Financial Literacy:

Improving understanding, creating opportunity

Report

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Financial Literacy:
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The views expressed in "Financial Literacy: Improving understanding, creating opportunity" are not necessarily the views of the National Adult Literacy Agency.

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Identifying how literacy and numeracy difficulties act as a barrier to understanding and accessing financial services

Commissioned by

National Adult Literacy Agency

in partnership with the

EBS Building Society

by

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Ralaheen Ltd

August 2005

Foreword

Financial literacy incorporates basic numeracy and reading skills and is an important consideration for financial institutions and adult literacy providers. In a recent speech, Howard Davies, UK Financial Services Authority (FSA) chairman, said, "The priority must be to raise the base level of adult financial literacy. This will not only help us achieve our objective of promoting public understanding of the financial system but also improve consumer protection and reduce the opportunities for financial crime." (Financial Services Authority education conference, London, 12 March 2002)

In this context, NALA, with the support of the EBS, devised a financial literacy strategy incorporating:

- a plain English guide to financial terms;
- support for a series of events during National Adult Literacy Awareness Week (NALAW) 2004 and the adult International Literacy Day (ILD) conference 2004;
- a media-related promotional campaign;
- printed support material;
- support for producing materials to support financial literacy tuition; and
- research to identify the ways in which literacy and numeracy difficulties act as a barrier to understanding and accessing financial services.

To this end, NALA contracted Dr. Pauline Conroy and Helen O' Leary of Ralaheen Ltd, a private research company, to carry out research to identify the ways in which literacy and numeracy difficulties act as a barrier to understanding and accessing financial services. This research involved a number of discussion groups with a range of adult learners with literacy and numeracy difficulties and interviews with financial services representatives and frontline staff. A key innovation was the use of a public opinion poll to test understanding among the general population of everyday financial terms. This was a very successful aspect of the research.

A steering group of representatives of financial services providers, financial literacy researchers, adult literacy services and a range of training and education settings committed great time and energy to supporting and guiding this research, along with providing access to discussion group participants. Without the committed involvement of the steering group members and research participants, this project could not have been achieved nor would it have been so successful.

The findings of this research place financial literacy issues and opportunities in Ireland within a broader global context. They further show that barriers to accessing and understanding financial services are not confined to socially and economically disadvantaged groups or adults with literacy and numeracy difficulties. However, because of their particular needs, such adults have more acute experiences of the barriers that face consumers in accessing and understanding financial services.

International best practice has shown that a nationally resourced and co-ordinated strategy for tackling financial literacy difficulties in the general population that brings together key policy making, adult basic education and financial service stakeholders is the best approach. Our own findings and recommendations reflect this.

Over the coming year, we will continue to work in partnership with the EBS to continue to implement the NALA/EBS financial literacy strategy and to promote the implementation of the key recommendations outlined in this report.

Inez Bailey
Director of NALA

August 2005

Executive Summary and Recommendations

This executive summary highlights the main findings and recommendations of a report on research commissioned by the National Adult Literacy Agency (NALA) in partnership with the Corporate Social Responsibility Programme of the EBS Building Society. The research was carried out by Dr Pauline Conroy and Helen O'Leary (M.Soc.Sc., M.Soc.Sec.) of Ralaheen Research Ltd.

Financial literacy is an emerging and growing issue in Ireland. Currently there is no response to this issue at national policy level. Furthermore, no one body or institution within the public or private sector has taken the lead in tackling this issue. This research, conducted in partnership by NALA and the EBS, highlights the need for a National Action Plan on Financial Literacy to be co-ordinated by key Government departments.

Why financial literacy research is important

The size and complexity of the adult literacy issue in Ireland

Currently, the only national statistics available on adult literacy in Ireland are the results of the International Adult Literacy Survey (OECD, 1997)[1], 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 recent Programme for International Student Assessment (PISA)[2] Survey 2003 showed that 15 per cent of Irish 15 year olds score the lowest level of literacy. This in particular indicates a potential problem for the future.

Furthermore, a public opinion poll carried out as part of our research found that over 55 per cent of a large sample of the general public had difficulty with everyday financial terms.

A financial literacy research gap in Ireland

Through international research and anecdotal information in Ireland, literacy has been identified by NALA as a barrier to accessing and understanding financial products and services. Having said

[1] Department of Education and Science, 1997, *International Adult Literacy Survey. Results for Ireland*, Dublin, Ireland, the Stationary Office

[2] OECD (2003) *Learning for Tomorrow's World. First results from PISA 2003*. OECD: Paris

this, there was an obvious gap in formal research examining financial literacy in Ireland. With this in mind, NALA, in partnership with the Corporate Social Responsibility Programme of the EBS Building Society, decided to commission this research in 2004.

Financial literacy is important for financial institutions and consumers alike

Financial literacy is an important consideration for financial institutions, adult basic education providers and consumers in general. Mary O'Dea, Consumer Director at the Financial Regulator, speaking[3] about the importance of financial literacy for financial services companies and their clients, highlighted in the results of the first piece of consumer research carried out by the Financial Regulator.

She 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 per cent 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."

Some of the key findings of the NALA/EBS research

The research produced a number of main findings.

- Financial literacy is the ability to make informed judgements and to take effective decisions about using and managing money. It is a separate issue from the problem of exclusion from mainstream financial services.
- Ireland is lagging behind other western nations in relation to understanding and dealing with financial literacy.
- Low financial literacy is a growing concern for adult learners and literacy programmes and will continue to grow as banking products become more complex and are sold or delivered by Internet, ATM and other self-banking systems.
- Thirty nine per cent of Irish adults in a surveyed population lacked the ability to identify a common financial term. Difficulties understanding financial terms are not confined to disadvantaged groups, but extend into the middle classes and so are a 'whole population' problem for society.
- Adult literacy and numeracy learners consulted in this study:
  - were interested in, and could articulate well, their concerns over financial literacy and the handling of banking transactions;
  - could swiftly identify with the research topic and offer immediate opinions on the subject;
  - appreciated that financial service providers have to provide a rapid and effective service to everyone; and
  - understood and appreciate the need for new regulations, such as in relation to money laundering.

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

How Ireland compares internationally

Ireland lagging the world in financial literacy action

This research study found that there were major campaigns of activity taking place in relation to financial literacy and financial exclusion in the UK, across Europe, Australia and the US.

There is a wealth of international data on the subject of financial literacy. On the international front, there has been a drive for addressing financial literacy for adults with literacy and numeracy difficulties through a wide range of initiatives and collaborations. These initiatives include:

- ❖ national advisory groups on financial literacy to drive activity;
- ❖ wide ranging financial literacy tuition material;
- ❖ national awareness campaigns;
- ❖ financial literacy surveys to raise awareness and understanding; and
- ❖ joint partnerships between the adult basic education sector and financial services companies around specific initiatives.

Our study also found that research in the area of financial literacy distinguishes between numeracy, which is a basic skill in numbers and arithmetic, and financial literacy.

National opinion poll of over 1,000 adults

A national sample survey of over 1,000 adults sought to find out the extent of low financial literacy. The answer is 'yes' it is a widespread problem. This opinion poll found that the adults surveyed who had difficulties in understanding everyday financial terms are not confined to those from less advantaged backgrounds. This indicates that financial literacy is a whole population issue and not just confined to adults with literacy and numeracy difficulties. This part of our research uncovered the following findings:

Lack of understanding of a financial term is not specific to adults with literacy and numeracy difficulties

When asked the meaning of one widely-used financial term such as annual percentage rate (APR)[4], less than half of those replying could identify the 'right' answer. Many appeared to have no idea whatsoever as to what it meant. Many middle class adults appear to have difficulties understanding everyday financial terms and words.

The survey illustrates then that barriers to understanding and accessing financial services are not specific to adults with literacy and numeracy difficulties. Literacy and numeracy difficulties compound these barriers and make this experience more acute. The adult literacy and numeracy learners who took part in our discussion groups advocated that a full explanation of terms like APR is needed. The use of plain English to explain such terms is not enough in isolation.

Rapidly changing financial service is a major challenge for adult learners

This research observed the rapidly changing context of financial service delivery in Ireland. Banks and building societies are merging and changing. Bank branches are closing and relocating.

[4] APR is a percentage to show the amount of interest and other fees a person pays each year to receive a loan (Excerpt from NALA/EBS, 2004, *Plain English Guide to Financial Terms*, Dublin, NALA)

Transactions can now be completed by telephone. New service providers are arriving on the Internet, or through retail shops or credit card companies. In our discussion groups, we found that adult literacy and numeracy learners were perplexed by these changes. Adults with literacy and numeracy difficulties prefered face-to-face contact and called for more confidential, one-to-one help in handling their in-branch transactions.

These have been identified globally as whole-population issues that must be addressed in order to overcome barriers to consumers in accessing and understanding financial services to the ultimate benefit of all of society.

Discussion groups with adult literacy and numeracy learners

Fear and lack of trust

In discussions with adult literacy and numeracy learners, participants described their experiences as consumers of financial institutions, such as banks. Many of their experiences were dominated by difficulties with trust resulting in personal fear. In the discussion groups they vividly and openly described these experiences.

These experiences included being:

- afraid to ask for help, fill out a form or of making spelling mistakes;
- embarrassed to hold up the queue or sign X instead of their name;
- asked to repeat out loud that they were unable to read; and
- unable to understand how charges for services are calculated or the difference between a bank charge and a Government levy on their account.

What consumers with literacy and numeracy difficulties propose

Adult literacy and numeracy learners who took part in our discussion groups made many suggestions for improving financial services for those experiencing difficulties in accessing and understanding them. These suggestions were spontaneous and unprompted. Most of those who took part in the learner discussion groups had a preference for oral information rather than written brochures.

Plain English

Commenting on a range of financial service brochures, learners suggested that they should:

- use more short sentences and short paragraphs;
- have easy to read text;
- avoid those that fold out several times;
- avoid tiny print; and
- have bigger boxes to write information into.

Content of promotional material

Younger learners who took part in discussions about television advertising said that they would like the advertisements to show more people like themselves going into a bank and talking to someone at a counter. There was a suggestion that the advertisement would show counter staff using the words: "*do you need help with that?*" The clothes worn by the person in the advertisement should be the clothes worn in their neigbourhoods such as trainers and tracksuits.

People in the advertisements targeted at young people should not always look like third level students.

Customer services

Adult learners would like more information desks in financial service buildings where a person can sit and get help away from the queue.

Recommendations – A Financial Literacy Framework for Action

The research produced recommendations on practical steps for:

- the Government;
- the financial services sector; and
- NALA and the adult literacy sector

to comprehensively tackle the issue of financial literacy difficulties.

Strategy and action on financial literacy

A new working group on financial literacy should be established. The working group should:

- be established as soon as possible;
- constitute a resourced action under Ireland's National Anti-Poverty Strategy;
- have a specific time plan for establishment and implementation of its work;
- include the major social, financial, advisory and educational actors in the field;
- bring together all the various organisations with knowledge and experience of financial literacy issues; and
- develop formal strategic initiatives in the field.

Financial awareness

The Department of Social and Family affairs should provide a specific budget in 2006 to the Money Advice and Budgeting Service Policy Development Unit to link in with local financial services and adult literacy and numeracy providers to explore new and innovative ways to advise consumers that independent, confidential and free money advice is available before and during financial transactions.

Training for providers

A two-hour training module should be developed for counter staff in financial institutions. This should cover awareness of and appropriate responses to numeracy or financial literacy issues for consumers in:

- customer service and care; and
- compliance with money laundering provisions.

NALA and financial service industry representatives and training bodies should collaborate on developing this training module.

Quality customer service

Financial service providers should consider a formal approach to addressing financial literacy by appointing a designated information officer or official in each retail branch. These would be available:

- to assist consumers with literacy and numeracy difficulties, to meet the time constraints of other staff serving customers;
- as a resource to assist consumers in completing forms in privacy and without stalling queues of other waiting consumers; and
- to provide consumers with an opportunity to have financial terms explained in a meaningful way.

NALA should provide appropriate resources and supports to assist these information officers. Local branches could advertise the local adult literacy service as a support for consumers with particular difficulties accessing and understanding financial services.

The use of plain English in printed material

All financial services promotional and explanatory material should be provided in plain English. Plain English is a way of writing and presenting material that makes it attractive to read and easy to understand. Information has never been a more important tool in financial service promotion, so it is vital that as many people as possible can access and understand it. The use of plain English also has many benefits for financial services by promoting consumer satisfaction and helping to avoid consumer confusion over services on offer. The NALA plain English service is a resource that financial services can access for support in this area.

Financial literacy curriculum development

An Irish-based financial literacy curriculum currently does not exist. The Department of Education and Science should fund NALA to carry out consultative research to develop an appropriate financial literacy curriculum. This curriculum should take into account the value of peer-led learning for adults with literacy and numeracy difficulties. The Department of Education and Science and Vocational Educational Committees should increase investment in full-time staff dedicated to numeracy and financial literacy curriculum delivery.

Investment in and development of appropriate tuition materials and resources to support the new financial literacy curriculum

The curriculum should be supported by a bank of appropriate materials and resources. The research identified the need for Irish-based teaching and learning materials for financial literacy. NALA should be appropriately resourced to engage in developing financial literacy teaching and learning materials and resources in consultation with financial services and adult literacy and numeracy representatives. This would:

- be appropriate to adults living in Ireland;
- promote the continued networking of tutors and course co-ordinators; and
- promote stronger links between local literacy programmes and local financial institutions.

Consumer responsibility in their transactions

The Financial Regualtor should launch a time-bound campaign informing consumers clearly of their obligation to inform themselves of the significance of all of their financial transactions. This would:

- encourage consumers to exercise informed consent;
- encourage consumers to ask for information, that is accessible and clear to them;
- form part of a 'consent with care' campaign; and
- be informed by NALA and key stakeholders in adult literacy services.

Workplace based financial literacy tuition

Providing tuition based on adults' needs, interests and experiences is a core element of the ethos of adult literacy and numeracy work. With this in mind, NALA should support FÁS and the VEC's to introduce specific financial literacy modules for workplace basic education (WBE) programmes. This is an area for dialogue between FÁS, providers of financial services and adult literacy services.

Developing the financial literacy research agenda

With the arrival of new financial services providers into Ireland, such as Tesco, new store cards, take-overs of existing providers and internet banking, further research should be undertaken into financial literacy, examining the:

- challenges of new forms of financial service provision and delivery;
- development of financial literacy indicators suited to Ireland; and
- inclusion of a range of funders, bringing variety and pluralism to the research field.

Conclusions from recommendations

The recommendations recognise that financial services operate on a foundation of trust and that financial transactions are based on a trust relationship. Trust is intangible and usually does not show itself until it is gone. Measures to address financial literacy, therefore, 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 how financial literacy difficulties 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.

How was the research done?

The issue of financial literacy is a new research topic to Ireland. There is no single established way to measure it. This exploratory research adopted four different methods to undertake the study:

- a review of the policy studies on financial literacy conducted in other countries with generally similar banking systems;
- discussion groups with adult learners in Dublin and Kildare to listen to their experience of handling financial transactions and to gauge the nature of their difficulties, if any;
- a sample survey of 1,000+ people to test their financial competence in relation to one everyday financial term; and
- discussion with representatives of the financial services sector.

Some relevant definitions

Financial exclusion

Financial exclusion is the difficulty encountered by some people in opening accounts in banks, building societies, credit unions or the post office, for example, due to closures or relocations.

Financial literacy

Financial literacy involves a range of literacy and numeracy skills to access and manage everyday finances.

Good practice in adult literacy and numeracy work

Good practice in adult literacy and numeracy work starts with the needs and interests of individuals. It is concerned with personal development and building confidence as well as technical skills.

Literacy

Literacy involves listening, speaking, reading, writing, numeracy and using everyday technology to communicate and handle information. It includes more than the technical skills of communication; it also has personal, social and economic dimensions. Literacy increases the opportunity for individuals and communities to reflect on their situation, explore new possibilities and initiate change.

Numeracy as a lifeskill

Numeracy is a lifeskill that involves the competent use of mathematical language, knowledge and skills. Numerate adults have the confidence to manage the mathematical demands of real-life situations such as everyday tasks, work-related functions and further education courses, so that effective choices are made in an evolving technological and knowledge-based economy.

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- Carol Dunne, National Training Development Officer, MABS;
- Rachel Farrell, Director, St. Basils Senior Traveler Training Centre, Tallaght on behalf of Gerry Griffin, National Co-ordinator, Senior Traveller Training Centres;
- Peter Dowse, Basic Education Tutors Association (BETA) representative;
- Trutz Haase, Social and Economic Consultant; and
- Kevin O'Duffy, NALA Executive.

Literacy tutors and co-ordinators of learner programmes and Community Employment schemes in Dublin and Kildare offered their time, their classrooms and their support to enable this financial literacy research to take place. We are grateful to them for their assistance.

Adult learners very kindly agreed to share their opinions and experiences in an open fashion, for which we are very grateful. Special thanks are due to Carol, who gave generously of her time and personal experience in a one-to-one interview.

On the other side of the counter, the Irish Bankers' Federation and staff of the EBS Building Society provided helpful perspectives on financial literacy as viewed by providers within the financial services sector. We are also pleased to acknowledge the co-operation of Allied Irish Banks and the Irish League of Credit Unions. Veronica Sheehan and Pauline Murnin of Lansdowne Market Research kindly gave us data on the ownership of financial products in Ireland.

Pauline Conroy
Helen O' Leary

Dublin, August 2005

Preface

In 2004, the National Adult Literacy Agency (NALA) announced a three-year financial literacy campaign in partnership with the EBS Building Society, as part of the latter's programme of Corporate Social Responsibility. The rationale for the project stems from an increased awareness among literacy practitioners, financial services providers and their clients of the need for financial literacy skills in everyday life.

This research is one strand of the NALA/EBS Building Society partnership. An independent social science company, Ralaheen Ltd, was invited to undertake the research.

The research aims to:

- identify how literacy and numeracy difficulties might act as a barrier to accessing and understanding financial services; and
- recommend how to overcome these barriers, as part of a national action plan to tackle low financial literacy.

The study took place between March and July 2005.

The research findings are designed, in particular, to inform those working within financial institutions and those working in adult literacy and numeracy settings. The findings will also be useful to organisations providing information or advice, such as the Money Advice and Budgeting Service (MABS) and the Financial Regulator.

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Chapter 1

Financial literacy – a global issue

Financial literacy implies having the necessary skills to access and manage everyday finances. Financial literacy incorporates basic numeracy and literacy skills. The National Adult Literacy Agency (NALA) adopts a broad definition of literacy, as outlined in the box below.

> Literacy involves listening, speaking, reading, writing, numeracy and using everyday technology to communicate and handle information. It includes more than the technical skills of communication; it also has personal, social and economic dimensions. Literacy increases the opportunity for individuals and communities to reflect on their situation, explore new possibilities and initiate change.

The NALA definition of literacy specifically includes numeracy, but in 2002 NALA recognised the need to develop and promote a separate numeracy strategy for Ireland. In the same year, it established a working group, which produced a report detailing the findings of a NALA survey on adult numeracy and what the findings meant for adult numeracy tuition and support.

The working group proposed its own definition of numeracy in the report[1]:

> "Numeracy is a life skill that involves the competent use of mathematical language, knowledge and skills. Numerate adults have the confidence to manage the mathematical demands of real-life situations such as everyday living, work-related settings and in further education, so that effective choices are made in our evolving technological and knowledge-based society." (2004, p.57)

The survey found that numeracy tuition was already provided within various adult education schemes. However, the report identified a need to make adult numeracy more visible in its own right within adult literacy and to co-ordinate a consistent and coherent definition of, and programme for, numeracy across Ireland.

In its studies of adult literacy among the populations of 20 of the richest countries in the world, the Organisation for Economic Co-operation and Development (OECD) tested literacy levels along a continuum, denoting how well adults use information to function in society and in the economy.

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[1] National Adult Literacy Agency (2004) *Meeting the Numeracy Challenge*. NALA: Dublin

The OECD survey found that almost 25 per cent of Irish adults were at the lowest level of literacy[2], signalling difficulty with such tasks as:

- filling in a form;
- writing a job application;
- balancing a chequebook;
- figuring out a tip; and
- working out the amount of interest on a loan from an advertisement.

Ireland also took part in two rounds (2000 and 2003) of the Programme for International Student Assessment (PISA), which examined reading literacy and mathematical literacy among 15-year old students within the formal school network. The assessment focused on the ability of students to use their knowledge in everyday situations, including in a banking context, where they were asked to compare interest rates on savings accounts. A report of the 2003 survey ranked Ireland sixth of 29 countries on reading literacy, but 17th of 29 countries on combined mathematics scores[3].

A high failure rate in school-based mathematics has also prompted concern in several quarters, including the Irish National Teachers' Organisation[4] (INTO) and the OECD[5]. Ireland's low-ranking mathematics score and poor results in state examinations signal that every year, children and young adults are leaving school with difficulties with basic calculations in their everyday lives. As a result, numeracy does not seem to be an automatic outcome for many after years of compulsory schooling[6].

The international situation

On an international front, there has been a drive to identify financial literacy needs of adults with low literacy and numeracy levels through a wide range of research[7]. This research has shown, for example, that a "lack of financial literacy increases the risk that consumers may fail to buy products which would meet their needs or may fail to make sufficient provision to meet those needs" (FSA, 2003).

International research has also proven the close relationship between literacy, financial learning and improved financial status, with one study commenting, "Changing work patterns, an ageing

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2 Morgan, M, Hickey, B and Kellaghan, T (1997) *International Adult Literacy Survey: Results for Ireland*. Stationery Office: Dublin

3 OECD (2003) *Learning for Tomorrow's World. First results from PISA 2003*. OECD: Paris

4 Murray, N (2004) Junior Cert's fail rate 'due to lack of primary school help'. *Irish Examiner*. 16 September 2004

5 OECD (2004) *Education at a Glance*. OECD: Paris

6 O'Donoghue, J (2002) 'Numeracy and Mathematics' in *Irish Mathematical Society Bulletin*. No. 48, Pp 47-55

7 These include:

- Australia and New Zealand Banking Group Limited (ANZ) *Survey of Financial Literacy in Australia in 2003* (http://www.anz.com/aus/aboutanz/community/Programs/finlit.asp);
- UK Financial Services Authority (FSA) and the Basic Skills Agency, *Adult Financial Capability Framework* (ongoing) (http://www.fsa.gov.uk/consumer/teaching/adults/framework/mn_framework.html);
- US Department of Labour, *Money Smart Initiative* for people seeking new jobs or entering the workforce (ongoing) (http://www.fdic.gov/consumers/consumer/moneysmart/index.html); and
- National Endowment for Financial Education (NEFE) in the United States report in 2003 examining the causes and possible cures for the financial literacy crisis (http://www.nefe.org/).

population, increasingly complex products and less state intervention means the need for financial literacy will continue to grow with the increased expectation that the individual will become more self-reliant[8]." In addition, recent research by ANZ Banking Group in Australia found that early school leaving was a barrier to financial understanding.

The Irish situation

The International Adult Literacy Survey (IALS)[9] highlighted that one in four Irish adults is at the lowest level of literacy, Level 1. It states that quantitative literacy and numeracy is based "on the knowledge and skills required to apply arithmetic functions" and that Level 1 implies difficulty with "a single relatively simple operation, such as addition". To adapt and participate fully in economic and financial spheres, people require ever-higher skills levels. According to IALS, Level 3 is the desirable level of skills required to function effectively in today's society. Half of Irish adults have less than this level of skills, so ensuring access to and understanding of information presents a huge challenge.

In recent times, various organisations in the financial services arena (for example, Money Advice and Budgeting Service (MABS), the Financial Regulator and the Euro Changeover Board) have approached NALA for guidance and support. These organisations are aware that members of the public with numeracy and literacy difficulties are likely to find it very hard to understand financial services.

They are also aware that the availability of increasingly complex financial products means that people need higher levels of literacy and numeracy skills to keep up. In addition, the growing need to be financially self-sufficient (for example, choosing and saving for a private pension or filing tax returns online) means people must be increasingly financially literate.

There is very little Irish data on the impact of numeracy and literacy difficulties among users of financial services specifically. These concerns require a co-ordinated study of numeracy, literacy and finance in Ireland. This research documents the extent to which low levels of literacy and numeracy act as a barrier to accessing and understanding financial services. It also indicates how best to improve financial education, promotion and status among adults with numeracy and literacy difficulties through a series of recommendations that form a national action plan for financial literacy.

This report shows that there is a need to increase awareness among financial services staff about the importance of literacy- and numeracy-friendly approaches and strategies. There is also a need for more detailed guidelines on the methods financial service companies can use to be more literacy friendly. In addition, there is a need for financial services companies to fully understand how literacy and numeracy difficulties affect people every day and that they may, for instance:

- be unable to manage their loans and overdrafts if they do not understand letters;
- choose the wrong financial products, resulting in poor return if they do not understand product information;
- avoid going to financial institutions, as they may not understand signs and be too embarrassed to tell staff about their literacy and numeracy difficulty; and

[8] UK Adult Financial Literacy Advisory Group, 2000

[9] Morgan, M, Hickey, B and Kellaghan, T (1997) *International Adult Literacy Survey: Results for Ireland*. Dublin: Stationery Office.

- be unable to use telephone or Internet banking if they are unable to enter codes or other details.

Consumers of financial services now need to be both financially aware and financially independent so that they can take responsibility for their own financial future. Financial literacy is an important consideration for financial institutions, adult basic education providers and consumers in general. Mary O'Dea, Consumer Director at the Financial Regulator recently highlighted in the results of the first piece of consumer research carried out by the Regulator[10] that;

> "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."

Speaking about the importance of trust between financial services and consumers, Ted Mc Govern, Chief Executive Officer of the EBS Building Society, spoke of it being the 21st century battleground for financial services[11]. Based on a number of pieces of research conducted by the EBS, Ted highlighted a triangle of trust for financial services to address:

- trust in financial security;
- trust in integrity; and
- trust in systems.

As Ted highlighted, customers of financial services expect 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.

> "When you destroy trust, it is extraordinarily difficult to get it back. But organisations that are seeking to differentiate themselves must operate in the area at the apex of the triangle. The customer sets the agenda and is the final arbiter of your success. Business increasingly must be done on the customers' terms. It is taking our industry a long time to learn this lesson. 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. Let's 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".

The responses of adult literacy learners in the discussion groups echo this statement.

[10] Mary O' Dea presentation at NALA seminar: '*Tackling Financial Literacy In Ireland*', as part of National Adult Literacy Awareness Week 2004, Institute of Bankers, Dublin 24th September, 2004

[11] "Tackling Financial Literacy in Ireland", NALA National Adult Literacy Awareness Week 2004, half-day seminar, Friday 24 September 2004, IFSC Dublin

Global interest in financial literacy programmes

Literacy and numeracy difficulties are not confined to Ireland. International organisations have voiced concern in recent decades at worldwide literacy and numeracy statistics. In fact, the United Nations (UN) has named 2003-2012 the UN Decade of Literacy – Education for All, aiming to extend literacy by the end of the decade, to at least half of those currently excluded from this means of communication.

The OECD adopted a Recommendation on Principles and Good Practices for Financial Education and Awareness in July 2005[12]. The document clearly outlines a role for governments, financial regulators and financial institutions in promoting and delivering objective, non-product related financial education. The OECD recommends financial education programmes tailored to the need, circumstance and financial literacy level of population sub-groups, as well as the proper education and competence of trainers. The findings and recommendations of this study are consistent with many of these OECD recommendations to member countries.

Elsewhere, in setting a new goal to become the "most competitive and dynamic knowledge-based economy in the world", the European Union has reinforced a commitment on member states to combat poor literacy among populations as part of a wider social inclusion policy[13]. The Social Protection Committee of the European Council recommended that member states include plans for similar data on literacy, numeracy and access to education in the second round of National Action Plans for Social Inclusion.

In those Plans, seven of the EU-15 Member States regard literacy, numeracy and basic skills programmes as essential to combat social exclusion. The member states give varying degrees of emphasis to the issue. Programmes are targeted at a range of groups, native populations, migrants whose first language is not the spoken language of the state, school children and women in particular. Equally, the programmes are justified on the basis of different aims. Some are included as labour market participation measures; others as wider social inclusion strategies for vulnerable groups, for example people with disabilities. Only the UK Plan refers specifically to the need for financial literacy initiatives, aimed particularly at those currently excluded from financial services[14].

Some of the activities involved in promoting financial literacy include:

- large national programmes to identify the extent of the problem;
- joint activity between financial services, government and the basic education sector;
- government initiatives, for example setting up strategic committees to advance national strategy;
- educational tools, such as interactive educational websites, CD-Roms, videos, packs for tuition and learning;
- media awareness campaigns; and
- integration of financial literacy into the educational curriculum.

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[12] OECD (2005) *Recommendation on Principles and good practices for Financial Education and Awareness. Recommendation of the Council*. Available at www.oecd.org (Accessed July 2005).

[13] Lisbon European Council 23-24 March 2000. *Presidency Conclusions*. Available at www.europa.eu.int (Accessed June 2005)

[14] *UK National Action Plan on Social Inclusion 2003-05*. Available at www.europa.eu.int (Accessed June 2005)

Effects of poor literacy and numeracy

Having poor literacy or numeracy skills is not a simple question of being unable to read or write. The social and economic effects of poor literacy and numeracy on individuals, families and communities are well documented in the literature, both in Ireland and elsewhere. A longitudinal study carried out by the Basic Skills Agency in the UK found that failure to acquire basic skills placed adults at a distinct disadvantage in comparison with their peers[15]. The study, which followed a group of individuals from childhood through teenage years and into adulthood, revealed that poor basic skills compound the effects of other situations that are known to contribute to social exclusion. For example, adults with poor basic skills were more likely:

- to have low paid manual jobs;
- not to have taken part in work-related or further training or education;
- to be unemployed or to live in a non-working household;
- to live in poor quality housing; and
- to be in poor health, including mental health.

Poor literacy and numeracy are both a cause and an effect of poverty and social exclusion.

Causes of literacy and numeracy difficulties include:

- failure to progress from primary to post-primary school;
- early school leaving at post-primary level;
- frequent or prolonged absence from school due to illness or disability; and
- specific learning difficulties and specific learning disabilities.

Financial literacy

Poor literacy and numeracy, then, have historically been linked to exclusion from mainstream society in areas such as employment, further education and health. In recent years, poor literacy and numeracy skills in general have begun to be linked to a different phenomenon – exclusion from mainstream financial services and products, often named 'financial exclusion'. This further strand of literacy and numeracy difficulties, specifically linked to financial exclusion, has been identified as low financial literacy.

In contrast to the UK and the US, financial literacy is a concept in Ireland that has only begun to gain momentum in very recent years. In the literature elsewhere, it is defined as **"the ability to make informed judgements and to take effective decisions regarding the use and management of money"[16].**

There are many reasons why the issue of financial literacy has gained the attention of a wide range of actors, such as the financial services sector, government agencies and consumer groups.

Financial services worldwide, have become a mass industry. Since the opening up of financial services to a wider population than ever before, financial exclusion and financial literacy have

[15] Parsons, S and Bynner, J (2002) *Basic Skills and Social Exclusion. Findings from a study of adults born in 1970.* Basic Skills Agency: London

[16] Schagen, S. and Lines, A. (1996) *Financial Literacy in Adult Life*: *A Report to the Natwest Group Charitable Trust.* NFER: Slough

been identified an issue for many consumers. As the market has expanded, and more and more people have gained access to bank accounts, credit and other services and facilities, the people for whom full or even partial access to and understanding of financial services has been difficult have been pushed further from the margins of mainstream financial services.

In addition, financial services and products have become increasingly numerous, complex and sophisticated in recent decades. There is now a huge variety, not only of financial service providers from whom to choose, but also of actual products and services. This transformation of financial services and the level of interaction that is now demanded of consumers means that individuals and households require advanced levels of understanding and knowledge of the sector to make decisions appropriate to their needs and situation.

Being on the margins of financial services has been linked to certain categories of people and to people from specific geographical areas. In the UK[17] and the US[18], financial exclusion has typically been experienced by people who are:

- unemployed;
- economically inactive due to illness or disability;
- single and older;
- lone parents;
- from minority ethnic groups;
- young; and
- living in local authority or private rented accommodation.

This implies a strong link between one overarching factor – household income – and financial exclusion.

Financial exclusion as such is not a new concept. Until recently, financial exclusion in Ireland generally referred to the physical exclusion from financial services experienced by people in certain geographical areas due to the closure of local retail bank branches. During the 1990s in Ireland, the number of bank branches, including sub-branches, decreased by 26 outlets[19]. While the absolute number of branches has remained relatively stable over time, the pattern and structure of branch networks is in a constant state of flux. The continued re-structuring partly reflects population and (re)settlement patterns and partly reflects the development of new 'remote' methods of banking (such as Internet and telephone banking) and the centralisation by banks of payment and credit systems.

Apart from lack of proximity to financial institutions, other constraints on access to financial services have been identified[20]. These include:

- low financial literacy;
- products that are inappropriate to the needs of certain groups;
- banking charges;

[17] Kempson et al (2000) *In or out? Financial exclusion: a literature and research review.* FSA: Bristol

[18] Caskey et al (2004) *The Unbanked in Mexico and the United States.* A paper presented to the Access to Finance Conference, Brussels. 29th October 2004

[19] Government of Ireland (2000) *Banking Sector Strategic Issues Report.* Stationery Office: Dublin

[20] Financial Services Authority (2000) *In or out? Financial exclusion: a literature and research review.* FSA: London

- marketing strategies targeted at specific customers; and
- increased regulatory pressures to obey anti-money laundering legislation.

Together, these maintain the position of some groups at the margins of mainstream services. In Ireland, as early as fifth class at primary level (approximately aged 10 or 11 years), children are introduced to concepts such as percentages and within the maths curriculum these are often referred to in the context of money and finance[21].

The post-primary curriculum addresses consumer education in financial services through the Business Studies curriculum. Business Studies is not a compulsory subject and in 2004 about 62 per cent of all Junior Certificate candidates opted to study it.

For the sections of the population who choose not to study Business Studies at school or who have incomplete, erratic or otherwise unsatisfactory formal educational experiences, becoming financially literate must largely occur as a matter of chance. Presumably individuals have learned how financial services operate, and how to participate appropriately, through practical experience. While some may seek advice and information through professional financial advisors, many more may use less formal advice channels such as parents, relatives and friends.

Using financial services – an issue for the whole population

Financial literacy and financial exclusion among adults are subjects being discussed across Europe, Australia and the US. There is a wealth of international data on the subject of financial literacy. On the international front, there has been a drive for addressing financial literacy difficulties for adults with poor basic skills through a wide range of initiatives and collaborations. These initiatives include surveys of financial literacy, advisory groups on financial literacy, Adult Financial Capability Frameworks and a Money Smart initiative in the US for workforce entrants.

Issues surrounding financial literacy can be seen as relevant to an entire population. Apart from changes in the financial sector, societal changes have placed more responsibility on individuals and households to take responsibility for their own financial future.

Alongside the shift to a knowledge-based economy has been the shift to a consumer-led economy and increased demand for financial credit and other services. Increasing incidence and levels of consumer debt and credit use in Ireland[22] highlights the importance of considering financial literacy difficulties as a whole-population issue, rather than one exclusive to marginalised or otherwise vulnerable sections of society.

The 'job-for-life' concept is no longer a viable option for most workers. With the increase in short-term contracts and greater mobility in the labour market, the onus is increasingly on the worker rather than the employer to choose and make provision for a retirement pension. This is equally the case with health insurance, where the decision to take private health insurance throws up a variety of options. To make any of these decisions requires financial capability or financial literacy.

Poor financial literacy can serve to exclude individuals and households from mainstream financial services completely or partially. For some, being financially literate means choosing appropriate

[21] Government of Ireland (1999) *Primary School Curriculum. Mathematics.* Stationery Office: Dublin

[22] Hughes, A and Duffy, D (2005) *Consumers and debt; Are they worried? Should we be?* IIB and ESRI: Dublin

and timely financial products. For others, a lack of financial literacy can act as a barrier to using financial services and products altogether.

For the individual who manages to gain access to financial services, there remains the challenge of using the services appropriately. Where there is an imperfect knowledge of how the banking system works, a customer is at a significant disadvantage. Imperfect knowledge can be present in two distinct ways – a person can lack any information at all or they can be misinformed. In the case of misinformation, the challenge lies in undoing preconceptions, prejudices, mistrust and learned thought or behaviour, before a process of re-education can begin.

An Australian Financial Literacy Framework

As with any learned skill, individuals operate at different levels and intensities of financial literacy. To this end, Australian bank ANZ conducted nationwide research project into financial literacy. (This may be of interest in an Irish context where financial literacy is an emerging issue and as yet there has been no comprehensive assessment of the financial capabilities of the general population.)

Before beginning in-depth telephone and face-to-face interviews, the researchers, with financial services providers, consumer groups and educators, compiled an *Adult Financial Literacy Framework*, a benchmark that allows testing of levels of consumer knowledge and capability. The framework was organised into four main sections[23]:

1. ***Mathematical Literacy and Standard Literacy***
   - Essential mathematical, reading and comprehension skills

2. ***Financial understanding***
   - Understanding of what money is and how money is exchanged
   - Understanding of where money comes from and goes

3. ***Financial competence***
   - Understanding of the main features of basic financial services
   - Ability to understand financial records and an appreciation of the importance of reading and retaining them
   - Attitudes to spending and saving
   - Awareness of risks associated with some financial products

4. ***Financial responsibility***
   - Ability to make appropriate personal life choices about financial issues
   - Understanding of consumer rights and responsibilities
   - Ability and confidence to access assistance when things go wrong

The framework incorporated two broad levels of literacy:

- basic requirement level; and
- advanced competence.

[23] Roy Morgan Research (2003) *ANZ Survey of Adult Financial Literacy in Australia.* ANZ: Melbourne

Financial literacy, then, encompasses a range of knowledge, skill and know-how. For some, understanding and reading basic financial and banking terminology will present a difficulty. For others, the basic concepts will be understood at a deeper level, but not necessarily in a way that allows a person to shop around or complain about part of an agreement.

The results of financial literacy programmes

The question of increasing financial literacy among the population is a challenging one. As with any programme of education there are many issues to be ironed out:

- Who should be targeted?
- Who should deliver the programmes?
- What are the most appropriate settings?
- What should be the content of the programmes?

A major review of financial literacy programmes found that the approaches to financial literacy produced unclear outcomes[24]. Some financial literacy programmes produced increased knowledge and awareness of products. However, other research shows that such knowledge has no direct outcome in changed behaviours. In other words, increased financial literacy does not automatically convert into competency in managing financial affairs. This major review of financial literacy suggests that financial literacy programmes need to be carefully constructed with clear goals and planned outcomes, which are measurable, where possible, over time. The overview also identifies the importance of the timing of financial literacy intervention, for example providing information when opening an account or taking out a loan. Location is also significant, insofar as whether financial literacy is provided in the workplace or in the community.

A study conducted by the Co-operative Bank in the UK found that social networks were focus group participants' main source of information on credit-related products[25]. The same participants, when confronted with printed material, discussed personal experiences, knowledge and prejudices instead of referring to the literature in front of them.

A national survey, which formed part of the same research, backed up this finding. Some 50 per cent of respondents showed a preference for one-to-one contact when seeking information, while only 11 per cent preferred to use leaflets and brochures. The national survey also found that 22 per cent of respondents had attended financial literacy training of some description within various settings:

- employment;
- other training;
- community group;
- school; and
- credit union.

Overall, all participants found the courses to be either very useful or quite useful, with the community-based courses considered very useful in the most instances. However, in the focus

[24] Braunstein, S and Welch, C (2002) 'Financial Literacy: An Overview of Practice, Research and Policy' in *Federal Reserve Bulletin*, Washington. Pp 446-457

[25] Jones, PA and Barnes, T (2005) *Would you credit it? People telling stories about credit.* The Co-operative Bank: Manchester

groups, some low-income participants displayed a degree of scepticism towards attending formal training, based on the feeling that training was pointless when one had no money to manage. Researchers concluded that financial literacy training thus needs to be conducted within existing community organisations.

The tendency for learners to prefer the delivery of financial education through non-commercial organisations has been recognised elsewhere.

In the UK, a leading financial services group with operations all over the world has rationalised that consumer financial education is in the self-interest of the money industry. Ill-informed consumers are felt to be of very little benefit, and it is even assumed that a better-educated population could lead to less stringent regulation of the sector[26].

However, the financial group also acknowledged that financial institutions were not necessarily the best-placed organisations to lead consumer education. Instead, it found that a partnership approach, involving providing resources – cash and financial expertise – to trusted voluntary organisations, such as the Citizens Advice Bureau, was more effective. In its research, it also found that there is still considerable stigma attached to seeking financial advice. For example, a financial education session entitled ‘Managing Your Debt’ attracted few participants. The same session, re-titled ‘Investing in your Future’ drew much larger crowds.

In the United States, financial education programmes have been in place since the mid to late 1990s, with workplace financial literacy programmes being a key feature of the financial education landscape in that country. In addition, financial literacy education is considered to be of relevance to all sections of the population – banked, unbanked, people with general literacy and numeracy difficulties and people who do not experience these general difficulties.

In 2000, the US philanthropic organisation, the Fannie Mae Foundation, commissioned a large-scale review of financial education programmes already in existence, including workplace, community college, military school, faith-based and community-based programmes[27].

Some elements of successful financial education programmes were highlighted, and may be relevant in an Irish context, where drafting financial literacy education is in its infancy.

The American review emphasised the need for targeted outreach or a ‘know-your-audience’ approach. This does not necessarily require formal assessment of needs but does necessitate sound knowledge of population characteristics. This can serve to make a curriculum relevant to the needs and already-formed habits of intended learners; an essential criterion of any programme.

Also on the subject of curriculum development, the review pointed to the importance of developing courses that teach lifelong resourcefulness. Training programmes should give participants the skills necessary to make informed judgements not only in the present but in the context of a dynamic and ever-changing financial services sector. So elements of the programme should include information on where and when to seek further advice and effectively using print media and the Internet to do so.

[26] Clementi, D (2004) *Financial Education.* Paper presented at the OECD forum, May 2004

[27] Vitt, L (2000) *Personal Finance and the Rush to Competence: Financial Literacy Education in the U.S.* Institute for Socio-Financial Studies: Virginia

United States – compulsory inclusion

The economic decline of US neighbourhoods in the 1970s was explained in some quarters by a process of disinvestment. While local bank branches were happy to offer deposit facilities to low and middle income groups and minority populations, the service did not extend to credit facilities. The lack of credit for certain clientele, however, appeared to be based not on individual credit ratings but on the perceived creditworthiness of entire neighbourhoods. This procedure came to be known as 'redlining', defined loosely as credit discrimination against a whole geographic location. As neighbourhood access to credit was systematically denied, the value of subsequently poorly maintained properties dropped, forcing higher income earners out and lower income households in. Communities slowly lost their viability as the presence of other public amenities, private services and schools dwindled.

In response to grassroots community activism on the issue of credit for low and middle income earners, the US Congress introduced the Community Reinvestment Act (CRA) in 1977 obliging all federally insured banks and savings institutions, with assets of more than $250 million, to meet the credit needs of those in the communities in which they served, including low and middle income consumers. Institutions were to be assessed on three grounds:

- lending;
- bank services; and
- community investment.

The Act has been reviewed and amended many times since 1977. Following the most recent review of the Act (spring 2005), each of the four regulators of the Act has recommended that its rules and regulations be relaxed. Proposals have been put forward to raise the definition of an eligible bank to one owning $1 billion in assets (from $250 million) and to introduce more bank-led flexibility to the three-part test criteria; moves which would essentially reduce the number of banks subject to the legislation. In fact, it has been predicted that in a number of states the number of obligated banks would actually drop to zero under proposed amendments.

These moves to amend legislation, which has been described as, "the nation's most significant community revitalization initiative"[28], have proven to be extremely controversial and even became a key issue in the presidential election campaigns of 2004.

The US is somewhat of a leader in the English-speaking world in the range and volume of financial literacy education initiatives now in place. Possibly the most substantial and oldest financial access initiative is also to be found in the US. The Community Reinvestment Act, 1977, is an example of how the regulatory system can be used to direct banks to address the issue of access.

Finally, social policy is increasingly being arranged around life cycle stages. For example, European experts are now discussing whether social security might serve populations better if arranged around key stages in life rather than the more traditional events associated with absence from the labour market.

[28] Chen, D.W. (2004) 'US Set to Alter Rules for Banks Lending to Poor' in *The New York Times*. October 20, 2004

In keeping with this shift in analysis, the Scottish Council Foundation in the UK strongly recommends tailoring programmes to themes related to the following life cycle stages[29]:

- schools: laying the foundation;
- young adults: new responsibilities;
- work: reaching people through the workplace;
- families: being a parent;
- retirement;
- borrowing: making informed decisions; and
- advice: the role of generic advice.

The European Commission has also started to develop its financial literacy discussions. These involve moving on from the question 'Is there a need for financial literacy?' to the challenges of identifying successful financial literacy programmes. This approach is located appropriately in its Directorate General for the Internal Market within which the European Clearinghouse for Financial Literacy operates. In this context, the European Green Paper on Financial Services Policy (2005-2010) asks stakeholders whether consumers need more help to "deal more effectively with financial products and whether this means more professional and independent advice, improved education or financial literacy..."[30] The Green Paper will be discussed by financial and consumer stakeholders in the second half of 2005 and will lead to the publication of a White Paper in November 2005 presenting a European level strategic plan for financial services policy for the period 2005-2010.

The above financial literacy initiatives have focused on financial literacy education initiated by the public, voluntary and community sector, albeit with input through expertise and resources from the private sector.

In some circumstances, financial institutions themselves have addressed the issue of financial literacy. For example the *Association Finances et Pédagogie* was set up in 1957 by a French bank to provide neutral education and information to the public on financial matters[31]. It promotes awareness among the public, in particular the more vulnerable members of society, on issues related to money and budgeting. Finances et Pédagogie advisors actively seek to make contact with people likely to encounter problems. This is done in three ways:

- information meetings;
- vocational training sessions; and
- roundtables, fairs and exhibitions and radio broadcasts.

An annual average of more than 65,000 people (population France approximately 60 million) meet at over 2,500 meetings organised around a range of topics.

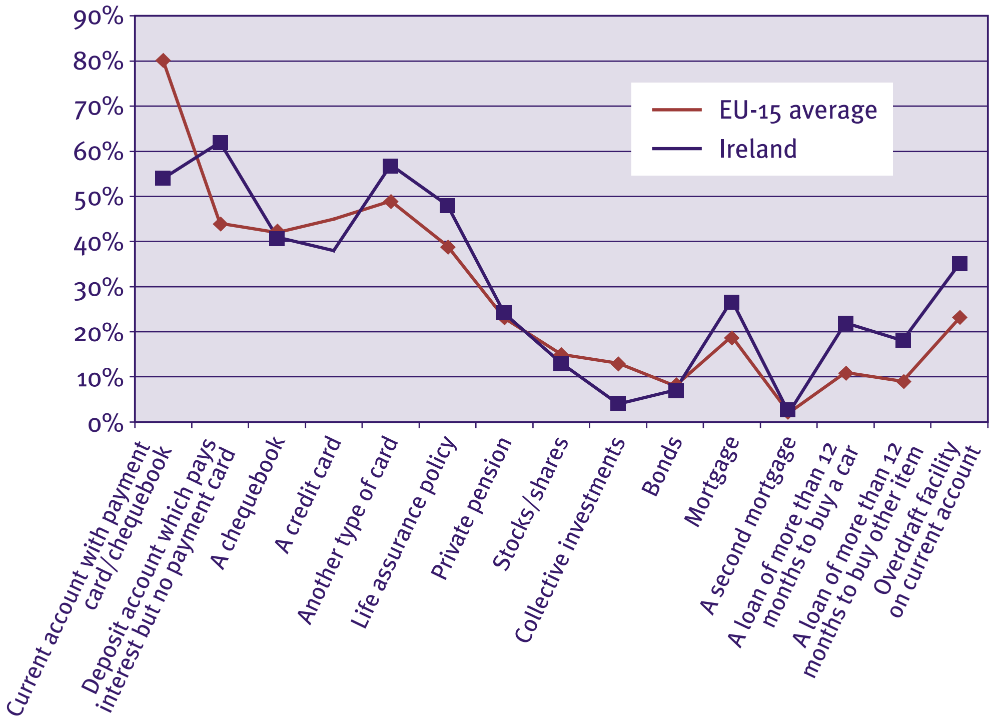
In addition to its work with the public, Finances et Pédagogie also targets social and educational sector professionals for training in banking matters and handling individuals' issues and concerns.

[29] McCormick, J, Chapman, M and Elrick, D (2005) *Thrifty Scots? Steps to improve financial literacy.* Scottish Council Foundation: Edinburgh

[30] Green Paper on Financial Policy (2005-2010) COM(2005) 177. page 13.

[31] Under Articles 1135 and 1147 in the French Civil Code, bankers have an obligation to advise and inform consumers

Figure 1: Ownership of financial products in Europe, 2003



Source: Eurobarometer (2004) Public opinion in Europe – Financial Servces/205/Wave 60.2

Financial services in Europe 2003 – attitudes and opinions

In 2003, Europeans were given nine options from which to select their top financial priorities[32]. The top three priorities across the then EU-15 were:

- paying bills;
- having some savings for emergencies; and
- living as well as possible on current income.

Only 19 per cent of respondents indicated that saving for retirement was a top priority. On average, provision for retirement was ranked sixth most important of the activities. There was a marked difference across the socio-demographic characteristics of those who ranked retirement savings as a top priority with older persons, those who had the most education and those working in management positions, as opposed to unemployed, all rating it as a main concern.

Respondents were also asked to describe, from a list of seven options, their feelings when thinking about their finances and financial services. Across the EU-15 the most common response was 'complicated', with 23 per cent of people feeling this way. Twenty per cent of people indicated that they felt 'intimidated', while 19 per cent found the thought of their finances and financial services 'depressing'.

In Ireland, the response to this question was somewhat different to the European average. While a similar percentage returned the response 'complicated', only 7 per cent found the thought 'intimidating'. A much higher proportion of Irish respondents (31 per cent) found the subject to be 'depressing'.

[32] European Commission (2004) *Public opinion in Europe: Financial Services Report B*. Standard Eurobarometer 205/Wave 60.2

Basic Bank Account French Style

Livret A is a French innovation. A basic banking product, it is accessible to everybody, regardless of age, resources or any other characteristic. The account does not offer any credit facilities or banking payment methods and is the only banking facility available to many people in a vulnerable financial situation. The *Livret A* does not generate profit for its institution, the Caisse d'Epargne.

Caisse d'Epargne has a higher presence than other banks in sensitive urban areas. In addition, the group ensures that these branches offer high quality banking facilities to their clientele. The branches are given special attention in terms of layout, work organisation, social policy and sales and marketing policy. Moreover, staff see transfer to these branches as a reward due to the training and skills associated with such a move and working conditions have improved considerably.

In-house or in-branch teaching of basic banking methods to customers by staff can only partially equip them with adequate knowledge, due to time and other constraints. Therefore, bank networks need to be supported by teaching efforts from other sources.

The Eurobarometer study allows the policymaker, when proposing actions to address financial literacy difficulties, to gauge the complexity of financial products consumers are handling and the level of financial literacy associated with such products.

In Ireland, a higher than average proportion of users had a simple no-card deposit account and lower than average ownership of current accounts with a card or chequebook attached. This can, in part, be explained by the practice in other European countries of paying all welfare benefits electronically. The Department of Social and Family Affairs has signalled an intention to embark on this route. This represents a significant opportunity to address issues of financial access and literacy.

In France, the issue of a basic bank account, for example for social welfare payments, has been addressed by a co-operative bank, the Caisse d'Epargne. It established a basic bank account called Livret A. Details of this account are highlighted in the box below.

In the same Eurobarometer survey, respondents were presented with a range of statements about financial services and products and asked to rate them on a scale of 'Very easy' to 'Very difficult', including a 'Don't know' option.

When asked about the comparison of information from banks about bank account features and charges in Ireland, 41 per cent found it easy while 42 per cent found it difficult.

Even proportions of respondents in Ireland reported knowing beforehand the cost of borrowing money as difficult or easy. A higher percentage of Irish respondents than the EU-15 average did not know whether it would be easy or difficult.

When asked about comparing information about different mortgages, Irish respondents found it easier than the EU average.

A comparatively high proportion of Irish respondents (44 per cent) felt that the information from financial institutions is clear and understandable. Only 29 per cent of people across the EU-15 felt this to be true. Forty one per cent of Irish respondents agreed that consumer rights are adequately protected in relation to financial services. This was above the EU-15 average (34 per cent).

Conclusions

The literature review draws attention to the growing importance of financial literacy to policy. Lack of financial literacy may prevent individuals and households from accessing financial services at all. Consumers of financial services whose knowledge and decision-making capabilities are limited may make inappropriate and harmful financial decisions.

Lack of financial literacy can be seen to affect large sections of a population. Although the topic is only in its infancy in Ireland, other countries have made relatively significant in-roads into addressing the issue. The lack of financial literacy research or initiatives in an Irish context signals that, to date, the population has largely been acquiring financial literacy skills through school, informal social networks, practical experience or professional financial advisors.

United States experience and literature signal that the issue of financial literacy difficulties is not confined to traditionally under-served communities. Workplace initiatives in the US seek to provide financial education to all sections of the working population.

Financial literacy initiatives in other countries highlight the importance of several elements:

- Programmes should be targeted at life cycle stages;
- Curricula should be appropriate to need and experience;
- Settings of the programme should attract participants; and
- Programmes delivered in a community setting should be provided by existing and trusted organisations.

Although the literature points to the good practice of community or work-based financial education initiatives, this is not to deny a role to the private sector. Commercial banks have a significant opportunity to engage in partnerships with other organisations seeking to deliver financial literacy training and awareness, by providing resources and expertise.

The recent emergence of financial literacy onto the broader policy agenda is timely as the Department of Social and Family Affairs plans the electronic transfer of all welfare payments in the near future. Again, this presents a noteworthy opportunity for Government to address the joint topics of financial exclusion and financial literacy difficulties with the Irish financial services sector.

Chapter 2

Research methods

In the initial phase of the research, a steering group was established, which represented a range of stakeholder interests in the barriers that adults with literacy and numeracy difficulties face in accessing and understanding financial services. The steering group examined and agreed on each phase of the research methodology.

The topic of financial literacy is emerging in Ireland. For this reason, we considered a multi-method approach to the question to have the best potential to maximise results.

The four methods used in the research were:

- desk-based literature review;
- discussion groups with adult learners;
- public opinion polling; and
- discussions with representatives of the financial services sector.

Multi-method approaches allow for low cost innovation until the subject matter is better established and best-tested methods can be adopted with confidence. In this way, the risk that one strand of the methodology may not yield usable data has a lower effect on the overall research, as it is spread across several methods.

In this instance, each of the research methods produced valid information. Each method could, therefore, be considered for further research into the topic. The conclusions from the research draw on all the methods.

Desk-based literature review

A desk-based literature review explored existing Irish and international literature on the subject and fulfilled two essential roles:

- to provide context and a theoretical framework for the research; and
- to help identify relevant issues to examine when collecting primary source data.

A number of national and international sources were used:

- academic articles and journals;
- newspaper archives;

- policy documents; and
- literature emanating from the financial services sector.

The review confirmed a lack of research into the topic of financial literacy in Ireland. Other English-speaking and EU countries, to varying degrees, were at a more advanced stage of research and practice on the topic of financial literacy and implementing initiatives to tackle poor financial literacy. The literature in those countries, where the concept of financial literacy has been refined, provided a rich source of background information as well as examples of interesting strategies, some of which may be applicable in similar forms in an Irish context.

Discussion groups with adult learners

Through NALA, contact was made with six adult education groups. Group tutors or co-ordinators were the first point of contact and each received an information note and details of the aims of the discussion groups. Each of the centres contacted agreed to participate in the research, although an original intention of discussing the topic with service users of the Money Advice and Budgeting Service (MABS)[33] was not followed through due to concerns for the anonymity of MABS clients.

The groups were as geographically represen-tative as possible within the timeframe and budget of the study. The research avoids the stigmatising of geographical neighbourhoods by referring only to broad locations, as follows:

- two inner city locations, Dublin;
- two suburban locations, Dublin; and
- two rural towns, Co. Kildare.

Discussions were conducted over two weeks in May 2005 and each one lasted between 45 and 60 minutes. Discussions were conducted at the usual learning centres of participants and during their usual learning time. This was advantageous both to participants and to the research in that they were comfortable with one another and their surroundings and so were likely to discuss the topic more freely. Participants were assured of their complete anonymity in the research. In total, 59 people participated in the six discussion groups. Attendance included older and younger men and women, all of whom were participating, to varying degrees, in adult education or training.

Two groups were made up of young early school leavers; two groups were made up of Irish adults engaged mainly in FÁS Community Employment (CE) schemes; one group consisted of migrants attending English for Speakers of Other Languages (ESOL) classes; and one group was made up of Traveller women receiving education and training at a Senior Traveller Training Centre (STTC).

There was a wide range of literacy and numeracy skill levels within and across groups. Some participants were at the early stages of acquiring reading and writing skills others were preparing for Further Education and Training Awards Council (FETAC)[34] approved courses and others still were preparing for Junior Certificate subjects, including English. The migrants were all literate in their own language.

[33] MABS offers a free, confidential and independent money advice service from 52 centres nationwide

[34] FETAC, established in 2001.

The aim of the discussion groups was to seek the opinions of participants on the topic of financial literacy. Money and finances are a private and sensitive issue. For this reason, participants were not asked direct personal questions. Rather, the discussion was guided by seeking reactions to, for example, financial literature. As discussions evolved, much of the data gathered was produced by the interaction between participants rather than through direct response to research questions. This type of interaction, which has been named as the most crucial element of discussion groups[35], highlights participants' view of the topic in the language they would ordinarily use and in the context of their own values and beliefs about a situation.

Participants were given information notes about the research and had their role in the research and the expected format of their responses explained in full. All groups, with the exception of one, were asked to complete a short tick-the-box questionnaire. Where participants had literacy difficulties, tutors or researchers guided participants through the questionnaires.

Participants were fully assured of the anonymity of the research in terms of the individual, the centre and the geographical area.

Following the second learner discussion group, it was decided that the study would benefit from a single more detailed case study. Contact was made with the tutor of one of the inner city Dublin locations and an interview with a single participant was requested. An interview time and date was set up and again the education centre was used for the purpose. The interview lasted between 20 and 30 minutes and covered broadly similar topics to those discussed in the group scenario.

The discussion with Carol produced an interesting case study, which humanised much of the experiences relayed in the group discussions. The text version of Carol's interview was posted to her home with a letter signalling to her to expect a follow-up phone call from a named member of the research team. Carol was phoned one week later and revealed that she was happy with the text and did not require any changes to be made. She was given the opportunity to meet once more to go over the text in detail but declined the offer.

Public opinion polling

A second strand of the methodology was public opinion polling. This was done by Red C Research and Marketing Ltd, through an omnibus survey. This is a multi-purpose survey developed to be a fast and cost-effective way of testing a reliable sample of people on a variety of issues. The method has become common among market research companies, which pose questions on behalf of various clients who wish to test the general public's attitudes and opinions on topics from foods and drinks to political parties.

Omnibus surveys can tap into public opinion across a range of population demographics, including, in this instance:

- gender;
- age;
- proxy for social class;
- marital status;

[35] Kitzinger, J (1994) 'The methodology of focus groups: the importance of interaction between research participants' in *Sociology of Health*. Vol.16, No.1 Pp103-121

- dependent children;
- work status;
- region;
- area (urban or rural);
- shopper type; and
- Internet access.

A critical issue raised by telephone polling lies in the proportion of the population who do not have a telephone or those who do have a telephone but who are unlisted. To address the latter issue, Red C Research employs a random digital dial method, which ensures that unlisted households are included.

A limitation of the telephone-only survey and of this aspect of the research lies in the exclusion of those households that do not have a fixed line. In the last five years, the single biggest change witnessed in the telephone market has been the continued growth in mobile phone use and resulting lagging behind of fixed line phone use. The trend towards mobile phones in place of fixed lines has been particularly pronounced among those aged between 25 and 34 years, C2DEs (skilled working class; other working class; casual workers) and those who are single. In fact, the level of mobile use now stands at 84 per cent of 15-74 year olds, while fixed line use stands at 76 per cent of households[36].

The survey used a sample size of 1,000 interviewees, providing a standard error at 95 per cent confidence of + or – 3 per cent, the same generally used for political polling in Ireland and elsewhere. This means, for example, that if 70 per cent of 1,000 respondents answer “yes” to a certain question, it is possible to be 95 per cent confident that the actual outcome for the whole population will be between 3 per cent below and 3 per cent above 70 per cent, in other words between 67 per cent and 73 per cent of the population would answer “yes”.

The aim of this section of the research was to test public understanding of a particular financial term, in this case ‘annual percentage rate’ (APR)[37]. Respondents were asked to answer ‘Yes’, ‘No’ or ‘Don’t know’ at the end of each of three statements read out to them. Respondents could change their minds at any point during the question and could give any combination of responses they chose. The findings of this section of the research are discussed in Chapter 4.

A second aim of this method was to test the usefulness of the telephone survey technique in this type of research. The results from the survey were found to be useful and the follow-up support from Red C Research was extremely helpful.

Discussions with representatives of the financial services sector

Discussions on the topic of financial literacy were also sought with eight individual financial institutions as well as representatives of the sector, namely the Irish Bankers’ Federation (IBF) and the Irish Bank Officials’ Association (IBOA). The Irish League of Credit Unions (ILCU) and An Post were also invited to participate in the research.

[36] Amárach Consulting (2005) *ComReg Trends Report Q1 2005*. for Communications Regulation, March 2005

[37] APR is a percentage to show the amount of interest and other fees a person pays each year to receive a loan – excerpt from NALA/EBS, 2004, *A Plain English Guide to Financial Terms,* Dublin: NALA.

An e-mail was sent to each institution outlining the research, inviting recipients to nominate a staff member to liaise with the researchers, and giving additional details through an information note. Printed copies of each e-mail were sent by post and one follow-up phone call was made to each recipient. Acceptances from the Irish League of Credit Unions, the Irish Bankers' Federation and one bank were followed up.

Central questions in the discussion with participating institutions included:

- Has the subject of 'financial literacy' emerged as an issue for procedure?
- At the level of the branch or member institution, what weight, if any, is given in staff training to handling customer literacy issues?
- Would you consider current policy on literature and customer service to be sufficient in addressing literacy issues?

Each discussion was relatively open-ended and allowed interviewees to elaborate on the policy and practices within their own institutions – past, present and future. The sections of the report that outline these discussions were sent to the relevant organisations for verification.

A single discussion was also held with frontline (mainly counter staff and customer services) staff members of the EBS Building Society. This discussion lasted approximately one hour and was guided by three central questions:

- Had staff encountered customers with literacy issues?
- Did staff feel sufficiently equipped to cope with customers with literacy issues?
- Did staff have any suggestions as to how EBS policy could address the issue more effectively?

Conclusion

The research method confirmed the need when testing a hypothesis to distinguish between the separate trends of financial exclusion and financial literacy difficulties, which may or may not overlap. Otherwise it might be presumed, wrongly, that financial literacy and financial competency is only of concern to deprived populations which are more likely to be excluded from mainstream financial service institutions.

The omnibus survey provides a useful and speedy method of testing or gauging levels of financial competency, financial product recognition and financial awareness. However more in-depth face-to-face interviews can equally contribute valuable information on trends and developments in financial literacy in the population.

At the present time, discussion groups with adult learners in disadvantaged areas or among population categories likely to experience financial exclusion are useful in providing a specific user dimension to a study. However, as the financial services context restructures itself, so different research methods may have to be developed and adapted to those changes. In this way, research will be able to capture the impact on financial competency of changes in the way services are delivered.

Until the body of literature on financial literacy accumulates to a more critical mass, a variety of research methods into the topic should continue to be explored and critically tested.

Chapter 3

Financial literacy – the results from the discussion groups

Organising discussions on financial literacy

The opinions of and reactions and attitudes to financial literacy of six groups of adult learners were explored during the research. The groups were located in the greater Dublin area and in Co Kildare. All the groups were composed of adult learners who lived in areas of disadvantage or belonged to an ethnic or nationality group, which placed them at risk of disadvantage or discrimination. Participants were aged from 18 years upwards.

Contact between the researchers and the groups was made through NALA. The researchers then made contact with group tutors or co-ordinators to explain the purpose of the research, to invite participation and to fix a time and venue for the discussions. Each of the six groups contacted agreed to participate in the research.

In the initial phase of the research, the steering group agreed that including a group of Money Advice and Budgeting Service (MABS) clients would enrich the research findings. However, following further discussion with MABS, it was decided not to engage a group of its clients in the research. A unique feature of the MABS service is protecting client confidentiality and to introduce service users to each other may have breached that relationship.

Each discussion included between eight and twelve learners. Where tutors felt it appropriate, they joined the discussion. In other groups, the tutor remained in the room only until the group had settled and the discussion was underway. Where tutors did remain in the room, they also joined in the discussion and agreed with many of the opinions and views of financial literacy put forward by the learners. Discussions lasted between 45 and 60 minutes.

Discussion groups can be particularly useful in exploratory research. They offer an opportunity for service users, participants or consumers to express their own perceptions and interpretations of a research topic without over-structuring responses. General themes and ideas were outlined before the discussion group but specific questions were not drafted, as would be the practice with focus groups. The themes identified by the research for the discussion groups were:

- attitudes to examples of printed literature produced by financial services institutions;
- experiences of using or trying to use banks, building societies, credit unions or post offices; and

- experiences of the point at which difficulties arose while accessing or using financial services.

Although researchers managed the discussions, it was the participants themselves who initiated many new themes and avenues for further discussion. This means that the common themes identified throughout the research generally arose unprompted by researchers or the research language.

Profile of discussion group participants

As suggested in the literature review, financial literacy is an issue for both unbanked people and those who use financial services but who may not have sufficient information-gathering skills or opportunities, so hampering their effective use of financial services.

The majority of people in these discussion groups were, in fact, consumers of financial products and services. Some participants' experience of mainstream financial services was limited to receiving income via a bank account, withdrawing cash as required or lodging money into their own or their family's savings account. Others had experience of paying bills by direct debit from their bank accounts and a small number had overdrafts, loans or credit cards either at the time of the discussion or at some stage in the past. Home or mortgage ownership was not discussed with the groups. Those who did not avail of financial services expressed the worry that cash could be stolen from their homes.

A short tick-the-box questionnaire was given to each participant to gain a fuller picture of the personal profiles of learners. Appendix One outlines the personal profile of participants in a table.

In total, 59 people participated in the six discussion groups, of whom 47 (80 per cent) were female and 12 (20 per cent) were male. There was a relatively high participation level among 18-24 years olds. This was due to the inclusion of two youth groups in the research, accounting for almost all of the 18-24 year olds. There were only two other participants known to belong to this age group throughout the rest of the discussion groups. The 35-44 year age group was the least represented. There were no participants known to be aged over 64 years.

Eighty five per cent of participants were Irish and 15 per cent came from countries outside the European Union (EU). All the non-Irish national participants were learners of English for Speakers of Other Languages (ESOL) and belonged to the same discussion group. Countries of origin of the ESOL learners included Ukraine, Moldova, Romania and Uzbekistan. One Senior Traveller Training Centre was involved in the research. There were no migrants or members of the Traveller community in the other learning groups.

Sixty nine per cent of participants in the discussion groups declared themselves to be living in urban areas, with 14 per cent stating that they lived in a rural area. Responses to this question are missing in the case of 17 per cent of participants. The definitions of 'urban' and 'rural' are subjective. The terms were explained to participants as meaning 'city or large town' or 'village or country' respectively and respondents then made their decision accordingly.

Thirty per cent of respondents were either married or living as married. Of these, half had children. In other words, 15 per cent of participants were married or co-habiting and had children under the age of 18 years. Twenty seven per cent of people were single and did not have dependent children. Slightly less single people, 26 per cent, were parenting alone. Household type was not known in the case of 17 per cent of discussion group members.

The majority of learner participants, 57 per cent, described their employment status as 'student or training'. Many were completing Community Employment (CE) schemes[38] and some of the younger students were attending FÁS[39]-supported Youthreach[40] programmes. Nineteen per cent of learners were working either full or part time, while 3 per cent were unemployed. Two per cent were engaged in home duties on a full-time basis. The employment status of 17 per cent of participants was unknown.

As the basic personal profiles demonstrate, the groups represented a mix of personal backgrounds. Literacy levels also varied both across groups and within groups. Some participants had quite high levels of literacy, while others did not communicate through reading and writing at all.

Despite the divergent backgrounds and literacy levels, common themes emerged during the course of the discussions.

Reactions to printed brochures and leaflets

Each discussion started off by asking participants to consider a number of leaflets and brochures on different financial products and services and that people can pick up off the shelves and display racks in all major financial service providers. These were strewn across the discussion group table. All the main banks and building societies were represented, as well as An Post and a credit union. Participants were not asked to read or comment in-depth on the literature, but rather to give an initial reaction to it, or their most likely response to it in a real-life banking situation.

In all but one of the groups, there was unanimous agreement that the leaflets and brochures of the type used in the discussion groups were "useless". Participants felt that they were a "waste of time" and that they would just throw them away. Most participants stated that they would not even pick them up as there would be no way they could understand the "difficult language". Others suggested that they might pick them up while they were standing in a queue but would never actually read them. One young woman remarked that she finds them handy for keeping her small daughter amused in her pram while they queue in the bank.

Although all participants had come across the leaflets at one point or another, very few had ever read one in full or ever filled out an attached application form on their own initiative.

Rather than simply not bothering with the leaflets and brochures, some participants actually found them "intimidating". Also, participants perceived that such literature was deliberately drafted to confuse people, so resulting in people signing up to credit agreements and other products that they may not have fully understood and may not be able to afford.

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38 Community Employment schemes help long-term unemployed and other people back to work through placement in temporary jobs within local communities

39 FÁS (Foras Áiseanna Saothair) is Ireland's National Training and Employment Authority

40 Youthreach programmes provide opportunities for basic education, personal development, vocational training and work experience for young people between the ages of 15 and 20 years who have left school without formal qualifications

Literacy and numeracy difficulties, coupled with inaccessible financial literature, had led to serious feelings of mistrust of banks as institutions among participants. This feeling – that financial institutions were trying, in some way, to hoodwink people – was reflected in many comments, including:

"As soon as I look at them [leaflets] I just think 'rip-off'. I don't trust them."

"They [leaflets] explain themselves in nine different ways. Too difficult to understand"

One discussion turned to the authors of the leaflets:

"Who comes up with all this stuff anyway?"

"Lawyers."

"They don't want you to read them. It's just to cover themselves."

There was widespread consensus, then, that this format for information provision was significantly flawed. In the words of one participant, letting a lengthy leaflet with an attached application form unfold from on high:

"Come on, are you havin' a laugh?"

All participants felt that the print on the leaflets was far too small and extremely off-putting. Again, discussions revealed an amount of mistrust towards financial institutions. Participants felt the leaflets were designed to 'blind' readers and expressed a wish that, in particular, where loan repayments are concerned, "they would just tell you out straight" how much the interest on a loan will amount to, otherwise, "you just don't know what you're getting into".

Although participants were highly critical of the leaflets and brochures, their criticisms were not offered without concrete suggestions for improvement. Several participants felt that where written information was to be supplied, it should:

- all be written in plain English;
- use much shorter sentences and paragraphs;
- avoid technical banking terms and "big words", as much as possible;
- contain "short little facts" or "points instead of paragraphs" to explain and advertise products and services; and
- be physically shorter, in the case of leaflets.

A preference was shown for leaflets with just one or even two folds, one of which was described as actually looking quite "handy".

Some of the solutions are, in fact, already being considered or implemented by some financial institutions, such as the use of plain English in written material. The awareness of the importance of such practice on the part of financial services providers is outlined in Chapter 5.

Some learners in the English for Speakers of Other Languages (ESOL) group were more open to receiving and seeking out written information, including unsolicited offers of credit. Although some participants felt that they "wouldn't understand everything" or that "sometimes they [the leaflets] are too complicated", the majority agreed that they would try to read all the literature relating to a certain product or service before entering into any commitment.

The potential difficulty discussed by this group of migrants related to translation rather than literacy or numeracy difficulties. Overall, these participants expressed an appreciation of being able to take printed information home and read it carefully and at their own leisure. This avoided the possibility of misunderstanding the spoken word.

However, even among those who felt quite confident about reading the literature, they agreed with the person who said, "I would read the leaflets and then, to make sure I had understood, I'd go to the counter and ask."

Many of the learners in the discussion groups referred to the perceived difficulties with banking procedure for people who had literacy issues. However, in any group where the literacy tutor was present, the tutor argued that this was not only an issue for people with literacy difficulties. In fact, tutors expressed many of the same difficulties with the brochures and leaflets as learners. Some also pointed out that much of the written material was inaccessible for older people or anyone with visual impairment, and several participants recounted specific incidents involving their own parents and other older relatives.

For others it was the sheer volume of information that was daunting. They expressed a preference for essential information about banking to be "put in one booklet".

In one youth group, examining the leaflets and brochures prompted a short discussion on the television advertising undertaken by banks. Many of the ads were perceived as "pointless" and discouraging by the group. The ads all seemed to be about older people and not relevant to their interests or lifestyles. They felt that where ads did target young people of their age, it was only a certain category of young people, namely university students. One youth suggested that a really good ad for a bank would be to show somebody actually going inside a bank and asking for help at the counter. The ad could then invite people to drop in any time and ask questions.

One-to-one contact

While participants offered views on improvements that could be made to financial institutions' literature, all the groups expressed a preference not for written information, but for oral presentation and explanation of products and services. This preference was expressed equally by those with very low or no literacy and those with more advanced skills.

> "I'd rather speak one to one, not even on the phone, but face to face."

Participants across each of the six groups agreed that they would much rather speak with somebody in person than read material or even speak with somebody on the telephone. It was widely acknowledged that a simple shift to the oral transfer of knowledge and information was not enough. Participants felt that staff should be trained to explain things clearly and in appropriate language.

The interest in having the opportunity to speak face to face with banking personnel was one that arose consistently throughout all of the discussions and has been found to be the case in other research[41].

[41] Jones, PA and Barnes, T (2005) *Would you credit it? People telling stories about credit.* The Co-operative Bank: Manchester

At the counter

An expressed preference for face to face contact was followed, in each group, by discussion on people's experiences dealing with, and seeking information from, banks, building societies, credit unions and post offices. The majority of the participants had never used telephone or Internet banking and conducted most of their business in local branches. Participants compared and contrasted the experience of conducting transactions in banks and building societies on the one hand and credit unions and post offices on the other.

It is important to note that there were many reports of individual bank staff who treated participants courteously and went out of their way to ensure that consumers felt comfortable and confident with banking procedure.

> "Like everything else, you get nice ones and not nice ones."

Some participants had found a staff member in their nearest bank branch with whom they felt comfortable. In these cases, individuals and their family members would forego their place in a queue at the bank to be seen by that particular staff member and not another.

However, these reports were also accompanied by the perception that coming across a nice individual was down to good luck and not necessarily bank policy or staff training.

Individuals regarded their treatment by commercial financial institutions as different and problematic compared to that experienced by the wider consumer population. Asked about their experiences with financial institutions, a number recounted feelings of shame and public humiliation at disparaging or scornful remarks made to them by counter staff.

In the first instance, people felt that staff "often act real suspicious of you". As with identification procedures, participants were fully aware of other anti-money laundering techniques employed by financial institutions but felt that "people like us" were subject to far more vigorous interrogation than other customers.

> "People feel like they're money-laundering when they're just cashing small cheques."

One woman had experienced, more than once, a bank clerk asking her out loud in front of a long queue, and in what she perceived to be a very suspicious manner, if the cheque she was cashing belonged to her. She was embarrassed and wondered out loud to the discussion group if she looked like the type of person who would cash a cheque not belonging to her.

One woman described going in to the bank as "the shame of your life" and another told of feelings of embarrassment at discussing her business, especially in front of a long queue:

> "You'd be half-frightened going in for your own money. They make you feel like you're begging for your own money."

In each group, there was general feeling among participants that they were treated differently to other customers, and in participants' minds, this was sometimes based on how they looked fine:

> "Once they look at you they don't want to deal with you."

or on their financial status:

> "They look down on you for the amount of money that you have - or haven't – got."

Participants sensed differential treatment immediately on entering the premises of financial institutions:

> "It's in the way they look at you and the way they speak to you."

Individuals reported that they had been denied requests for loan application forms. The only rational conclusion any of these individuals could draw was that staff had judged their ability to repay loans on their appearance alone as none of them had been asked for account or employment details before staff refused to even issue the application form:

> "You'd swear you had to go in dressed in a suit."

Participants felt that this was grossly unfair and class biased. Younger participants felt the refusal may have been age-based.

People's perception of their local credit unions differed hugely from that of banks and building societies. In many instances, however, the image of credit unions was a general perception, not necessarily based on actual experience of being a member.

Those who were members of their local credit unions conveyed the idea that credit union staff tended to be much more "helpful" than in other financial institutions. Those that had experience of both credit unions and banks and building societies agreed that they "would much rather deal with the credit union". Comparing their treatment in commercial financial institutions with their treatment in credit unions, participants acknowledged that staff in the former appeared to be under a lot more pressure.

They felt that the atmosphere in credit unions was a lot more "relaxed" and that you do not have people pushing past you or staff trying to get you in and out as quickly as possible.

One woman described the credit union as "the poor man's bank" while another explained to the group:

> "People like us use it all the time. Even some of the people working there are like us."

However, there was some negative reaction to actual credit union procedure and policy. Some participants felt that the "strict rules drive people to the bank" and criticised the inflexible borrowing conditions of credit unions. They felt that for people on low incomes, it was too difficult to build up enough savings to qualify for a loan. In addition, young participants in one group were of the sense that you had to be with the credit union from a young age to successfully apply for a loan:

> "You have to be nearly known. It's a family savings place."

Several individuals commented that they thought the loan interest rate in credit unions was actually quite high, which surprised many other participants, some of whom were already indebted to credit unions.

In spite of the discussion of higher interest rates, most participants felt that the credit union would be easier to deal with if they defaulted on a loan. They had the impression that the credit union would not "hound you" or "make you panic" and that they would be understanding and receptive to sitting down together and coming to an arrangement on any cash flow problems.

Participants in one of the youth groups declared that they would join the credit union instead of the bank if they could have easier access to their money. They felt the lack of ATM service was very off-putting[42]. In other groups, this point was seen as a positive aspect of credit unions, enhancing members' ability to save.

In three of the six groups, participants discussed local credit union and school partnerships that were active in their areas at the time. These groups explained that the local credit union had visited the local primary school and given the children and parents a talk on credit union ethos and facilities. Pupils were given the opportunity to open accounts and could now save on a weekly basis through the school. Children could only withdraw money at certain times during the year such as summer holidays or Christmas. Parents were delighted that their children were learning about saving from a young age.

One Traveller was a credit union member and described it as, "the best thing I ever did". Among migrants, very few had heard of credit unions and only one participant was a member of her local one.

In some instances, participants discussed the basic banking services available at An Post. Those who had savings accounts, or whose children had savings accounts, were pleased with the An Post practice of filling in members' savings books and calling out the entry as they completed it. For withdrawals, participants signalled what they considered to be another useful exercise in An Post. Staff members always asked customers to count the money out in front of them before leaving the counter. Group members found that these practices enhanced transparency and inspired confidence.

Filling out forms

There was general confusion about bank policy relating to more specific literacy issues, in particular filling out forms and signing credit or other agreements.

Across all groups, there were conflicting perceptions of the legality of bank personnel completing forms for customers. People also showed various preferences for filling out applications for new accounts and requests for loans or other services.

Some participants who had requested help to fill out forms had been told by staff that it was "illegal" for bank officials to fill out forms for them. Others who had requested help had received it in the form of bank officials filling out forms on their behalf. In these instances, bank staff had explained to customers that the only part of the form the customer was legally obliged to complete alone was the final signature and date. When aired in the groups, these contradictory experiences caused further confusion about and mistrust of financial institutions.

Not all participants interpreted staff help with form-filling as a question of policy. Some had experienced what they regarded as considerable impatience of staff when they hesitated or took longer than perhaps was usual to complete forms. In these instances, staff had tried to hurry customers who had taken the trouble of explaining that they had, in fact, literacy difficulties. One woman recounted a time when a counter staff member had filled out an application form for her:

> "It wasn't that she wanted to help, she just got pissed off waiting."

[42] Four credit unions offer an ATM service, with cards that can be used at credit union, Bank of Ireland and AIB cash points. Other credit unions are running pilot schemes to test the applicability of the service to their members' needs. Available at www.creditunion.ie (Accessed June 2005)

There was agreement across the groups that staff could make you "feel like you're two" (years old). Participants in all groups (except migrants), regardless of the level of literacy, agreed that being told to "fill that out" or even the sight of a form instilled feelings of absolute "panic". People were particularly fearful that they would misspell words and cause themselves embarrassment in front of a full bank or a long queue.

Despite the general agreement that filling out forms was a difficult area for people, different participants had ideas on how the situation could be improved. Some people felt that, where possible, taking the form home and getting help from friends or family to fill it out at their own pace was the most preferable option for them. However, this was discussed in light of a perception that some forms are legal documents and customers do not have the right to remove them from bank premises.

Others felt they would rather fill out forms on bank premises so that if they made a mistake, it could be rectified on the spot and cause no undue delay in processing the appropriate information. For those people who would rather this option than taking forms home, there was unanimous agreement that they would rather receive help at a separate counter, desk or even room than the space where a general queue might be forming behind them. Participants expressed embarrassment at people hearing their business and acute awareness of other banking customers' needs in terms of speedy service and attention.

Participants in two locations reported local experiences of times when two different banks had set up informal 'information desks'. These kiosks were different to ordinary information points in that they allowed business to be conducted in a quiet corner of the bank with space for customers to sit and take their time asking questions and filling out application forms. In both cases, customers had found this service to be "brilliant".

Consumers felt less intimidated in both of these banks and in one in particular, they reported that through using the information points, bank staff had come to know local customers by name and were very aware of any special requirements people may have had. In this sense, discussion group members expressed awareness of the demands on bank staff and therefore regarded as extremely useful the allocation of one staff member who could take time with customers.

In each discussion, there was overall consensus that it was very embarrassing to ask for help in filling out forms. Some participants felt that a simple policy of staff saying to every customer, "Can I help you with that?", would ease a lot of embarrassment. This way, people would not feel like they were being singled out, but that if they required help it was available to them. They also felt it would be a more efficient use of staff time to address literacy difficulties at the outset of a transaction rather than to delay the whole process by fudging around the issue.

Again, people referred to the training of staff to recognise literacy issues. Some people spoke of staff having "no cop on" in situations where participants felt it was very obvious that they had literacy difficulties.

In more extreme circumstances, some participants felt that in the past they had been the subject of staff ridicule when they disclosed literacy issues. One woman recalled a staff member asking her to repeat several times that she could not read or write. The woman had felt harassed and intimidated but also felt powerless to report the staff member or the incident.

Participants often worried about being pressured into using facilities such as express lodgements, which they felt they would not understand, which they might fill out incorrectly or which they did not trust to work accurately.

The perceived poor treatment by bank and building society personnel of discussion group participants can be directly linked to financial literacy issues in the following way.

Participants were, at the very least, reluctant to consult printed material for information. In addition, only a handful of participants had ever used telephone banking, and then only to check balances. Similarly, not everybody used direct debit or standing order services. Only one of the participants in five of the discussion groups had ever used Internet banking. The woman had been given a demonstration in her local bank on how to bank online. While she found the short training session informative, she had very limited access to the Internet and therefore still tended to carry out all her banking in person. In the remaining group, made up of ESOL learners, there was more familiarity with this form of banking.

For the reasons outlined above, discussion group participants were more likely to carry out banking transactions and to seek information in the bank itself. Their treatment by bank staff had the potential to significantly enhance or reduce their trust in the sector as a whole and their ability to give informed consent on transactions.

> "You just don't know if they're telling you the truth – they could be saying one thing and you could sign a form that says something completely different."

The notion of informed consent has implications for customers and staff alike. The issue was raised as equally important in a discussion with frontline staff of a commercial financial institution. Their perspective on the issue is outlined in Chapter Five of this study.

Financial literacy – understanding statements, fees, charges and APR

The subject of bank charges, fees, annual percentage rate (APR)[43] on loans and being able to understand these through written statements arose in each of the discussion groups.

Participants in each group agreed that they found it very difficult to understand their quarterly bank statements where technical banking terminology often served to confuse people. This was true for people with both high and low levels of literacy. Participants were, generally, able to understand credits and debits to their account in the sense that they knew which column represented money coming in and which was money going out. However, they did not always understand why money was being debited from their account or the terms used to name different fees and charges.

Nobody in any of the groups could recall a bank or building society ever explaining what fees and charges would appear on their account each month. Instead, participants normally discovered the cost of banking when they viewed their first statement. Participants were often confused to see money leaving their account for account charges they had not foreseen. Some participants spoke of sums of money leaving their account each month and being unsure of whether this was a standing charge or if there was something they could do to reduce the cost, for example cancel direct debits or use ATM cards less often.

Understanding of bank charges and Government levies on certain financial products was, in general, mixed. People were gathering information on fees and charges as they went along and were unclear on what exactly they related to. In this sense, participants felt they would have

[43] APR is a percentage to show the amount of interest and other fees a person pays each year to receive a loan – excerpt from NALA/EBS, 2004, *A Plain English Guide to Financial Terms,* Dublin: NALA.

benefited from a clear and frank explanation of fees and charges at the time of opening their account.

Some participants who were unaware of any fees or charges they might be paying on their bank accounts never read their bank statements at all, as they found them too daunting and felt there was no way they would understand them. One young woman mused that she had not received a statement in a very long time but that she would not be pursuing the issue, as she would not be able to follow one anyway.

Other members of the groups indicated that when bank statements arrive, they generally seek help from a friend or family member, to make sure that all the activity on their account is regular and correct:

> "I don't have a clue about statements, I just give it to my brother to tell me."

In two groups, members likened bank and building society statements to utility bills. These participants testified that they had learned to locate the balance on an account. Once this is checked, they never read the details of how the relevant institution arrived at such a figure.

Some had never heard of facilities such as direct debit and others worried about charges that may apply. For the most part, members of discussion groups who avoided using direct debit did so, as they did not trust it to issue on time and in full every month. Such a scenario could have serious consequences, in particular for those living in private rented accommodation, who felt landlords would be unsympathetic if rent were delayed. In addition, many participants preferred to pay bills with cash and to receive a receipt or proof of payment slip from the creditor or agent. Again, participants felt they would like to know more about how a direct debit facility works. Clear information may have encouraged them to use this facility with confidence. This was the case with one woman, who, following advice from bank personnel, had recently set up direct debits for all her bills and found the service to be extremely convenient and effective.

Discussing standing fees and charges on accounts and participants' lack of prior knowledge about such costs inevitably shifted each discussion towards the costs associated with credit, namely APR.

Participants were generally aware that APR was in someway related to credit and attached interest rates. However, all of the participants in five of the six groups felt that they "wouldn't have a clue" about APR or that it was "impossible" to work out.

Contributors to the discussion claimed that APR and percentage rates "meant nothing" to them. However, this had not stopped individuals and households signing credit agreements only to discover the actual cost of the credit at a later date. One young mother recounted her personal experience of taking out a loan with the local branch of her bank, which typified the experiences of many others across the groups.

> The young woman sought the loan from her local bank branch. The application process itself was relatively easy and she filled out the application form by herself with no major difficulty. The details of the loan were written in quite difficult language and she was unable to understand the full meaning of the APR percentage figure given to her by staff when she asked for details of the loan repayment. The application for, and granting of, the loan were all completed at the counter in the branch and she was too embarrassed to ask the staff

member to fully explain what exactly was meant by APR. Instead, she just quickly signed the agreement. It was not until she began making her repayments that she "realised how much you have to pay back". The woman explained that paying back the loan had turned out to be quite a struggle and she really would "like to have known exactly what I was doing". She felt that if the interest rate had been explained to her in clearer terms from the outset, she certainly would have "thought twice" about committing to that particular agreement.

Similar stories were told in each discussion group. Participants swapped figures with one another such as 10.9 per cent APR, 18.9 per cent APR. They also confirmed that while they had been informed of such figures at the outset of loans, they had never really understood what they meant and were usually too embarrassed to ask for a thorough explanation.

A lot of participants felt that banks and building societies deliberately "blinded you" with "facts and figures" to confuse customers into taking out loans. Furthermore, participants who had had loans in the past recalled banks "trying to push other stuff, like payment protection" on people. One man stated that he had been made to feel like he had to pay for insurance on a loan, although he did not understand what he was buying and nobody explained it to him. Instead he "just agreed and then thought about it later".

As with printed material, participants suggested how bank practice could make it significantly easier for people to understand loan agreements and interest rates. If banks and others would "get to the point" and state simply:

"Every month you will have to pay €XX. This will continue for X amount of months. By the end of X amount of months you will have paid back €XX, which is €XX more than you borrowed."

Participants also stated that credit union staff explained loan procedures in a clearer fashion:

"They tell you exactly what you'll be paying."

Many participants had very limited experience of obtaining credit either at all or from mainstream financial institutions. Some felt that, in their personal financial circumstances, credit was simply not an option. Others had principled objections to borrowing money from any source. This applied to both younger and older participants.

Across five of the six groups, there were individuals who had borrowed money from moneylenders. Those who had not borrowed from this source directly themselves had friends, colleagues, family and neighbours who had used moneylenders, including mail order shopping, either occasionally or continually.

Awareness of the practices and procedures of companies dealing in home-collected credit extended to the rates of interest charged on that credit. Irish law states that any advertisement about the availability of credit must include the APR. It is the only interest rate that should appear in the advert and must be in a clear and prominent place[44]. The home-collected credit companies being used by discussion group participants were reported to abide by this in their printed literature and advertisements. Despite this, in each discussion where home credit was mentioned, people spoke of the rate as €30 on €100 or €300 on €1000. These figures were

[44] Government of Ireland *Consumer Credit Act, 1995* Section 21

immediately recognisable and comprehensible to participants, in contrast to earlier APR rates. Some people thought the moneylender rate seemed very expensive. While others agreed, they pointed out that you could get quite small loans, delivered to your door in a very short space of time and make small repayments every week. Whatever participants' opinions were on the cost of this type of loan, discussion group members found it easier to discuss their cost and affordability and to make comparisons between different providers.

In the sixth group, which was made up of migrants, participants were conscious of the presence of home-collected credit companies in the Irish market, but a combination of factors discouraged them from accessing their credit services. Some members felt that the APR on such loans was very high. All members of this group were of the impression that these companies would not lend to migrants, but instead targeted an exclusively 'Irish' population. Participants assumed that moneylenders would consider non-national people to pose a significant flight risk, although this perception was not based on experience.

Access to bank accounts

The initial thrust of the discussions was to survey the leaflets and brochures collected from various financial institutions. However, in each group, the exchange was heavily interspersed with comments relating to access and exclusion rather than financial literacy. Although this was not a priority theme of the research, some comments and examples are included in Appendix Two, as the subject had caused considerable frustration for participants in the past.

Sources of information and advice

Discussions often turned to where participants would turn for financial advice and information. Many discussion group members had not heard of the Money Advice and Budgeting Service (MABS). This is despite, in one case, the local MABS office being located in the same building as the adult education class. Where individuals had heard of MABS, there was high praise for the debt management aspect of the service. Participants who had used MABS or heard of somebody else who had used MABS in the past were often surprised to learn about the MABS budgeting and advice service.

Participants overwhelmingly agreed that they would first turn to family and friends, including peers and tutors on their current scheme, for financial advice and information. Others signalled that they would trust other community workers, such as CE scheme supervisors to advise them appropriately.

Participants also shared information among themselves during the discussions. Some participants appeared to command high levels of trust from their peers.

The potential of peer recommendation to inform the wider community has been explored by Huyton Money Advice and Budgeting Scheme in Liverpool. 'Financial buddies' are recruited and trained in financial matters of relevance to the local community such as savings, insurance and credit, including non-mainstream lending practices. The financial buddy is an available source of knowledge, who can be accessed in a range of settings, from community centres to the local pub. The volunteers are not presented as professional money advisors but people who have accurate information about products and services, as well as advice on seeking further information.

Conclusions from the discussion groups

❖ Attitudes to printed information

Participants in discussion groups reported having no use for printed materials and some believed the materials had been made deliberately difficult or confusing. Participants regarded face-to-face information, including from financial institutions, as the most important information source. Brochures that folded out several times were especially disliked. For some learners, the forms left too little space to write or the boxes were too small. ESOL learners however, regarded printed information as useful and valuable.

❖ Financial access and financial literacy

The discussion groups tended to contain some participants with limited experience of mainstream banking. As a result, some of the discussion focused on access to mainstream banking and the impact of money laundering conditions on opening accounts.

❖ Attitudes to counter staff

An important number of discussion group participants perceived themselves to be viewed negatively by counter staff in financial services or recounted negative or humiliating experiences with counter staff, which they believed related to their appearance, address, accent or literacy difficulties.

Participants strongly believed that there were what might be described as 'social class' distinctions between themselves and the counter staff.

Participants made suggestions as to how this could be addressed. Negative perceptions were less likely to occur in relation to credit unions, but this was not always based on personal experience.

❖ Counter staff and literacy

Some, but not all, participants would like to be offered help to complete forms by counter staff as a matter of course for all customers. Asking for help in front of a busy queue or holding up the queue was a source of embarrassment to people. Therefore, participants expressed a wish to see separate information desks set up, where they could ask questions and complete forms without holding up queues or disclosing literacy issues too publicly. Providers with special 'information desks' were singled out for praise.

❖ Phone banking and Internet banking

Adult learners reported that they do not use phone banking or Internet banking and do not plan to do so in the future.

❖ Understanding bank charges and government levies in written statements

Participants reported annoyance and even hostility about not understanding how bank charges and levies worked. Participants with accounts generally could not understand their statements and were at a loss to comprehend why there were bank charges and Government levies.

❖ Understanding terms like APR

Participants could not understand the term APR, although they had seen it often or signed agreements containing the term. Participants reported feeling too embarrassed to ask what it was or how it was calculated. In some groups, participants had not yet learned how to calculate percentages and were pursuing basic numeracy courses.

❖ Trust in banking

Participants expressed mistrust in their relationship with financial providers. In some instances, mistrust had emanated from confusion or perceived inconsistency in the rules and regulations on opening accounts, receiving help filling in forms, inability to understand printed information and the feeling of embarrassment at asking questions. The Traveller community discussion group expressed a deeper-seated mistrust than other groups. They believed themselves to be singled out for exceptional questioning of their transactions while making cash deposits and cash withdrawals and expressed their belief that banks steal from customers. The breakdown in trust for this community does not relate only to the financial services sector and should not be regarded as the responsibility solely of the sector.

❖ Branch closures

The closure of branches of financial service providers and of ATM machines in poor areas appears to oblige customers from disadvantaged areas to go to branches in more prosperous areas. This may make it more rather than less difficult to reveal literacy, numeracy or financial literacy difficulties. Queuing up with customers from other neighbourhoods can make educational deficits seem more visible and less acceptable.

❖ Information and advice

Apart from one-to-one contact with financial services staff, participants expressed strong preferences for seeking information and advice from family members and friends. During the discussions, there was a clear exchange of information between participants. In several instances, participants received relevant advice from trusted group members and resolved to act on that advice immediately. Participants also expressed a desire for independent financial literacy education.

❖ Differences across groups

Common themes relating to financial literacy and financial exclusion emerged across all groups. However, with regard to specific knowledge gaps and requirements, there were differences across and within groups, often related to personal circumstances. Younger participants often requested information on the best or cheapest accounts to receive and withdraw wages at an ATM. Some also felt they would benefit from information on loans for cars or holidays, as well as advice on moving out of home. Young parents looked for information on savings accounts for themselves and their children. Older participants had conflicting information on direct debits and were mistrustful of paying bills this way. Two members of the ESOL discussion group sought information on how to finance a new business. The different informational needs of different groups and age categories, which arose in the discussion groups, bears out recommendations in the literature to target financial education at key stages in the life cycle.

Case study

During the research, it was decided that the study would benefit from a more in-depth examination of one person's story. Including an individual's experiences with financial services might highlight some of the issues that arose in the discussion groups. Case studies have the potential to humanise topics, and emphasise the real-life impact of policy and practice on people.

The group tutor from one of the Dublin discussion groups was contacted and the idea was put to her for consideration. The tutor confirmed that we could revisit the centre and speak one to one with one of the adult learners who had been part of the original discussion group.

Carol's engagement with financial services

Carol lives in a local authority complex in Dublin's south inner city. On entering the neighbourhood, it is noticeable that there is scant bank representation in the area. Carol is in her 30s and is the head of a household made up of herself and her three daughters, aged 16, 14 and 10 years. Carol is an early school leaver and has recently separated from her husband. She is now heading into the future with FÁS Community Employment work experience and VEC[45] education and training.

When Carol first started on the CE scheme, she already had a bank account. She remembers having had a *"bit of bother"* opening that account, as she did not have the relevant photographic identification required by the bank, although she did have a utility bill in her name and a social welfare Children's Allowance book. She recalls going to her local Garda station with passport photographs and a form given to her by the bank. On production of a birth certificate, a Garda signed and stamped the form for Carol and gave her official Garda identification. Carol is not sure for how long the Garda I.D. is valid or if she needs to renew it from time to time.

When Carol opened that bank account, she received an ATM card and PIN for the card, but does not recall ever being offered extra facilities such as a chequebook, an overdraft or the possibility of any other type of credit. When Carol embarked on her CE scheme, she opened a separate bank account into which her wages would be paid.

So far, Carol has not attempted to secure any credit from her new bank. It is not so much the bank itself that would make Carol hesitate to apply for a loan but rather a bad experience with licensed moneylenders in the past. When Carol and her husband separated, she found herself obliged to pay back her own loan and that of her husband to a large home-collected credit firm, with a repayment schedule of €30 on every €100 borrowed.

In recent weeks, Carol's CE scheme supervisor has told her about the Money Advice and Budgeting Service (MABS). They have been instrumental in drawing up a manageable repayment plan for Carol on the two loans as well as a credit card bill, and Carol already feels a huge sense of relief, even though the plan is still in its early stages. Carol can now sleep better at night and no longer has to hide her worry from her children. In addition to the expertise of the MABS worker, Carol was particularly drawn to using MABS due to the highly confidential nature of the service.

Although Carol herself had no intention of approaching her bank for a loan – saying *"It's out of debt I want to get"* – she was able to recount the experience of a friend of hers in similar financial circumstances. The woman had had a loan application turned down because her regular income was withdrawn each week and money never remained in the account long enough to constitute an ability to save and so any potential repayments on a loan might *"leave her short"*.

Carol finds the education cause in which she participates as part of her CE scheme *"great"* and feels she definitely knows *"more now since I came into it"*. Carol is planning on taking

[45] Thirty three City and County Vocational Education Committees deliver educational and training programmes at local level throughout Ireland

a Junior Cert subject next year and is looking forward to studying for it together with one of her daughters, all of whom are *"delighted"* for her. Having studied Food and Nutrition on the VEC programme of education, Carol has been able to help her older daughters with their Home Economics schoolwork.

Carol also enjoys the numeracy classes attached to the scheme. She explained how the group had started off on Level One to assess what they were capable of taking on. She doesn't find the numeracy classes too easy but not too hard either. For Carol, as for others in the group, participation in the scheme and the classes is truly a *"second chance"*. Carol had to leave school when she was 13 years old to go out and get a job to help her family with the bills.

At some stage during the course, the group had received a visit from two staff members of a branch of the bank into which CE scheme participants were being paid. They spoke to the group about how to apply for loans. Although Carol described them as *"terrible nice"* people, nobody from the group took up the invitation to apply for credit. Carol has never had any problems in her dealings with staff but she did appreciate the fact that the two bank workers had given them the names of people they could specifically ask for and deal with, should they want to do so.

While Carol was able to follow her statements in the strict sense, she was not fully sure what some of the charges on her account related to. She thought it might have been a charge for as much as €10 or €12.50 a month and would have liked for bank staff to have explained that to her a bit better when she opened the account.

Other banking terms were trickier to understand, such as APR, as the group had not yet covered percentages in class. Although Carol felt the group might move on to that area, she also suggested that the way home-collected credit companies explain repayments, for example €30 on €100 as she had been told before, might be easier for people to understand.

Heading in to her third year on a CE scheme, Carol's earlier work placement was as a Youth Worker. Since then she has switched work placements and now works on a programme providing care to older people. CE schemes often release workers for the summer months, during which time Carol works on the local summer project for children and families from the area.

Chapter 4

Testing financial literacy in the general population

A test of financial literacy in the general adult population was agreed to be essential at the outset of the research project. This was the view of the research authors, the research funders and commissioners and the research steering group. Identifying a timely and cost-effective way to achieve this goal was discussed and explored. It was agreed that any one method carried a risk, but that this was worth taking as long as it did not significantly interrupt the integrity of the research project and the research process.

The method employed was the design of a single question for insertion in a regular omnibus telephone survey. The survey should cover a range of regions, ages, social backgrounds, and employment statuses. The question was to:

- relate to financial literacy as opposed to simple numeracy;
- relate to a financial product used by a large part of the financial service using population;
- have one right and a maximum of two wrong answers; and
- be suitable as a test of methods of measuring financial literacy in other research.

This part of the research was supported by Red C Research and Marketing Ltd, a company specialising in public opinion, market monitoring and attitude surveying. Red C provided useful technical advice on the design of the question. Fieldwork was conducted between 3 and 5 May 2005 within the framework of a Red Express poll. The survey population was 1,007 people interviewed by phone using a random digit dial method to ensure all households were covered.

The question topic was the abbreviated term APR - which is used in print and broadcast media by lenders. The APR must be written or otherwise made known by financial service providers in many circumstances.

The question was as follows:

> **Thinking of the banking term APR, I am going to read out a number of possible meanings for this term, one is correct and the others are not. For each meaning I read out, please tell me whether you believe this term applies to APR or not.**

Red C produced a 35-page report containing tables of the answers according to very detailed characteristics of the 1,007 respondents: age, sex, region, social background, marital and parental status, urban or rural address, economic status and some other consumer characteristics. This detailed report has been provided to the research partners who have commissioned the research. The following are three of the main findings.

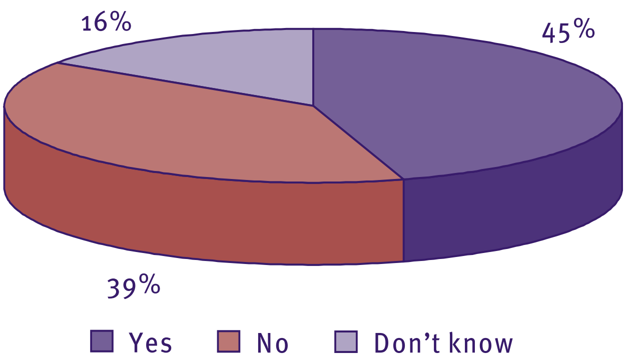
Statement	Yes	No	Don't know
1. APR is the total amount of interest on a loan plus any other charges.			
2. APR is the amount a bank or building society is willing to lend a customer.			
3. APR is the monthly repayment on a loan.			

1. Difficulties in understanding everyday financial terms are common.

Some 1,007 respondents were asked to confirm which statement defined the term APR.

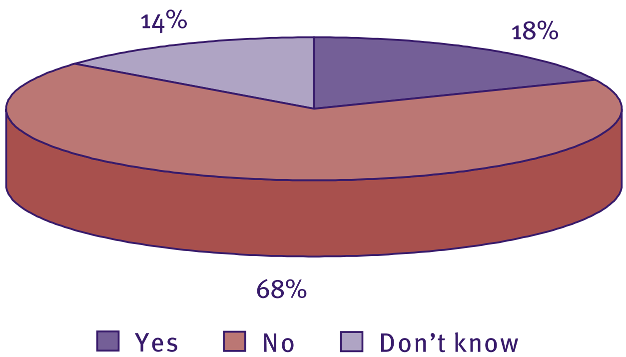
Forty five per cent of adults answered that 'Yes, APR is the total amount of interest on a loan plus any other charges'. Thirty nine per cent of people did not think that definition to be correct and almost 16 per cent did not know.

Figure 2: Responses to option 1 'APR is the total amount of interest on a loan plus any other charges'



(N=1007) Source: Ralaheen Ltd and Red C Research and Marketing Ltd

Figure 3: Responses to option 2 'APR is the amount a bank or building society is willing to lend a customer'



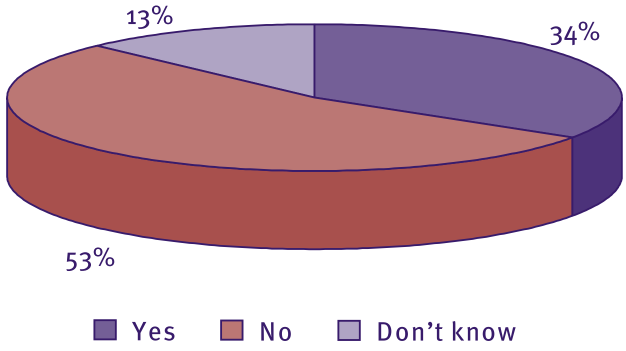
(N=1007) Source: Ralaheen Ltd and Red C Research and Marketing Ltd

Eighteen per cent of respondents thought that APR referred to the amount of money a bank or building society was willing to lend a customer. However, the majority (67.4 per cent) did not. Fourteen per cent of people did not know if this was an accurate definition.

Thirty four per cent of people surveyed thought that APR represented the monthly repayment on a loan, 53 per cent did not think this description was accurate and almost 13 per cent did not know.

The first main finding is that only 45 per cent of people aged 18 years and over answered "yes" to the description which is closest to the 'right' answer, namely, that APR is the total amount of interest on a loan plus other charges. This low level of understanding of APR is all the more surprising in that APR is a widely used term in print and broadcast advertising by financial service providers. The term is not new and has been used for a long time. The term APR is associated with tens of thousands of financial transactions in place, or put in place, by financial providers.

Figure 4: Responses to option 3 'APR is the monthly repayment on a loan'



(N=1007) Source: Ralaheen Ltd and Red C Research and Marketing Ltd

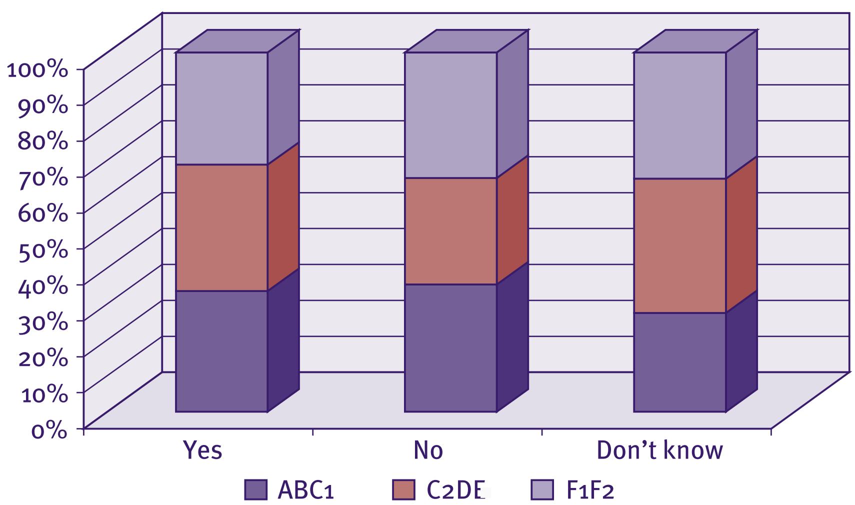
High proportions of those surveyed replied *"don't know"* to each of the three options. These proportions ranged from 12 to 15 per cent of respondents. This implies that in addition to those who gave 'wrong' answers, high proportions of respondents were unable to articulate or envisage a right or wrong answer and may have had no idea whatsoever what APR referred to in the context of banking.

If the general public is unable to understand fully the term APR, this has consequences for their consumer behaviour. They are less likely to be able to assess the value of the financial products they seek to consume. They are less likely to be able to 'shop around' between financial service providers and exercise choice over financial products on the market.

2. Financial literacy difficulties affect all social groups.

Since less than half of the surveyed population could identify the meaning of the term APR, this raised further questions that the research might answer. The next question asked was whether this less informed segment of the population was also the most socially or economically disadvantaged. This could be done by comparing the 'right' or 'wrong' answers to the question with the social backgrounds of respondents. The answer to this turned out to be interesting and surprising. The results are presented in Figure 5 below.

Figure 5: Answers to 'APR is the total amount of interest on a loan plus any other charges' categorised by social grade



(N=1007) Source: Ralaheen Ltd and Red C Research and Marketing Ltd

Together, respondents in the social categories of larger farmers (50+acres, Category F1) and smaller farmers (50-acres, Category F2) were the least likely to recognise the meaning of the term APR.

ABC1 (upper middle class; middle class; lower middle class) were only slightly better at recognition. In this regard, problems of financial literacy are dispersed across social categories and are not confined to disadvantaged populations.

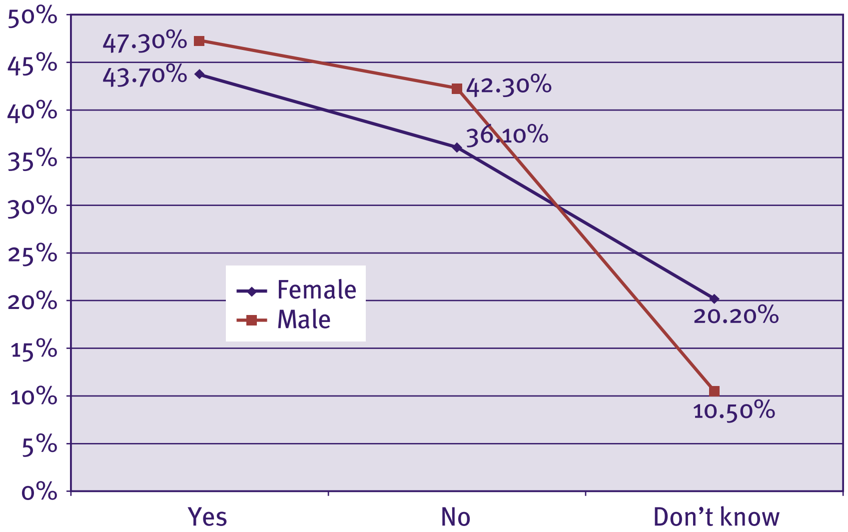
Those with the highest levels of recognition, although by a small margin, were the categories of skilled working class, 'other' working class and casual workers or social welfare dependants (Category C2, Category D and Category E).

Thus, the three 'highest' social categories of respondents – Category A, Category B and Category C1 – were not especially likely to recognise the meaning closest to the term APR compared with some 'lower' social categories. It is interesting to interpret this finding. It may simply mean that the higher social categories are unaware of financial terms or it may mean that they are financially complacent and uninterested in comparing different APR. It may indeed mean that the use of such terms is mediated for them by financial advisors, rendering individual knowledge unnecessary.

These findings are particularly interesting in light of the ownership of financial products in Ireland. In the Joint National Readership Survey 2003/2004, Lansdowne Market Research Ltd found that 89 per cent of the population had some sort of financial account[47]. The proportion declined in line with social class and was higher among those with third level education. The survey showed a consistently lower uptake of complex financial products among lower social groups in both urban and rural areas. For example, 42 per cent of those with third level education had a Special Savings Incentive Account (SSIA) compared with only 23 per cent of those with primary or post-primary level education only. Thus, although access or participation in mainstream financial services may increase with social class, financial literacy does not appear to follow automatically.

[47] Lansdowne Market Research Ltd *Joint National Readership Survey 2003/2004*.

Figure 6: Answers to 'APR is the total amount of interest on a loan plus any other charges', categorised by percentage within gender



(N=1007) Source: Ralaheen Ltd and Red C Research and Marketing Ltd

3. Low financial literacy is an issue across all age groups including the young

Using the survey results, it is possible to assess some of the social characteristics of those who were more or less financially 'aware' based on their replies to the survey.

Slightly more males than females (almost 4 per cent) signalled knowledge of the correct definition of APR. In this regard, there is no significant gender difference. Twice as many females as males answered that they did not know whether this statement related to APR or not. This is a significant gender difference.

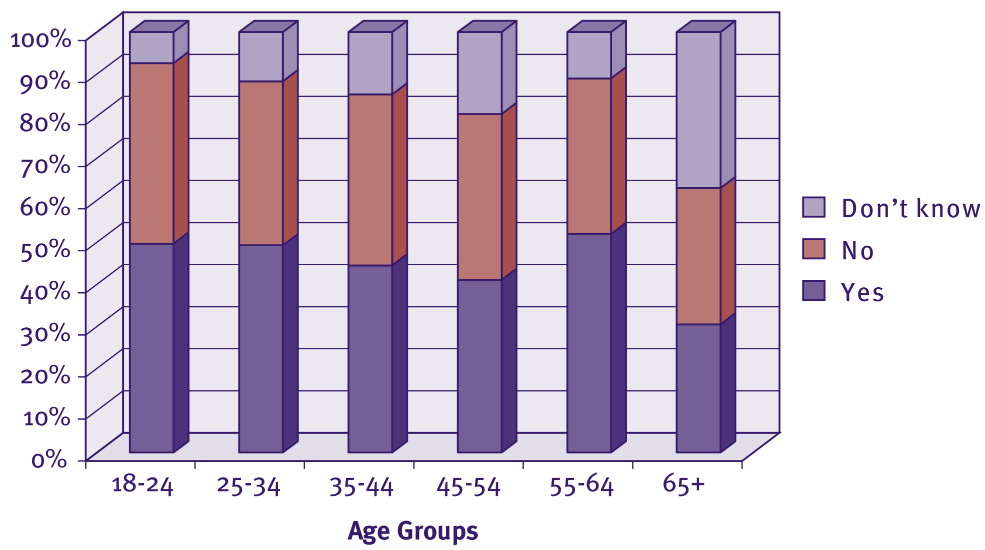
Financial awareness is dispersed across the age categories of 18 to 64 years. Awareness of the term APR is not especially high in the age group 25 - 34 years. This is the age group during which young people form relationships, establish dual-earning households or look for mortgages and during which women may usually have their first child.

The age group most likely to answer 'yes' to the correct definition of APR was the 55-64 years age category. Apart from this one older category, younger people were the next most likely to link the term to its definition. Almost 50 per cent each of 18-24 and 25-34 year olds gave a positive answer, while this was true of slightly fewer 35-54 year olds.

Of those aged more than 65 years (10 per cent of the survey sample), only 30 per cent positively associated the term with the correct definition. This is likely to be related to their retirement from employment, limited income against which they can borrow, the low rate of retirement pensions in Ireland compared to previous earnings and the inclusion in this category of frail people in their eighties and nineties.

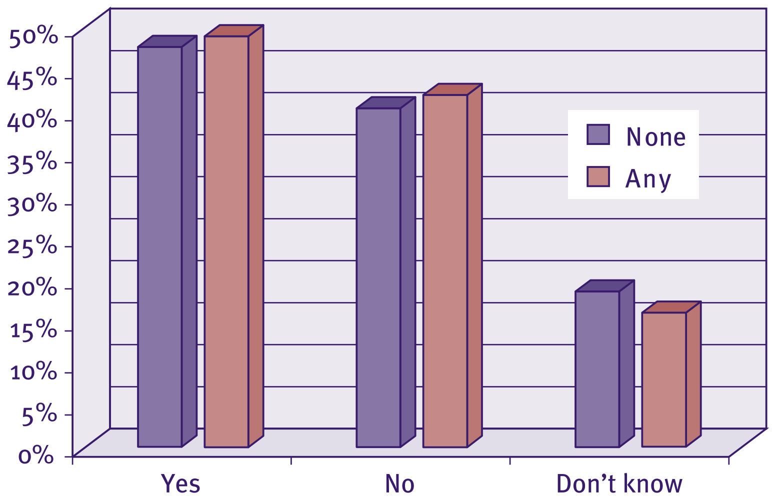
Respondents living in households with children under the age of 16 years and those without did not differ significantly in their answers to the correct statement. The figures returned were similar to the overall average, with just under half agreeing that the statement was correct. The presence or absence of dependent children in a household can create conditions requiring borrowing and associated awareness of financial terms, but this was not borne out by the survey.

Figure 7: Answers to 'APR is the total amount of interest on a loan plus any other charges', categorised by age



(N=1007) Source: Ralaheen Ltd and Red C Research and Marketing Ltd

Figure 8: Answers to 'APR is the total amount of interest on a loan plus any other charges', categorised by percentage with dependent children



(N=1007) Source: Ralaheen Ltd and Red C Research and Marketing Ltd

Survey results as a method of testing financial literacy

As a method of testing financial literacy, the exercise proved very useful and cost effective. The numbers interviewed were sufficiently large to provide results with a reasonable level of confidence in the findings.

Based on the results of a single financial literacy question, there is an indication that the levels of financial literacy in the general population may be quite low. Analysis based on the response to a single question cannot be used to prove or disprove evidence of financial literacy. It can, however, be used as an indication for further research or as a taste of the subject.

Conclusions

1. Financial literacy is a whole population issue

When asked to choose from three possible meanings of a financial term such as APR, less than half of the surveyed population could do so correctly. Difficulties were to be found across different social categories. Thus difficulties understanding everyday financial terms are not confined to any one group in society; rather, this is an issue for the whole population.

2. Telephone polling is a useful method of preliminary research

As a test of financial awareness, the survey provides an indication of a low level of financial literacy in the adult population. The telephone survey method of testing financial awareness worked well. It confirms the potential of the method for studies measuring understanding of a range of financial service terms.

Chapter 5

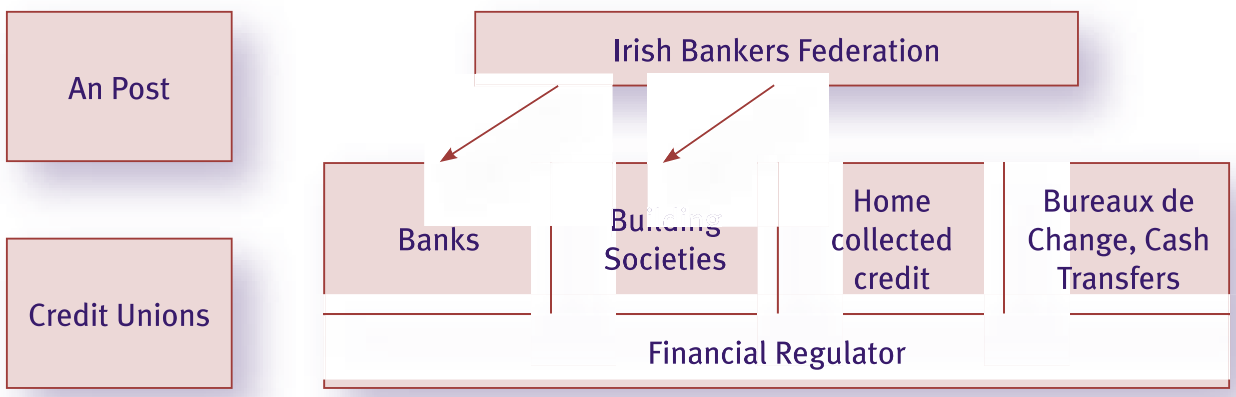
Financial literacy – the other side of the counter

Financial services are provided by a growing number of organisations. The Financial Regulator regulates some of these but not others. The Irish Bankers' Federation provides a forum for and represents the more important financial service sub-sectors, such as banks and building societies. These structures have implications for which institutions and organisations should be invited to promote financial literacy and under whose control. Figure 9 shows some of the main stakeholders in Ireland in retail financial service provision. On the right-hand side of the table are two boxes listing some of the other services outside the mainstream of financial services but used by consumers to obtain credit or cash.

A final element of the research was to seek the views of representatives of the financial services sector on the topic of financial literacy. The study sought to gain their views on financial literacy under three broad questions.

- Has the subject of financial literacy emerged as an issue for banking procedure?
- What weight, if any, is given in staff training to handling customer literacy issues?
- Would you consider current policy on literature and customer service to be sufficient in addressing literacy issues?

Figure 9: Formal Financial Services Sector in Ireland



Eight individual financial institutions were contacted via e-mail, post and telephone. One large bank agreed to participate in the research. The Irish Bankers' Federation (IBF) and the Irish League of Credit Unions (ILCU) also participated in the research.

Irish Bankers' Federation

The IBF, with over 60 member institutions, represents a wide range of financial service providers, both domestic and international, which are licensed and operating in Ireland. Its membership ranges from large retail banks and building societies to newer arrivals such as Tesco. The IBF does not include certain financial services providers such as cheque converters or Bureaux de Change.

The Irish Bankers' Federation has a long-standing interest in literacy as it relates to school education. In the past the IBF has produced primary and post-primary education programmes for schools (*Paymaster* and *Money-Go-Round*). These have been mailed out to over 4,000 schools and this was funded by the IBF.

The IBF has more recently focused on integrating financial literacy into the school curriculum. An example would be modules in Business Studies courses for the Junior and Leaving Certificate. The IBF has followed closely the views of the Business Studies Teachers' Association of Ireland (BSTAI) in this regard. A publication has also been made available three times a year to Business Studies teachers.

The IBF shares the view of the BSTAI that Business Studies should be a core subject at Junior Certificate level. This would enable financial literacy to become a lifelong skill. Alternatively, or in addition, financial literacy could be incorporated into the subject Civic, Social and Political Education (CSPE).

The introduction of the euro was an opportunity to update some materials and to develop a games-based CD-ROM and an interactive ATM for children and young people. However, financial literacy materials and resources for adult literacy groups are very limited.

The IBF informed the research that it was co-operating with the Financial Regulator to explore issues relating to adults and financial literacy and would like to continue co-operative work on this issue. The IBF is aware of the work of the National Adult Literacy Agency in taking up the issue of financial literacy and of its work in the field of financial literacy development.

The IBF is aware that there are financial services providers that are outside its membership that may take advantage of, or capitalise on, people's vulnerability in a way that is not transparent. IBF itself does not regulate its member bodies. As a representative body, it encourages responsibility and good practice. IBF members do explain repayment schedules to customers and the cost of credit in detail on, for example, loan agreements. Nevertheless, quite complicated financial formulae underlie some financial transactions. While the IBF acknowledges that members have responsibilities, it also points to the fact that borrowers too have responsibilities. Consumers should exercise due diligence before signing an agreement for any new financial product or service.

The IBF expects to continue co-operating with the Financial Regulator on a Consumer Protection Code.

In terms of combating financial exclusion, the IBF does favour a form of universal access to the banking system, which would be card-based and is being actively promoted by all relevant stakeholders, in particular the Government.

Irish League of Credit Unions (ILCU)

The ILCU represents the interests of over 500 credit unions throughout Ireland. The ILCU:

- promotes the credit union ethos;
- represents its members at national and EU level; and
- provides central services to affiliated credit unions.

The ILCU provides training to credit union staff and volunteers as part of its Business Support Strategy. Literacy issues among credit union members have been brought to the attention of the ILCU, although informally and anecdotally.

However, the issues of literacy, numeracy or financial literacy have not been addressed by the ILCU at policy level. It was reported that such issues tend, rather, to be dealt with at community level on the basis of the sound local knowledge of credit union staff and volunteers. In this regard, new staff and volunteers would generally learn about the literacy issues of specific members of the credit union through informal training channels.

In terms of printed material, the ILCU does not produce literature for members but rather for credit union personnel. The training material is as accessible and simple as possible, as the trainers themselves would be writing from a non-financial background.

Although there is no pro-active policy on dealing with literacy issues for staff, the ILCU indicated a strong interest in the results of this research for their own future reference.

Allied Irish Banks

Allied Irish Banks (AIB) agreed to participate in the research, as requested, through a 20-minute telephone conversation between the researchers and a relevant staff member, nominated by AIB.

At a policy level, AIB has been conscious for some time of the need to "try to keep jargon out of literature". With regard to the leaflets and brochures on display in branches, the bank has noticed something of a shift in the manner in which customers now seek information. While customers do still pick this type of literature up in the branch, they tend ultimately to come back for direct information from a staff member. In addition, people are using the Internet more and more as a source of information. AIB, therefore, also tries to keep the language used on its website as clear and accessible as possible.

Another area for improvement, according to AIB, is the language used in standard letters, that are issued to customers from time to time for a variety of purposes. Changes in standard letters to make them easier to understand must be consistent across all branches and is therefore a large undertaking. Several branches have offered writing courses to some staff members to this end.

Finally, AIB emphasised the importance of using "everyday language" in all its communications. There is an acknowledgement that while staff may have financial expertise, they should not take for granted that customers have the same skill or knowledge.

At the time of interview (June 2005), AIB was reviewing its bank literature, including notices, posters and letters. Part of the review process included an invitation to tender for graphic design companies.

Although AIB considers the issue of financial literacy to be an important part of a policy of openness, the topic has not been highlighted in the bank's regular customer satisfaction tracking service. Every year 100 customers in each branch are invited to participate in a telephone survey. Each respondent is asked to grade 28 statements related to banking procedure in order of importance to them, as a customer of the bank. One of the statements relates to the content of brochures. However, this has never appeared in the top five issues of importance to customers, and has, in fact, generally been graded as one of the least important issues. Neither has the issue of financial literacy difficulties filtered from frontline staff up to those at policy level.

Discussion with AIB revealed awareness of and a degree of action at policy level on addressing issues of financial literacy for customers. Activity in the area has, to date, been focused on improving the written information available in the bank, on the website and in standard communications with customers. AIB considers this to be an ongoing area for improvement and policy.

Frontline staff

At the outset of the research it was decided, in partnership with the research steering group, to seek the views and experiences of the frontline staff of a financial institution. With the advent of remote banking, frontline staff includes staff who deal with telephone queries and transactions as well as the more traditional group of staff working in branches. Four frontline staff members of a large financial institution were brought together at the head office of their employer for a discussion, which lasted for just over one hour.

Through a mixture of experience and training, staff members instantly recognised and understood the research topic, financial literacy.

The initial reaction of the group was to wonder about the level of financial literacy not only among customers, but also among staff. Participants readily informed the research of their, and their colleagues', own difficulties understanding literature, documentation and "jargon". They spoke of "constantly-changing goalposts" within the sector, which necessitated that they, the staff, were constantly reading up on new regulations and policies. By way of an example, the identification now required from new customers by financial institutions was mentioned. Staff also had to keep very up to date on the different forms a customer might require for the multitude of products and services on offer.

The ability of some staff members to perform basic calculations with the aid of a calculator was also brought into question.

Each participant could state confidently that they had often dealt with customers with both general literacy and, more specifically, financial literacy issues. They drew a clear distinction between customers who had very low levels of literacy and customers whose general literacy appeared unproblematic but who had difficulties understanding banking terms.

Staff remembered how, in the past, those with severe literacy issues would appoint family members to sign forms and agreements for them. Similarly, staff themselves had accepted 'X' markings as customer signatures and even witnessed them by signing their own names to documents as verification of identity. However, they all agreed that this was no longer practised as they, as operators of the transaction, could be left "wide open to accusations" if there was an internal audit. This sense of personal responsibility related not only to signatures but also to filling in any information on behalf of a customer. One participant stated that she still had no problem filling out forms for people. However, all were in agreement that this would only ever happen with local customers, well known to the branch staff. The restructuring of the branch network meant that in most branches you now had a lot of "passing trade" where staff would not know customers personally. In terms of bank policy on filling in forms for people, staff tended to live by the unwritten rule known as "CYA – cover your ass".

Staff felt that through experience they had learned to pick up on undisclosed literacy and numeracy issues. In some cases, it could be very clear as customers would simply be unable to sign their own name, while at other times, numbers and letters may be written backwards. Staff attached importance to how they approached these issues and pointed out that to draw attention to difficulties at the counter, in front of a queue, would be inappropriate. Apart from avoiding the potential humiliation of the customer, time constraints and long queues would not permit staff to spend the extra time with an individual customer.

Staff also wondered if, on occasion, customers may have been pretending not to be able to read or write and thus dispensing with their own personal responsibility to maintain accounts and loan repayments. They were concerned that customers could potentially claim at a later date that they had not understood what they were agreeing to and therefore refuse to meet their obligations.

The issue of time and related pressure on bank staff arose more than once throughout the discussion. Counter staff were operating not only under severe pressure of time, but were also working towards sales targets in an increasingly "aggressive" environment. Once more, participants remembered a time in the past when staff could spend time with customers, answering queries, helping with forms or even just chatting. Now, demands were such that staff were far too busy to give more than minimum attention to the customers' needs. Contributors to the discussion exchanged opinions about what managers would have to say if they were to spend half an hour on the phone or at the counter explaining terms and conditions of products to customers.

This particular institution did not have a history of providing separate information points for customers who had queries relating to their account or for customers with special needs, including literacy issues. However, it was an avenue that was being explored in one of the branches represented in the discussion and other participants felt that it could prove to be time and cost effective. Staff felt it would take some of the pressure off counter staff and added,"We'd love to have that."

Opening accounts was one particular area where staff felt financial institutions could benefit from allocating separate time and space to new customers. Branches of this institution varied in their practice of opening accounts at the counter or in another area to the side. However, none of the branches had a designated area, time or staff member to carry this task out and staff joked about having to "run the gauntlet" of angry customers in the queue if they closed a counter to open an account. One participant pointed out that it would be more beneficial to the bank to have a designated, comfortable area for opening accounts as the time presented a significant opportunity to sell other products, such as a credit card, to new customers.

In terms of the identification required to open an account, staff were less sympathetic towards customers who turned up without the documentation required. In some branches, the list of required papers was clearly displayed on the wall. On top of this, some participants felt that the issue of the requirement for drivers to carry their driver's licences at all times should indicate to people that they would need something similar to open an account. Others thought that customers "just don't listen" when they are told what to bring with them. However, they did point out that some customers might feel victimised if they tried to open a second account with the same institution and branch and they were obliged to go through the same identification process as they did the first time.

Participants in the discussion group spoke about the cases they have come across of people getting into arrears on loans. They understood that people were frightened to contact their creditors but wished that more could be done to let people know that the best option if a customer is in difficulty is to talk to someone in the relevant institution. They showed a preference for more advertising of Citizens Information Centres (CICs) and the Money Advice and Budgeting Service (MABS), as these organisations could alert people to their entitlements when facing financial difficulties.

Members of the discussion groups were asked their opinion on the possibility of including a training unit on dealing with customers with literacy issues in other staff training modules. One participant claimed that it was not a question of training but of "humanity". Another woman explained that all the training now boiled down to was the earlier notion of ensuring that staff "cover themselves".

Some counter staff considered that there would be no value in training staff in this area, as there would be no time to use the training in real-life situations. The primary priority of the branch staff was to keep the queue moving and not to spend extra time with customers experiencing difficulties. Staff were already dealing with too many tasks at once. Anyway, handling customers with that type of need came with "experience, maturity and 'cop'". One woman did feel that staff training could alleviate the difficulties faced by both staff and customers. Her opinion was that it was in the interests of staff and the institution to empower people to take control of their own finances and associated decisions and activity.

Participants were keenly aware of the mistrust on the part of some customers towards financial institutions and their employees and felt this represented a barrier to realising their "financial potential". Staff had encountered people who felt intimidated by staff offering advice and furthermore people who were simply of the impression that bank staff were trying to "get their money". This was one reason they recommended that perhaps the financial institutions themselves were not the most appropriate agency to provide information or education to customers.

Participants suggested that the role of providing financial literacy skills to customers lay not only with financial institutions but also with the Government and other organisations such as NALA. To this end, the group discussed the possibility of a reciprocal learning relationship between financial institutions and the likes of NALA. On the one hand, NALA could inform financial institutions about literacy and, on the other hand, financial institutions could brief NALA and its members on financial issues.

Another interesting suggestion was that NALA or an adult literacy service could advertise within bank branches. There could quite easily be an advertisement (print and television) signalling that people having trouble with forms could avail of adult education services in the area.

Throughout the discussion, participants referred to the "bottom line", which was described as the responsibility of individual customers to inform or educate themselves on financial matters before buying products and services. This should be promoted by Government agencies and the financial sector. They said if people cannot read literature and newspapers, then they should listen to the radio or watch the television to pick up advice on money and finance. Companies, including financial institutions, that are serious about targeting people with literacy issues should use these resources more.

Finally, branch staff feared that new financial literacy initiatives would be "shoved down to the branches" without the necessary resources or direction to back it up, thus putting further pressure on already-stretched employees.

Chapter 6

Research findings and conclusions

In this chapter, the findings from Chapters 1 to 5 are drawn upon to produce a series of conclusions from the four parts of the research:

- the literature review;
- the discussion groups with adult learners;
- the poll of 1,000 adults; and
- the discussions with financial services representatives.

The conclusions are arranged in two categories: the main conclusions and the secondary, or more specific, conclusions. The steering group for the research study viewed the conclusions of the study and offered suggestions to improve clarity and consistency.

Main conclusions

1. A clear distinction needs to be made between policies addressing financial exclusion and policies addressing financial literacy difficulties.

The aim of this research has been to examine potential literacy obstacles to effectively using financial services. While the topics of financial literacy and financial exclusion cannot easily be isolated from one another, there remains an important distinction between the two. Financial literacy difficulties are the absence of the requisite skills or knowledge to choose and use financial services and products appropriate to one's needs and choices. To be financially excluded, on the other hand, means to be denied access to mainstream financial services. To clarify, some people with poor financial literacy are 'banked' (have an account with a financial institution), but cannot effectively transact their business because they lack financial competency. Conversely, some individuals are outside mainstream banking, but are quite competent to make complex transactions.

Poor financial literacy may aggravate or compound financial exclusion. However, to develop effective policies and reforms, a tight separation needs to be maintained between the two topics.

2. Deficits in financial competence are not confined to disadvantaged populations but extend into the middle classes.

A component of financial literacy is the competence or ability to handle basic financial transactions and to recognise basic financial terms. The research shows that the proportion of the population from a range of social backgrounds and regions who were unable to understand a basic financial term or product was higher than expected. The need to raise the financial awareness and basic competence of consumers from a range of social backgrounds is a logical consequence of the deficit identified in the study. The finding is consistent with findings of the OECD International Adult Literacy Survey (IALS)[48]. The results for Ireland were published in 1997 and suggested that 25 per cent of the population could cope with only very simple material.

3. Financial literacy issues for consumers will change and increase.

The use of new financial technologies in computers and mobile phones, the development of self-banking by express lodgements or new technologies and the reduction or changes in the physical presence of banks and building societies in some regions are all part of the restructuring of financial services. These forms of financial service delivery will aggravate the digital divide and will create new financial literacy issues for users with existing literacy and numeracy issues. As movements of paper replace movements of cash, the significance of financial awareness and basic financial competence will increase.

Simple deposit accounts are less profitable for service providers and more complex financial products are attracting investment. Complex products require consumer consciousness. Adult education learners reported difficulties in handling new technologies and remote banking. The arrival of e-payments for more social welfare recipients and labour market programme participants from disadvantaged backgrounds may increase the financial literacy issues faced by financial service providers.

4. The absence of financial literacy raises issues of trust in financial service providers.

Confidence in Ireland's financial services sector is based on a long-standing and accumulated trust relationship. The depth of the relationship has positive benefits for the economy and for Ireland's standing internationally. The study found that the absence of financial literacy, in the form of inability to handle basic transactions or read a bank statement, was associated with mistrust of banking institutions and fear of personal humiliation and embarrassment. This arose in particular with opinions about the purpose of bank charges and government levies on certain products.

The presence or absence of a 'local' retail financial service will increase the opportunities for trust to develop or dwindle. This phenomenon requires careful consideration in terms of transparent communication and information strategies, which do not appear to the consumer as further modes of advertising, by the financial services sector. However, it is of note that migrant adult learners in the study appreciated being offered advice, bank brochures and other literature. This attitude may arise from the relatively recent development of a consumer culture in some of their countries of origin. Alternatively, a variety of printed brochures may offer them a chance to take the materials home for more fluent speakers of English to translate.

5. Pooling knowledge helps reduce the obstacles posed by both financial exclusion and financial literacy issues.

While financial exclusion and low financial literacy are distinct phenomena, there would be an advantage in sharing the emerging Irish knowledge of these issues. This takes on board the fact that Ireland is a small and expanding economy, with a relatively cohesive financial services sector and a co-ordinated literacy agency, together with strong anti-poverty networking. Other countries

[48] Government of Ireland, 1997, International Adult Literacy Survey. Results for Ireland, Dublin, Ireland, Stationery Office

are already taking financial literacy issues on board through legislation (in the US), community-based adult education (in France) or Corporate Social Responsibility programmes, described in Chapter 1.

Formal and co-ordinated strategic initiatives to combat disadvantage are now favoured in public policy. This is intended to avoid dispersion and replication of effort and to reduce the number of institutional arrangements confronting and perplexing service users. In this spirit, the development of a co-ordinated effort by public, private and not-for profit actors in the field of combating and reducing financial literacy difficulties and financial exclusion issues would offer leadership and be an effective and visible driver of change.

Specific findings

1. Innovations in method.

The study tested a new method of estimating financial competence or recognition of financial products through multiple choice questions put to a random sample of the population[49]. This test worked well in that it produced the result that difficulties with basic financial terms are not confined to the disadvantaged sections of society. The test proved speedy, cost effective and reliable. It can be added to the range of survey research tools appropriate for estimating financial competencies. The method can be used for periodic testing as well as for gauging knowledge on a wider range of financial products and terms.

2. Peer-led learning is important.

Peer-led learning is a method by which experienced learners support less experienced peers to develop financial literacy and numeracy skills. The value of this is that less experienced learners develop their skills in a safe environment because they are encouraged to think about financial issues rather than be instructed on them. What they learn is more relevant to their needs because it is based on everyday situations. This can make learning more meaningful.

The study found that peer influences were extremely important for adult learners. In this sense, peer influences (word-of-mouth) were more important than objective or factual knowledge, as most learners had no interest in printed brochures. The down side of peer influence was that some inaccurate information about financial services and transactions was circulating among the learner groups as ‘fact’. Financial providers and NALA should consider a variety of ways of adding value to peer-led learning in relation to financial literacy. This approach would involve adult literacy tutors, adult learners, community education organisers, workplace basic education providers and financial service providers. It would affect the work of social workers, community development workers and youth workers, as well as information providers such as Citizens Information Centres and the Money Advice and Budgeting Service.

3. Financial literacy curriculum and teaching resources for adults are lacking.

The study identified a gap in the availability of suitable Irish curricula, resources and materials for basic financial literacy learning. Both financial service providers and education and banking professionals reported such supports as being absent. The deficit is associated with an under-investment in general in adult numeracy curricula and materials that might – if they existed – contain core financial literacy units or modules. The study listened to reports of adults learning

[49] In conjunction with Red C Research and Marketing Ltd

long division and observed the difficulties of some adults in calculating percentages. Calculating percentages is an essential skill for consumers to compare different financial products or indeed understand the cost of a single financial product such as a loan or overdraft.

4. Low financial literacy is a barrier to informed consent.

Study discussion groups threw up the topic of 'informed consent'. Participants were aware of their own duty to inform themselves of what transaction terms they were agreeing to when taking up a financial product or carrying out general transactions. Even still, some participants admitted that they had signed forms they did not understand, had signed agreements they could not follow or had signed their name as 'x' and "hoped for the best" that they had understood what they were doing. Weak financial literacy impairs the quality of informed consent in banking relationships. This aspect of the study confirms the need to take steps to enhance financial literacy and numeracy in disadvantaged populations in particular, so that the obligations of both consumer and provider are reciprocated.

5. Staff awareness training is required.

The study identifies the need for counter staff of financial service providers to be aware that a proportion of customers have financial literacy issues. This becomes more important as customers switch providers, staff change jobs and as retail outlets are moved. It can no longer be assumed that counter staff recognise and know their customers. Awareness of financial literacy concerns among consumers can reduce their fear of embarrassment and affirms a quality customer service.

6. Customers lack confidence in equal treatment by providers.

Some study participants expressed the view that they got less favourable treatment than other customers due to their literacy difficulties. The perceived less favourable treatment included negative experiences in seeking an application form for a loan or being offered a product unsuited to their needs.

Chapter 7

Recommendations: Elements of a National Financial Literacy Action Plan

Introduction

Financial literacy and financial exclusion are separate issues, but they do overlap. The growth of technological developments in financial services is a growing concern for adult learners and literacy programmes. Of those surveyed, over one third of adults from all social backgrounds lacked the ability to identify a basic financial term such as APR. The survey provides the first evidence that this problem exists across consumers of different social backgrounds.

The study recommends the engagement of five Government departments or their agencies on financial literacy:

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

The study makes recommendations that may be appropriate to:

- the Irish Bankers' Federation;
- the Institute of Banking;
- individual retail financial institutions; and
- the National Adult Literacy Agency and adult literacy providers.

Given the cross-cutting issues with implications for a range of providers and services, the ten targeted recommendations contribute to the development of a National Financial Literacy Action Plan.

Recommendations for a National Financial Literacy Action Plan

1. Strategy and action on financial literacy

Addressing financial literacy, together with the issues of financial exclusion and excessive indebtedness, should constitute the agenda of a new working group to be established during 2006. The working group should form a resourced action under Ireland's National Anti-Poverty Strategy. The time-limited working group should include the major social, financial, advisory and educational actors in the field.

Aims of the working group should include pooling knowledge on financial literacy issues and developing formal strategic initiatives in the field.

Affected parties

- Cabinet Committee on Social Inclusion
- Key stakeholders in financial services
- Key stakeholders in adult literacy

2. Financial awareness

The Department of Social and Family Affairs should offer a specific budget in 2005 to the Money Advice and Budgeting Service Policy Development Unit to collaborate with financial services and adult literacy services to develop new and innovative ways to advertise to consumers that independent, confidential and free money advice is available before and during the transaction of financial products and services. Such awareness initiatives will be increasingly necessary as social welfare payments are conducted electronically between bank accounts. At present, an estimated 11 per cent of the Irish population over the age of 15 are unbanked. Their inclusion would expose an additional 360,000 people to financial services.

Affected parties

- Department of Social and Family Affairs
- Money Advice and Budgeting Service
- Policy Development Unit
- National Adult Literacy Agency
- The Financial Regulator

3. Training for providers

A two-hour training module should be developed for counter staff in financial institutions on awareness of and appropriate responses to literacy, numeracy and financial literacy issues for consumers in (1) customer service and care and (2) complying with money laundering provision. The module should be designed by curriculum and training units inside the broad financial services sector with the support and expertise of NALA and central adult literacy stakeholders.

Affected parties

- Financial services sector, including Irish Bankers' Federation, Irish Banking Institute and Irish Bank Officials Association
- NALA and key representatives of adult literacy providers

4. Quality customer service

Financial service providers should consider appointing a designated information officer in each branch to help customers with financial literacy difficulties and adjust to the time constraints of other staff.

There should be appropriate resources and procedures for staff to help consumers fill out forms in privacy and without stalling queues of other waiting customers. This assistance would also give consumers an opportunity to have financial terms explained in a meaningful way.

Local branches could advertise the local adult literacy service as a support for customers who have particular difficulties accessing and understanding financial services.

NALA should provide appropriate resources and supports to assist these information officers.

Affected parties

- ❖ Financial service sector
- ❖ NALA and local adult literacy providers

5. Use of plain English in printed material

All financial services' promotional and explanatory material should be provided in plain English. Plain English is a way of writing and presenting material that makes it attractive to read and easy to understand. Information has never been a more important tool in financial service promotion, so it is vital that as many people as possible can access and understand it. Using plain English can achieve this, as it involves:

- considering the needs of consumers;
- writing clearly, concisely and with as little jargon as possible; and
- laying out information clearly to help consumers understand it the first time.

Financial services providers should use the steps above to support them to easily identify what information their consumers need, whether or not they should use technical language and how they should present their information.

Plain English has a vast number of benefits for financial services.

- Consumers can compare products and services more easily based on access to clear information. This helps increase consumer choice, confidence in financial service providers and fair competition.
- Consumers are more likely to understand how to qualify and apply for financial services.
- Consumers understand the implications of accessing certain financial services or agreeing to certain loans or financial agreements. As a result financial services are less likely to mis-sell their products.
- Financial services save time and reduce costs – clear information from the start reduces confusion and possible complaints later.

Affected parties

- ❖ Financial services sector, including the Financial Regulatory
- ❖ NALA Plain English Service
- ❖ Graphic design companies

6. Financial literacy curriculum development

A number of preparatory steps for curriculum development need to take place. These will involve distinguishing between curriculum for basic numeracy and curriculum for numeracy incorporating financial literacy.

Tutors and managers of adult learning programmes need to be involved and engaged in the preparatory stages of curriculum development to offer inputs and opinions and also to make sure that inputs from learners can be incorporated at the early stages of curriculum design.

Inputs will have to take account of developments in electronic banking, self-banking and emerging information technologies.

The curriculum should also take into account the value of peer-led learning. The research found that peer influences were extremely important for adult learners.

The awareness and competency level of financial literacy, which will be incorporated as a goal of the curriculum, also needs to be fixed at an early stage.

The absence of a curriculum for financial literacy based on adult literacy learners' needs and experiences was identified as a gap in the study. It impacted on adult learners in learning settings, employment settings and FÁS-funded settings.

NALA, which has already got an established track record in this field, should be adequately resourced to carry out this work in consultation with adult literacy and financial services representatives. The Adult and Further Education Section of the Department of Education and Science, with the Vocational Educational Committees, should increase investment in full-time staff dedicated to numeracy and financial literacy curriculum delivery.

Affected parties

- ❖ NALA
- ❖ Department of Education and Science
- ❖ Vocational Education Committees
- ❖ Department of Enterprise, Trade and Employment - FÁS
- ❖ Financial services representatives

7. Investment and development of appropriate tuition resources and materials to support the new financial literacy curriculum

Following preparatory work on curriculum development, there will be a need to move seamlessly into producing a resource pack for adults.

The National Adult Literacy Agency should be appropriately resourced to engage in developing resources and materials appropriate to the Irish financial services and adult literacy contexts, promoting networks of tutors specialising in numeracy and developing relationships with local service providers interested in supporting financial services consumers with literacy and numeracy difficulties.

Affected parties

- ❖ NALA Materials Development Working Group
- ❖ Stakeholders in education and finance

8. Consumer responsibility in their transactions

The Financial Regulator should launch a time-limited campaign informing consumers of their duty to inform themselves of the significance of their transactions and encouraging them to exercise informed consent by asking for information that is accessible and clear for them. A public awareness campaign should be launched with such keywords as 'consent with care'. This should be supported by NALA and key stakeholders in adult literacy services.

Affected parties

- ❖ The Financial Regulator
- ❖ NALA
- ❖ Adult literacy service representatives

9. Workplace and vocational training financial literacy

Providing tuition based on adults needs, interests and experiences is a core element of the ethos of adult literacy work. With this in mind, NALA should be funded to support FÁS and the VEC to introduce specific financial literacy modules for workplace basic education (WBE) programmes. This is an area for dialogue between FÁS, providers of financial services and adult literacy services.

Affected parties

- ❖ NALA Workplace Basic Education Development Unit
- ❖ Department of Enterprise, Trade and Employment - FÁS
- ❖ Department of Social and Family Affairs – Office for Social Inclusion

10. Developing the financial literacy research agenda

With the arrival of new financial service providers into Ireland, such as Tesco, new store cards, take-overs of existing providers or Internet banking, further research should be undertaken into the financial literacy challenges of new forms of financial service provision and delivery and on developing financial literacy indicators suited to Ireland.

A programme of independent research can be funded by both public and private parties and commissioned from independent research bodies in the public and private domain or can be developed in-house by providers. Any research into the area of financial literacy should be informed by NALA and key stakeholders in adult literacy and financial services.

Affected parties

- ❖ NALA and key stakeholders in adult literacy
- ❖ Financial services representatives
- ❖ Department of Education and Science
- ❖ Department of Social and Family Affairs – Office for Social Inclusion

Conclusions

This research was a central element in a three-year campaign developed through a partnership between the EBS Building Society and NALA. The theme of financial literacy was identified as relevant to research because of increasing requests to NALA by financial services and related organisations in recent years for support. This research examined international financial literacy research and best practice to devise a detailed set of activities and responses to support adults with literacy difficulties to overcome barriers to accessing and understanding financial services. The National Financial Literacy Action Plan outlined above offers a range of practical supports to Government, staff and managers from financial services companies, adult literacy services, money advisors, regulators and utility companies.

The overall objective of the National Financial Literacy Action Plan is to raise awareness of the issue of financial literacy difficulties among the financial services industry and members of the public. Through the series of actions recommended above, some of the stigma associated with the issue will be removed, allowing people to talk about the challenges faced and also to encourage and support the financial services sector to deploy measures to help make financial products and services more accessible for all.

Financial jargon such as APR, equity and compound interest are difficult to understand at the best of times, but for adults with literacy and numeracy difficulties, it is a real barrier to managing their personal finances. This issue has a considerable impact on the everyday lives of one in four (500,000) Irish adults[50] who experience serious literacy and numeracy difficulties. In addition, it is a major concern for any organisation providing printed financial information to the public.

Addressing this issue results in many potential opportunities for financial services and other related organisations.

- Improved communications with clients with literacy and numeracy difficulties.
- Greater customer satisfaction among clients with literacy and numeracy difficulties.
- Avoidance of mis-selling.
- Transformed printed materials such as promotional posters, forms and correspondence.
- Better equipped staff to meet the needs of a wider client base.

The recommendations outlined in this chapter recognise that financial service providers and their consumers have relationships based on trust. Measures to enhance the financial literacy and competency of the consumer can only enhance that trust relationship.

[50] Morgan, M, Hickey, B and Kellaghan, T (1997), *International Adult Literacy Survey. Results for Ireland,* Dublin, Ireland, The Stationary Office.

Appendix i

Profile of discussion group participants

Table 1. Gender

Sex	Number
Female	47
Male	12
Total	59

Table 2. Age

Age	Number
18-24	18
25-34	14
35-44	3
45-54	12
55-64	2
Over 64	-
Total	49

Table 3. Nationality

Nationality	Number
Irish	50
UK	-
Other EU	-
Outside EU	9
Total	59

Table 4. Membership of Traveller community

Traveller	Number
Yes	10
No	49
Total	59

Table 5. Urban or rural dweller

Area	Number
Urban	41
Rural	8
Total	49

Table 6. Marital status

Marital status	Number
Married/living with partner	18
Separated/Divorced	4
Widowed	2
Single	25
Total	49

Table 7. Dependent children

Dependent children	Number
Yes	24
No	25
Total	49

Table 8. Household status

Household status	Number
Single	16
Couple	9
One parent	15
Two parent	9
Total	49

Table 9. Work status

Work status	Number
Full or part time	11
Unemployed	2
Working in the home	1
Student or training	32
Other	1
CE Scheme and extra work	2
Total	49

Table 10. Registered to vote

Registered to vote	Number
Yes	27
No	17
Don’t know	4
Total	48

Appendix ii

Opening a bank account

Participants reported significant difficulties opening bank accounts, as many did not have the required photo identification – passport or driver's licence. In these cases, people were forced to seek identification from the local Garda station. Although participants understood the rationale for seeking identification, many found this to be quite objectionable. One woman who did not have a bank account had not realised before that this was standard procedure in that local area:

> "You have to go into a Garda station to open a bank account? That is absolutely wrong. I'd sooner not have one than go to a Garda station"

For participants who did not have a current utility bill in their name, often young people or women, they found that financial institutions in general were not very willing to accept other forms of address verification as recommended by the Financial Regulatory[51].

Examples of identification rejected by banks, building societies and credit unions

- A woman reported that she provided the credit union with photographic identification in the form of a driver's licence and a purpose-written letter from Dublin City Council stating that she was the new tenant at the named dwelling. Despite this the credit union would not open an account for her until she received her first utility bill at her new address two months later.
- A migrant worker had attempted to open a bank account using her passport and an ESB bill in her name and showing her current permanent address. The bank clerk noticed that the woman's name was misspelt (the letter 'd' was missing from her first name) on the utility bill and refused to open the account. The applicant left the bank and immediately requested a letter from the ESB clarifying that the mistake was theirs and that it would be rectified on the next bill. However, the bank would not accept this as confirmation and the woman had to continue to cash her wage cheque in shops, at an increased price, for a full two months.
- A Traveller woman's son, who was under 18 years of age, had approached several different institutions to open an account when he began earning money through a FÁS training scheme. He applied to the bank with photographic identity, a letter from FÁS, a Child

[51] The Financial Regulator (formerly IFSRA) (2003) *The Criminal Justice Act, 1994 (as amended) Moneylaundering. Guidance Notes for Credit Institutions*. Available at www.ifsra.ie (Accessed June 2005)

Benefit book with his details included and a letter from the local council confirming his address. He was turned away each time without explanation.

- Other women in the Traveller group reported similar incidents when they tried to open savings accounts for their children. On many occasions, they had been told that children as young as seven years would have to have a utility bill in their name to open a deposit account.
- Switching accounts from one branch to another also proved problematic for participants. Several reported that to move their account from one branch to another within the same institution, they were required to close the original account and re-open a whole new account. Although the bank already had a record of their identification documents, they had to follow full identification procedure to carry out this request. This is despite the new Code of Practice for Switching Accounts, in place since January 2005, designed to make it easier for consumers to move their accounts and all associated functions from one bank to another.
- Several participants revealed that they had only been able to open accounts because they were known personally or socially by a staff member who processed their applications without all the correct identification.

The requirement for identification from all customers is a legal obligation beyond the control of the financial services sector. In 2003 the Financial Regulator, with the approval of the Money Laundering Steering Committee with representation from key stakeholders including Government, issued anti-money laundering guidance notes to institutions. The document advises users that 'any measures adopted should not deny a person access to financial services solely on the grounds that they do not possess certain forms of identification'[52].

Based on experience, participants in the discussion groups referred to a perceived need for consistency in the application of rules, both across institutions and client groups.

[52] The Financial Regulator (formerly IFSRA) (2003) *The Criminal Justice Act, 1994 (as amended) Moneylaundering. Guidance Notes for Credit Institutions.* Available at www.ifsra.ie (Accessed June 2005)