY

First ever national research into financial literacy

In 2004, NALA announced a three-year financial literacy campaign in partnership with the EBS Building Society as part of the EBS corporate social responsibility programme, *Positive Impact*.

In spring 2005 we commissioned an independent research company, Ralaheen Ltd, to produce the first piece of research into financial literacy in Ireland.

Why research into financial literacy is important

Currently, the only national statistics available on adult literacy in Ireland are the results of the International Adult Literacy Survey (OECD, 1997), which found that **500,000 (25%) Irish adults have difficulties with simple numeracy and literacy tasks** like adding up a bill, understanding a pay slip or filling in a form.

Additionally, the Programme for International Student Assessment (PISA) Survey (2003) showed that **15% of Irish 15 year olds score at the lowest level of literacy**.

This, in particular, indicates a potential major problem for the future.

International research and anecdotal information in Ireland, illustrate that improved literacy levels have been shown to increase people's understanding of and accessibility to financial products and services.

Financial literacy difficulties and financial exclusion among adults are being actively addressed, across Europe, Australia, the US and elsewhere through legislation, corporate social responsibility programmes, sharing of good practice and joint initiatives.

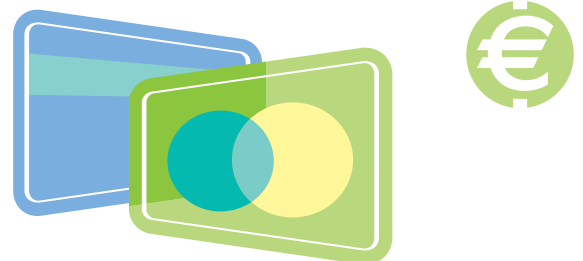
International drive for addressing financial literacy for adults with literacy and numeracy difficulties, through a wide range of initiatives and collaborations

What Ireland is doing

When compared with other countries, Ireland is progressive with its money advice scheme operated by the Money Advice and Budgeting Service. However it lags behind when it comes to financial literacy awareness and actions. Now, is the opportunity for financial institutions in Ireland to build on the existing international models of good practice¹, developing similar national initiatives.

These could include:

- ❖ surveys of financial literacy;
- ❖ advisory groups on financial literacy;
- ❖ benchmarking tools; and
- ❖ financial literacy curricula.



Benefits of financial literacy for consumers and financial institutions

- ❖ Greater financial reward for both consumers and financial institutions
- ❖ Increases and develops consumer trust
- ❖ Greater clarity regarding the effective use of products or services
- ❖ Promotes and increases the user-friendliness of available services.
- ❖ Improves consumer relations and communication
- ❖ Better equips staff to meet the needs of a wider client base.

¹ 'Recommendation on Principles and Good Practice for Financial Education and Awareness', Organisation for Economic Co-operation and Development (OECD), 2005. Available at www.oecd.org



What the research found

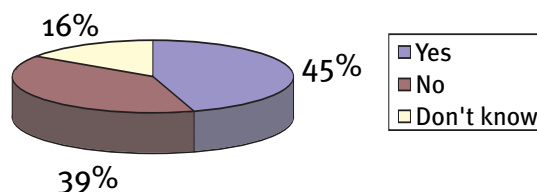
The size of the problem

Financial literacy difficulties are a major issue in Ireland and a growing concern for adult learners and literacy programmes. Difficulties understanding everyday financial terms are not confined to any one group in society; this is an issue that affects the whole population.

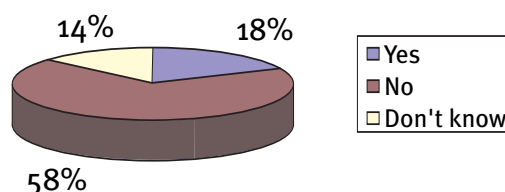
The research included a telephone survey of a national sample of over 1,000 people. This revealed three important points.

- ❖ Difficulties in understanding financial terms are not confined to those from less advantaged backgrounds. Many middle class adults appear to have difficulties understanding financial terms and words.
- ❖ When asked about the term APR, more than one in three people could not select the correct definition from a choice of three. So, barriers to understanding financial services are not specific to adults with literacy and numeracy difficulties.
- ❖ Poor literacy and numeracy compound these barriers to using financial services. Using plain English to explain the services is not enough in isolation.

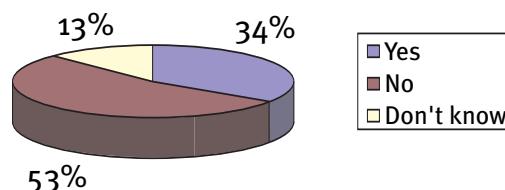
APR is the total amount of interest on a loan plus any other charges



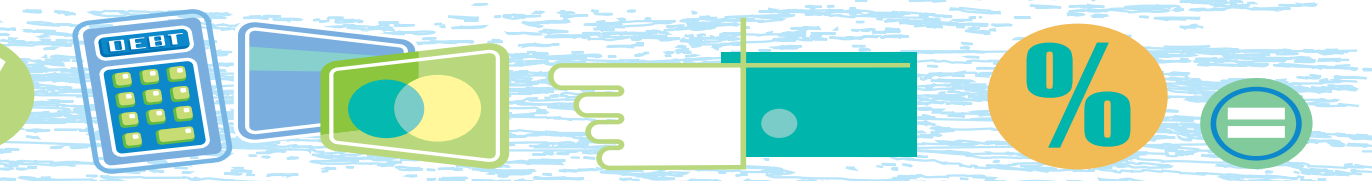
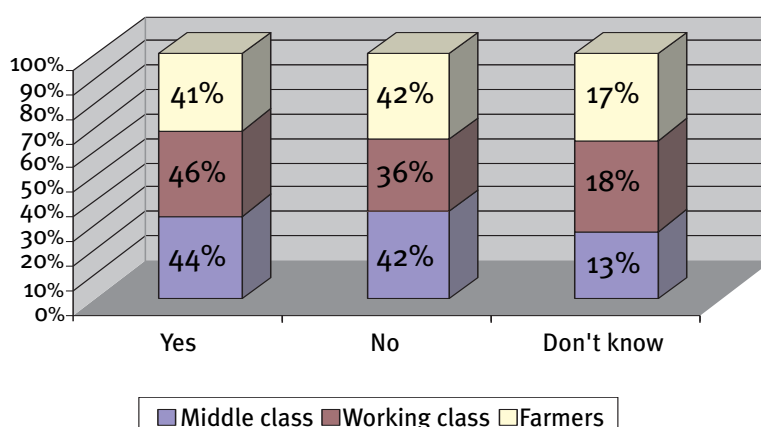
APR is the amount a bank or building society is willing to lend a customer



APR is the monthly repayment on a loan



Answers to APR is the total amount of interest on a loan plus any other charges categorised by percentage within social grade (N=1007) source: Ralaheen Ltd and Red C Research and Marketing Ltd, 2005



A growing concern

The problem will continue to grow as financial services become more complex. This trend is already becoming visible for example:

- ❖ banks and building societies are merging and changing,
- ❖ bank branches are closing or relocating,
- ❖ financial institutions are relying more on telephone and internet banking, and
- ❖ choice is growing due to independent providers being available on the Internet, or through retail shops and from credit card companies.

Consumers are perplexed by these changes, and most people recognise that they would benefit from increased financial skills, awareness and understanding.

Consumer fear and lack of trust

In discussions in Dublin and Kildare, adult literacy learners described experiences of using financial institutions. Many of their experiences were dominated by lack of trust, resulting in a fear of:

- ❖ asking for help,
- ❖ being asked to fill out a form,
- ❖ asking what they were signing,
- ❖ being unaware how charges for services are calculated, and
- ❖ being unable to understand the difference between a bank charge and a Government levy on their account.

Case Study:

Carol's Experience

When Carol, 30 and a single mother of three, embarked on her Community Employment (CE) scheme at FÁS, she already had a bank account, but she opened an additional one into which her CE wages would be paid.

Carol found the various forms of identification that she needed to provide, restrictive and confusing. She was sent an ATM card and pin, but she feels she was never offered a chequebook or advised of credit options.

Although usually able to follow her statements, she is not completely sure of some of the charges. There were charges for as much as €10 or €12.50 a month and she would have liked for bank staff to have explained them clearly to her, when she opened the account.

Banking terms, such as APR, were also hard for her to understand. Her numeracy group had not yet covered percentages. Carol suggested that the way home collected credit companies explain repayments, for example €30 on €100, might be easier for people to understand.

Carol enjoys the numeracy classes attached to the scheme. She explained how the group had started off at Level One to assess what they were capable of taking on. For Carol, as for others in the group, participation in the scheme and the classes is truly a 'second chance'.



Importance of trust for financial services

EBS, through a variety of research, has identified a triangle of trust for financial services:

- ❖ trust in financial security,
- ❖ trust in integrity, and
- ❖ trust in systems.

Customers of financial services have expectations that these elements of trust are in place. Events in recent years have highlighted that when one of these elements breaks down the trust relationship between consumers and financial services is damaged and it is very difficult to foster renewed trust.

*"Speaking about the importance of trust between financial services and consumers, Ted Mc Govern, Chief Executive Officer of the EBS Building Society, said: "Customers of financial institutions are saying: 'Be open and honest in all of our dealings together. Don't bamboozle me, educate me and explain things to me. Lets have an adult-to-adult relationship. Don't give me any gimmicks, stunts or loose ends and don't try to sell me something that I don't need or, more importantly, that I don't understand.' So that is trust.""*²

Consumers' suggestions for the future

Participants (with the exception of migrants) generally preferred spoken information through:

- ❖ information desks,
- ❖ private kiosks, and
- ❖ one-to-one care/advice.

Participants suggested that brochures should use plain English and include:

- ❖ shorter sentences & paragraphs,
- ❖ easy to read text - avoiding tiny print, and
- ❖ concise information.

Participants suggested that television advertising should:

- ❖ feature a broad range of people like themselves going into a bank and talking to someone at a counter,
- ❖ show counter staff asking: *"Do you need help with that?"*,
- ❖ show clothes and fashions common to the different neighbourhoods, and
- ❖ not only use 'third level students' to represent young consumers.

Financial literacy and its implications

Financial literacy is the ability to make informed judgements and to take effective decisions regarding the use and management of money. It is a separate issue from financial exclusion. It implies the need to have basic skills to access and manage everyday finances and incorporates basic numeracy and literacy skills. Financial literacy is an important consideration for financial institutions and adult literacy providers.

² "Tackling Financial Literacy in Ireland", Ted McGovern at NALA National Adult Literacy Awareness Week, half-day seminar, Friday 24th September 2004, IFSC Dublin



Research recommendations

A Financial Literacy Framework for Action

These recommendations should be viewed as a national strategy to tackle low financial literacy, which will engage a broad range of stakeholders in the financial services, Government and adult literacy and numeracy sectors.

A Task Force on financial literacy	<ul style="list-style-type: none"> ❖ Constitute a resourced action under Ireland's National Anti-Poverty Strategy. ❖ Include the major social, financial, advisory and educational actors in the field. ❖ Develop knowledge base on financial literacy issues and develop formal strategic initiatives.
Promote financial awareness	<ul style="list-style-type: none"> ❖ Money Advice and Budgeting Service Policy Development Unit to work with local financial service and adult literacy providers and explore new ways to provide independent, confidential and free advice, before and during financial transactions and services.
Training for providers	<ul style="list-style-type: none"> ❖ Training for counter staff to help them support consumers with numeracy or financial literacy difficulties, including: <ol style="list-style-type: none"> (1) customer service and care; and (2) compliance with money laundering provisions.
Quality customer service	<ul style="list-style-type: none"> ❖ Designated information officer to assist customers with literacy and numeracy difficulties. They would: <ol style="list-style-type: none"> (1) help customers to complete forms in privacy and without delaying other waiting customers; and (2) provide customers with an opportunity to have financial terms explained in a meaningful way.
Printed materials	<ul style="list-style-type: none"> ❖ Financial service providers to use plain English in their promotional material.
Financial literacy curriculum development and delivery and new adult resource packs	<ul style="list-style-type: none"> ❖ NALA to carry out research, in consultation with financial services and adult literacy representatives, to develop an appropriate financial literacy curriculum. ❖ Curriculum should consider the value of peer-led learning for adults with literacy and numeracy difficulties. ❖ Curriculum to be supported by a bank of appropriate materials and resources.
Investment in tuition resources	<ul style="list-style-type: none"> ❖ Develop financial literacy learning materials appropriate for adults living in Ireland. ❖ Promote the continued networking of tutors and course co-ordinators, including stronger links between local literacy programmes and local financial institutions.
Consumer responsibility in their transactions	<ul style="list-style-type: none"> ❖ Financial Regulator to promote a 'Consent with Care' campaign, advising consumers clearly of their obligation to inform themselves of the significance of all of their financial transactions. ❖ Consumers to ask for information, that is accessible and comprehensible to them.
Workplace based financial literacy tuition	<ul style="list-style-type: none"> ❖ Expand existing provision of financial literacy in special labour market integration programmes.
Developing the financial literacy research agenda	<ul style="list-style-type: none"> ❖ Research into the financial literacy challenges of new forms of financial service provision/delivery and development of financial literacy indicators. ❖ Research to include a range of funders bringing variety and pluralism to the research field.

The recommendations propose the engagement of five Government departments:

- ❖ Department of Finance,
- ❖ Department of An Taoiseach,
- ❖ Department of Social and Family Affairs,
- ❖ Department of Enterprise, Trade and Employment, and
- ❖ Department of Education and Science.

There are recommendations for the financial services sector, some of which may be appropriate to the Irish Bankers Federation or the Institute of Banking and others to individual financial institutions. There are also recommendations for NALA and the adult literacy sector.

Finally....

Measures to address financial literacy difficulties, should enhance the trust relationship between consumer and provider and, in so doing, bring added value to one of the most important economic sectors of Irish society. Based on international good practice, the key to beginning to address financial literacy as a whole-population issue is a national framework for financial literacy that involves the collaboration of all key stakeholders in government, financial services and adult literacy services.



Mary O'Dea, Consumer Director at the Financial Regulator said *“three quarters of consumers find written information on financial products too complicated and difficult to understand. But what we found most encouraging in of all the statistics was that a staggering 92% of consumers said that they would read more information on financial products if it was written in plain English. We definitely need more consumer education so people can be more confident about their financial decisions to buy the financial product or service that is best for them. And we believe that when people buy the financial products that are best suited to their needs, they are then better able to manage their own resources. This results in a more efficient financial services industry and that is a benefit to everybody.”*³

- ❖ The study found that research in the area of financial literacy distinguishes between numeracy, which is a basic skill in numbers and arithmetic and financial literacy.
- ❖ Financial literacy is the ability to make informed judgements and to take effective decisions regarding the use and management of money.
- ❖ Financial exclusion is the difficulty encountered by some people, for a variety of reasons, in opening accounts in banks, building societies, credit unions or the post office.

³ Mary O'Dea at NALA seminar: 'Tackling Financial Literacy In Ireland', National Adult Literacy Awareness Week, Institute of Bankers, Dublin 24th September, 2004



Financial literacy: Improving understanding, creating opportunity

This is a summary of the financial literacy research carried out by Ralaheen Research Ltd. and commissioned by the National Adult Literacy Agency (NALA) in partnership with and supported by the Corporate Social Responsibility Programme of the EBS Building Society. The purpose of the research was to identify how literacy and numeracy difficulties act as a barrier to understanding and accessing financial services.

Additional copies of this summary and the full report are available from NALA.

Email: literacy@nala.ie or phone (01) 8554332.

What is NALA?

The National Adult Literacy Agency (NALA) is a non-profit membership organisation, concerned with national co-ordination, training and policy development in adult literacy work in Ireland. The Agency was established in 1980 and from that time has campaigned for recognition and response to the adult literacy issue in Ireland.



National Adult Literacy Agency

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Literacy learning and tuition
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Read Write Now TV literacy
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