

MicroSave Briefing Note # 112

Financial Education – Time for a Re-think?

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Traditional financial education both in poor and rich contexts have taken a didactic, class-room based approach to conveying analytical financial concepts like budgeting, saving, managing debt, and calculating interest rates. We need to re-think the process of financial education to merge it with product marketing, thus making it more relevant for customers and more cost-effective for financial institutions.

Recent research by Zollmann and Collins¹ suggests that, particularly amongst the poor, traditional financial education is missing the mark both in terms of content and pedagogical approach:

1. **Content:** For the poor, financial decisions are not big, infrequent analytical choices about allocating funds. Rather, financial management is a constant, inseparable cycle of earning and allocating uncertain, erratic cash flows. Managing money is all about staying disciplined. Our conversations found that Kenyans are already quite strong at budgeting and saving; the real knowledge gaps come in understanding how financial products should function to help them stay on track and realise their short and long term goals.
2. **Approach:** Research participants said that money management is something they would find difficult to learn in a classroom. Experience rules. People test financial products with low values and little risk to make sure the product performance conforms to their understanding before entrusting it with larger values. Frequent, clear feedback and being able to get answers seem to be key factors enabling effective product testing.

Customers learned:

1. *From their own experiences:* Zollmann and Collins hypothesise that any intervention that helped customers learn about their own transactions, and whether their expectations of whether it works are being met, would increase use of the product. For example, if customers are able to check fees and balances in a frequent, free, convenient way, we believe they will use the product more intensively. We call this a **high frequency feedback** intervention.

2. *From the experiences of those close to them:* The Zollmann and Collins piece also observed that most people tend to watch others and learn from their successes or failures. Therefore, a peer-led introduction to a product will lead to more comfort and knowledge about how the product works. We call this a **social marketing** intervention.

There are also challenges arising from financial education donors/sponsors who have maintained the position that financial education is a public good, and thus institutions should not use it as a platform to market their products. While this is done to protect people from exploitation by financial institutions, the downside is that it undermines the ability to fully develop people's financial capability. To improve financial capability, knowledge needs to be provided through practical exercises to facilitate an internalisation of money management concepts. This knowledge needs to be supplemented with information about available products and services and how they work. This enables people make informed decisions on which products to use, and thus fully exploit them to the mutual benefit of the institution and its potential clients. Furthermore, it also enhances consumers' financial capability since positive results should be experienced from appropriate choice and use of products and services that match people's needs.

Finally, it is essential to link financial education to real products, not just because of the need to provide consumers opportunities to use and experience products, but also because this provides an opportunity to deliver financial education on a massive scale as part of product marketing efforts. The alternative is small-scale financial education delivered as part of charity or corporate social responsibility efforts – with over 2 billion people financially excluded, efforts this size do not fit the need.

It is clearly time to test the efficacy of alternative, experiential, product-focused financial education interventions compared to traditional financial education training. Fortunately, some financial institutions are already working somewhat along these lines:

¹ Zollmann, Julie and Daryl Collins, "Financial Capability And The Poor: Are We Missing The Mark?", Financial Services Deepening Trust, Kenya *FSD Insights*, December 2011.
http://www.fsdkenya.org/insights/11-01-12_FSD_Insights_Branchless_banking_issue_02.pdf

KGFS-India

IFMR Trust's KGFS uses "Wealth Managers" to deliver their range of financial products to the 2,500 customers served by their branches. The KGFS model is structured around the concept of financial well-being and aims to maximize the financial well-being of every individual and every enterprise. As part of the enrolment process, customers' plans for the future, income, expenditure and assets are assessed in order to identify the household's potential needs for financial services.

To conduct and respond to this assessment, KGFS uses an evolving [framework](#) of:

1. *Plan* (for future aspirations: education, marriage, housing, acquisition of land or business asset etc.)
2. *Grow* (through investing business from either loans or savings)
3. *Protect* (through life, livestock and accident insurance products)
4. *Diversify* (through investing in a range of assets and avoiding concentration)

Wealth Managers are trained to discuss and probe their customers' plans and financial needs. On the basis of this, they fill out a comprehensive form which is then uploaded into the KGFS wealth management system to identify which of KGFS's range of 14 products to be sold to clients. KGFS is aware that the initial data collected may not be very accurate, but it is the conversation about financial aspirations and the products that help customers realise their plans that enables a process of personalised financial counselling. Customers often start with a single credit product to test KGFS and its intent, but unsurprisingly, the follow-up conversations often yield increasingly accurate data and more opportunities to sell products. But the Wealth Managers are not assessed on the basis of the products they sell but rather the financial well-being of their customers – as measured by their net assets and the level to which these are appropriately protected and diversified.

Kashf Microfinance Bank-Pakistan

As part of the Bill & Melinda Gates Foundation Safe Places to Save initiative, Women's World Banking (WWB) is supporting Kashf Microfinance Bank's (KMB) rollout of savings, with a focus on low-income women. To help KMB effectively tap into Kashf Foundation's low-income client base with access to savings, WWB developed a holistic approach that includes financial education, product information, and a visual savings planning tool that can easily be used by customers with low levels of literacy. The programme leverages in-house expertise of Kashf Foundation's Department of Gender Empowerment and Social Advocacy (GESA).

As part of the initiative, GESA leads regular financial education sessions, both in Foundation branches that house KMB kiosks, and in women's homes. The sessions, which focus on setting goals, planning, and budgeting, includes a module that introduces and explains KMB's flagship committee savings account. Customers receive a visual worksheet they can fill out themselves, to help them choose the account terms (savings goal, monthly deposit amount, length of account) that are right for them. Initial feedback from customers on the tool and the savings account has been quite positive.

The Safe and Smart Savings Account for Vulnerable Adolescent Girls - Kenya/Uganda

Since 2008, *MicroSave* together with Population Council and in partnership with four financial institutions, have been implementing a youth savings program dubbed "The Safe and Smart Savings Account for Vulnerable Adolescent Girls" (SSSVAG) targeting girls aged 10-19 years old. This programme is holistic and includes financial education as one of the key components. The objective of the financial education component is to promote and enhance a savings culture among the girls and build confidence and self-esteem to interact with the financial service providers.

The girls are trained on key aspects of savings including: the benefits of saving, choosing savings goals, and how to make a savings plan amongst others. These all include practical exercises to facilitate internalisation of concepts.

The financial training was adapted from a generic curriculum to suit the target group. Terms were simplified, length of sessions reduced in light of concentration levels and availability of the target group and a topic 'Dream Big' was added whose aim was to show the relevance of financial capability in young people's lives.

The training is offered using facilitators, but the girls also get a workbook that is interactive, incorporating games and puzzles designed to enhance learning and retention of concepts. In addition to the training on savings concepts, the girls also get trained on the savings account and how it works. They are then provided with an opportunity to open an account and are assisted through the process. Initial results indicate that girls are saving more in terms of amount and frequency than they used to prior to opening formal savings accounts.