Product-based Financial Education: Advocacy in Action

Presented by: Lauren Leimbach
October 1, 2010
As a non-profit organization we strive to:

- Research, develop, and promote low-cost consumer friendly financial products and services for LMI households.
- Build the capacity of community-based organizations to enhance the financial capabilities of their constituents.
- Establish best practice standards for other financial services providers.
- Promote an inclusive economy.
Examples of CFR’s Work To-date

- Product development: prepaid debit card, employer based emergency loan, financial service kiosk
- Product evaluations and vendor due diligence
- Product-based financial education
- Other Outcomes:
  - Community-based financial services delivery channels
  - Social Marketing support
  - Industry analyses and Product provider negotiations
  - Asset-building program evaluation
Financial Education Strategies

- Select effective delivery channels
- Design Task-based learning
- Leverage Behavioral Economics
- Incorporate social change models, e.g. voting with your dollars.

People are not Poor because they don’t know how to manage their money!
Asset Distribution by Households

Assets Disparity in 2007

The Racial Wealth Gap

$170,400
$17,100
$21,000

White
Black
Latino

Household Median Net Worth, 2007
Source: Survey of Consumer Finances 2009
visit www.racialwealthgap for more info
Figure 1 Median Wealth Holdings 1984-2007
(Not including home equity)
Median Wealth Holdings by Income
(not including home equity) Shapiro

Graph showing the median wealth holdings over time for different income groups.
Whose Income is Not Growing?

Percentage change in income

Source: Internal Revenue Service and U.S. Census Bureau.
Income Disparity Trend

Top 1% share of total income
Incomes above $398,900 in 2007


John Blanchard / The Chronicle
Meeting People Where They Are

- Financially marginalized folks know that “something is wrong with this picture”
- Low-income people have significant “Trust” issues.
- The stigma of poverty constrains perception of capability.
Marginal Tax Rate and Median Family Income
Leveraging Behavioral Economics

Intersection of Psychology and Economics

- How people make financial decisions
- How we can make better choices

- We are not rational economic decision-makers
- People at all Income Levels are BAD at evaluating financial trade-offs
Lessons About Human Behavior

- Must Overcome Inertia
- Too Many Choices de-motivates
- The Power of Defaults
- Loss Aversion
- Time Inconsistency
- No Neutral Choices
- Identity Economics
- Mental Accounting
- Following the Crowd
- Games are Fun and Size Matters
Implications for Program Design

- Use Commitment Devices
- Streamline the choices
- Make the best choice the default and present it as the Norm
- “Anchor” with suggestions
- Appeal to the higher self
- Small group work
- Rewards and Raffles
Task-based Learning

- People learn best by doing or trying to solve an immediate problem they face.
- Teaching financial management concepts based on product usage.
- Developing consumer savvy:
  - How to recognize and avoid predatory financial products and services
  - De-constructing marketing messages
  - Busting the money myths
Effective Delivery Channels

- Work through trusted community-based organizations
- Look for a captive audience
- Make it relationship-based
  - Fulfill a need with every touch
- Meet Social needs
- Use participation incentives
CFR’s Program Approach

- Detailed product and process training for Staff
  - Beneficial products for constituents
  - Implementing and Operationalizing the program

- Consumer Education tools to move clients toward asset building behaviors within a context of civic engagement

- Ongoing technical support

- Collaborative Learning Process with other organizations to exchange techniques and data to support structured evaluations