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**WHY FINANCIAL LITERACY MATTERS:  
AN EDUCATIONAL PROGRAMME  
WITH PRACTICAL DAILY APPLICATIONS**

**A thesis presented in partial fulfillment  
of the requirements for the degree of**

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# **WHY FINANCIAL LITERACY MATTERS: AN EDUCATIONAL PROGRAMME WITH PRACTICAL DAILY APPLICATIONS**

## **Abstract**

Financial services and products have become increasingly accessible, 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 required means that an individual now needs increased levels of understanding and knowledge of the sector to make decisions appropriate to their needs and circumstances. This thesis emphasises the importance of ensuring that the teaching of financial education is embedded in the New Zealand school system to enable all students to leave school prepared for the rights and responsibilities of adult life. Financial literacy, like reading and writing, affects the well-being of every individual. It is important to recognise that inadequate financial knowledge can be a substantial obstacle. This is not a minor issue or a side issue. Ultimately financial education is a decisive issue because it is a measure of whether an individual understands the forces that significantly affect the quality of their life.

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# Introduction

Making personal financial decisions is an essential skill for adult living. Experience alone is not the best teacher of money management. Yet relatively few students learn about personal finance while they are in school. A check of New Zealand school curriculum standards reveals no obvious requirement for the coverage of financial topics in any depth. Rather, it appears to be left to individual schools and teachers to decide whether to include this subject area.

In 2005, 94 schools and 6,256 students participated in financial education at secondary school level (Enterprise New Zealand Trust, 2005). This represents approximately 15 percent of students in New Zealand secondary schools who were given the opportunity to participate in a financial education programme (Ministry of Education, 2005). Conversely this means 85 percent of students did not benefit from receiving financial education during the time they spent at a New Zealand secondary school in 2005. Volpe, Chen and Pavlicko (1996) contend that statistics such as these are of concern because personal financial decisions ultimately impact on the quality of an individual's life.

Unless a student chooses to take an elective course in personal finance at a New Zealand secondary school, there is no guarantee they will start life as an independent adult with any firm degree of financial capability beyond the ability to spend. Some students may choose not to take an available course because they over-estimate their financial literacy, while others do not have access to a course.

This thesis builds on the growing national and international interest in the promotion of financial education. The financial landscape has been transformed in the last 20 years, with personal responsibility and consumer choice playing a more prominent role. The availability of credit and the acceptance of debt as a normal component of personal finance, with people less willing, or required, to save in

order to buy, characterise important shifts in expectations. Individuals now need to navigate a more complex range of financial products and services in order to make informed decisions and choices.

Personal finance needs to be seen as an essential life skill that must be taught to young people before they become self-supporting. To continue to expect individuals to be able to manage their finances without training is an invitation to disaster. Just as we would not expect someone to know how to fix a car by simply handing them a spanner or a wrench, it should not be expected that an individual would know how to manage their finances by merely giving them a credit card or cheque book. Successful financial management requires appropriate knowledge and skills. The objective must be to enable all students, regardless of their home circumstances, to become financially included in adult life and make informed choices about their financial futures.

A good way of thinking about financial education is to use an analogy of dropping a stone into a pond. The ripples created by the stone extend outward with wider and wider effects. Financial education works in a similar way. Well-informed, well-educated individuals can make better financial decisions for themselves and their families, increasing their financial security and well-being. Secure families are more likely to be involved in their communities as home owners and voters. Therefore, being financially literate is not only important to the individual and their family, it is also important to communities and societies.

The goal of this thesis is to examine the issues that providers need to consider in determining the content and delivery of financial education programmes within the New Zealand school system. In the process, a number of issues are considered: What is 'financial education'? Why is financial education important? What financial education initiatives are underway? Are they working - and how do we know?

The thesis begins by defining the complex issue of financial literacy, and examines the concerns that exist over an individual's ability to use financial information effectively and the implications if this does not happen. The main challenge of the field is explored - increasing the demand for, and effectiveness of, financial education programmes. Following on from this, a snapshot is presented of the current position of financial education in the school systems of the United States, the United Kingdom and Australia. Looking at what form financial education should take, the thesis addresses the theoretical foundation and pedagogical approaches required to increase financial literacy among young people, and proposes several specific actions that could be taken to ensure all New Zealand school students have access to at least a basic level of financial education. In addition, the thesis examines previous studies that document the impact of financial education and the rationale behind educational standards in general. It concludes by calling for a more rigorous research programme and evaluation of the effects of existing programmes.

## **CHAPTER ONE:**

### **The Aim and Scope of the Thesis**

The purpose of this thesis is to determine the value and importance of teaching financial education in New Zealand schools. The impetus for this research was the growing sense of concern about the lack of curricular attention to financial education in New Zealand schools. The combination of increasingly sophisticated financial products and growing individual responsibility for financial decisions means that young people need to have access to at least a basic level of knowledge about finances to make sound decisions in planning for their futures.

Failure to take action on this issue will increasingly impact on the quality of life of all New Zealanders. Young people entering the workforce lack the knowledge to make sound financial decisions about their present and future personal needs, and “to respond competently to life events that affect everyday financial decisions, including events in the general economy” (Vitt, Anderson, Kent, Lyter, Siegenthaler and Ward, 2000:p.xii). Unfortunately, the increasing rate of debt, the lack of understanding of the importance of saving and investing, and poor insight into how the economy works, are all evidence that New Zealand can no longer afford to ignore financial education.

It is anticipated that this thesis will provide assistance for researchers investigating financial literacy, individuals developing and teaching financial education curricula, and policy makers working on educational reform. It is envisaged that this thesis will contribute to the critical body of knowledge that supports the inclusion of financial education in New Zealand schools as a means to help prepare individuals to meet and deal effectively with financial challenges in the ‘real world’. I would like this thesis to assist in moving the financial education debate in New Zealand forward in a constructive and positive way.

The following research question guided this thesis: Why should importance be placed on the inclusion of financial education in New Zealand schools? This thesis addresses the research question by reviewing available evidence from the research and practice of financial education, and summarising key findings from the literature.

Reviewing literature is one of the researcher's more difficult tasks. Unless it is to be a life's work, lines must be drawn around the subject to identify what is important, what is to be included, and how it is to be analysed. The research question and statement of the problem identified the general topics to be covered. Within these topics, one principal goal guided my approach - to identify and clarify the areas of greatest interest to furthering the research and practice of financial education instruction, curricula and professional development within the New Zealand education system.

The literature used in researching this thesis was obtained through the Massey University, Reserve Bank of New Zealand and other Government Department libraries. Another valuable source of information was provided through the Financial Education Research Centre, a US database of research on the impact of financial education programmes. I was also able to keep up-to-date with the latest financial education news from around the Asia-Pacific region and the rest of the world through the FinEdx electronic newsletter, a service provided via the Citigroup-INSEAD Financial Education Exchange. Over the course of a year, I amassed a significant amount of material (books, journals, discussion papers, academic articles, working papers, newspaper articles) on financial education and related subject areas.

## **CHAPTER TWO:**

### **What Is Financial Literacy?**

What does the term 'financial literacy' actually mean? What distinguishes a financially literate individual from one who is financially illiterate? There is no single agreed upon definition or terminology.

To function effectively within society an individual needs to make sense of and understand the world in which they live. Reading and writing are important skills for the acquisition of literacy, but they do not constitute literacy itself. Literacy can be thought of as a meaning-making process or an understanding that allows informed decisions to be made in order to achieve particular outcomes or objectives. Without this meaning-making process or understanding, the chances of an individual achieving their desired outcomes or objectives are significantly reduced. Literacy provides an individual with the ability to make sense of their world, to reflect on their world, to communicate with others, and to learn. A literate individual can be described as one who has a set of skills and abilities that enables them to make use of available resources in order to achieve their ends (Jackson, 1993).

In their review of existing literature, in an attempt to find a workable definition, Mason and Wilson (2000) concurred that financial literacy must be a process that leads to a range of desired outcomes. They concluded that financial literacy could therefore be defined as an individual's ability to obtain, understand and evaluate the relevant information necessary to make decisions, with an awareness of the likely financial consequences.

A broadly accepted definition of financial literacy is "the ability to make informed judgements and to take effective decisions regarding the use and management of money" (Noctor, Stoney and Stradling, 1992:4). This succinct definition has been

widely accepted and built on in the context of financial education in schools, and is used by the New Zealand Retirement Commission, the statutory body responsible for promoting public understanding of the financial system in New Zealand (Feslier, 2006).

Schagen and Lines (1996:91) operationalised this definition by proposing that a financially literate person would possess a range of abilities and attitudes comprising “an understanding of the key concepts central to money management; a working knowledge of financial institutions, systems and services; a range of analytical and synthetical skills, both general and specific; attitudes which allow effective and responsible management of financial affairs”. According to Beal and Delpachitra (2003) such proficiencies involve both cognitive (knowledge) and psychological (willingness and confidence) understanding.

Cutler and Devlin (1996) concur that financial literacy has both a knowledge component (an individual’s performance on objective tests of financial knowledge), as well as a confidence component (an individual’s self-reported knowledge, abilities, and efficacy related to financial matters). This distinction is useful in understanding the differences between measures of what people objectively know, and how confident they feel in their financial knowledge and management abilities. Generally, research finds that an individual tends to over-estimate their own financial literacy (DiSpalatro, 2000; Roshco, 1999), and the positive effects of financial education and training programmes may work primarily by increasing participant confidence (Kim, 2001; Vitt et al., 2000).

Hogarth (2002:15) notes that a consistent theme running through a majority of financial literacy definitions is being “knowledgeable, educated and informed on the issues of money and assets, banking, investments, credit, insurance and taxes; understanding the basic concepts underlying the management of money and assets; and using that knowledge and understanding to plan and implement financial decisions”.

According to Vitt et al. (2000:p.xii), "Personal financial literacy is the ability to read, analyse, manage and communicate about the personal financial conditions that affect material well-being. It includes the ability to discern financial choices, discuss money and financial issues without (or despite) discomfort, plan for the future, and respond competently to life events that affect everyday financial decisions, including events in the general economy". In previous generations these judgements and decisions were fairly clear-cut. If you had money, you could purchase goods. If you didn't have money, you either went without or saved until you could afford to buy the goods. However, in a twenty-first century consumer-oriented society where the use of credit and debit cards has become the norm and self-service banking technologies are extensively promoted, it is clearly highly desirable to be financially literate.

The principal conceptual debate internationally has been between definitions of financial literacy (commonly used in the United States) and financial capability (commonly used in the United Kingdom). The distinction between capability and literacy is subtle but important. As illustrated above, definitions of financial literacy tend to emphasise objective knowledge on specific topics related to money, economics, or financial matters, and subjective measures of self-reported confidence. Following the work of the Adult Financial Literacy Advisory Group, various British organisations collaborated to develop a framework for understanding and increasing financial capability. The *Adult Financial Capability Framework* proposed three inter-related dimensions (financial knowledge and understanding, financial skills and competence, financial responsibility) compared to the two-dimensional concept of financial literacy. These components are all mutually supportive and inter-related (Basic Skills Agency, 2004).

Being financially aware means having knowledge and understanding of the nature of money, and an insight into its functions and uses. It signifies an understanding of the complexity of the financial and economic world, and the development of a

critical appreciation of the importance of financial decisions and their implications. Developing financial awareness is the first step in ensuring that students leaving school have the skills required to deal with everyday financial issues, and feel comfortable about making informed decisions and choices about their own personal finances.

Financial competence involves the application of knowledge and understanding of financial matters across a range of changing contexts. Being financially competent includes being able to identify and deal with problems or issues with confidence, and being able to manage predictable and unexpected financial situations effectively and efficiently. This area is concerned with managing money on a daily basis and planning for the future.

Financial responsibility denotes the importance of understanding the broader impact of financial decisions on self, the family, and the wider community; and to understanding rights, responsibilities, and sources of advice or guidance. It signifies a caring and responsible disposition that asks questions about social, ethical, cultural and environmental, as well as economic, aspects of financial activity undertaken by individuals and the community in a variety of contexts. Students who are financially capable will be aware that financial decisions and actions are inextricably intertwined with values and value judgements of various kinds.

Sometimes a fourth component (financial enterprise) is added to this framework. Financial enterprise is about using initiative and informed risk-taking to deploy resources. Being financially enterprising involves knowing how to choose the most suitable forms of spending and saving or investment, and being able to evaluate, analyse and decide on the best ways of using money effectively and in appropriate ways. Financially enterprising behaviour involves making decisions based on informed critical thought, and being creative and innovative in diverse personal, business and economic situations.

According to the Financial Services Authority (2005:13): “Financially capable people are able to make informed financial decisions. They are numerate and can budget and manage money effectively. They understand how to manage credit and debt. They are able to assess needs for insurance and protection. They can assess the different risks and returns involved in different saving and investment options. They have an understanding of the wider ethical, social, political and environmental dimensions of finances”.

As a concept, financial capability may offer several advantages over financial literacy. First, compared to financial literacy, it moves beyond objective knowledge and subjective confidence to include responsible and informed behaviour. Financial literacy is interpreted more as knowing what to do rather than behaving in an appropriate manner. Second, it acknowledges there are varying stages in the development of financial capability, from basic to a broader capability, and that financial capability is concerned with lifelong learning rather than a differentiation between being financially illiterate or financially literate.

For the purpose of this thesis, I have used the term ‘financial education’ for convenience. As the above definitions demonstrate, financial education means different things to different people. For some it is a wide-ranging concept, incorporating an understanding of economics and how household decisions are affected by economic conditions and circumstances. For others, financial education means focusing quite narrowly on basic money management skills - budgets, savings, investments, insurance. Others prefer to include consumer protection skills within a financial education framework. In reality, financial education probably can and does include all of these topics. The consistent themes running through the various definitions of financial education involve an individual’s ability to acquire, understand and critically evaluate essential knowledge and skills in order to make decisions and achieve particular outcomes, with an awareness of the possible financial consequences. It encompasses being

able to manage personal finances in a variety of changing circumstances in life and society. It includes acquiring understandings, developing skills, and exploring values in varying contexts about the impacts of individual financial decisions on self and others.

Financial education is a relative, not an absolute concept. Beyond a basic level, the degree and nature of the financial education required by an individual will depend on their circumstances. Individuals need a basic amount of knowledge and understanding, upon which they can draw when managing their financial affairs. This basic knowledge and understanding will be supplemented from time to time by information gathered for specific purposes. The additional information will be assimilated and understood in the context of an individual's existing body of knowledge. They also need the ability to apply their knowledge and understanding in order to manage their money and to make appropriate financial decisions. This calls for a range of specific skills, which need to be underpinned by basic levels of literacy and numeracy. These include skills to evaluate information and to make comparisons between different products or courses of action. An individual must also be prepared to take whatever steps are necessary to apply their knowledge and to exercise their skills. This is largely a question of attitude.

Like any body of knowledge, financial education is both basic and complex. It is also multi-layered, overlapping, and inconsistently labelled. Whatever its name, the bottom line of financial education involves equipping individuals and families with the ability to negotiate money issues to make self-enhancing life choices.

## **CHAPTER THREE:**

# **Why Has Financial Literacy Become An Issue?**

The ability to make informed financial decisions is essential for basic functioning in New Zealand society. These decisions range from simple daily spending and budgeting to choices of insurance, banking, or investment products, to saving for education, home ownership and retirement. They have profound implications on the financial security, well-being and standard of living of all New Zealanders.

Previously it was enough for an individual to be numerate, to understand straightforward banking transactions such as the deposit and withdrawal of money, and to be able to complete application forms (Greenspan, 2002). Financial literacy, in this sense, entailed relatively simple technical skills. However, as Morris (2001) points out, people have always needed training in financial education, but the escalating complexity of the financial marketplace requires ever-increasing levels of financial knowledge.

It is important to note the broader social and political changes that have contributed to the need for greater financial awareness. The sweeping economic and social reforms of the late-twentieth century have brought unprecedented change domestically and internationally, particularly in the way that individuals interact with financial service providers and with money itself. In particular, changes in government policy have placed substantial financial responsibility on the shoulders of individuals. For much of the twentieth century, New Zealand was regarded as a prosperous nation. New Zealand was viewed as a world leader in its social legislation, which in turn led to the widespread expectation that every New Zealander would be nurtured 'from-the-cradle-to-the-grave' by the government. Succeeding governments continued to maintain and extend the

welfare provisions that had been implemented in the 1930s. However the financial burden placed on the government to support the Welfare State and to service the debt on overseas loans steadily increased. Flaws in New Zealand's agriculturally-based economy and its dependency on Great Britain became evident in the 1970s. The Government increasingly intervened and regulated the economy, providing state subsidies to farmers and industry, installing protectionist barriers to the importation of foreign goods, and borrowing extensively from overseas to construct large projects in order to increase New Zealand's self-sufficiency. The country was burdened with high unemployment, a large foreign debt and soaring inflation. The problem of high inflation was tackled by introducing a wage-price freeze, but this merely maintained the status quo rather than solving the problem (Easton, 1997).

Over a period of 40 years, New Zealand's national economic performance, relative to other Western countries, declined slowly but steadily. After the oil crisis in the early 1970s there was a rapid decline, with public and private sector foreign debt rising from 11 percent of gross domestic product in March 1974 to 95 percent in 1984. Above all, there was a growing sense that the country was over-regulated. The State sought to promote public and private well-being by managing, controlling, supervising, subsidising and protecting the activities and interests of private citizens (Bassett, 1998).

Following the July 1984 change of government, New Zealand embarked on a package of wide-ranging economic reforms. These included radical financial market reform, privatisation and deregulation of industry, liberalisation of international trade, reform of public finance, and deregulation of the labour markets. The Minister of Finance, supported by The Treasury, was a strong advocate of the free market. Working in partnership, they vigorously adopted monetarism and new public management techniques (Easton, 1997).

The newly created Enterprise State was driven by the global marketplace and operated through commercial market structures, principles and processes for the generation of profits. Some of the earliest reforms were in the financial sector. All controls on prices, wages, credit, dividends and foreign exchange were lifted in 1984, and the New Zealand dollar was floated in 1985. Previous limits on bank lending were lifted, and the once heavily regulated banking system was opened up to full competition (Brash, 1998). The paternalistic model of product and service regulation, where the Government specified what was and was not allowed and participated in the business of product design (for example, laws regulating interest rates on home loans), was replaced by a system built around the Government staying out of specifying the features financial products could and could not have. Greater attention was paid to the disclosure regulations that had to be provided to consumers. The new model placed more onuses on individuals to look after themselves (Bassett, 1998).

As a nation we have developed an economy that offers greater access, choice and protection but, at the same time, we have not developed the capability of all individuals to take advantage of these changes, nor to avoid the risks that come with greater access to money.

New Zealanders now live and work in a rapidly changing, technologically-oriented and global economy. Technological advances have dramatically transformed the provision of financial services in our economy. The scope and diversity of the financial decisions an individual has to make has grown exponentially. Individuals must be able to differentiate between a wide range of financial products and services, and providers of those products and services. All these new features may have dramatically broadened the opportunities of New Zealanders and improved their potential well-being, but they have also increased the complexity of decision making. In today's economy, consumers are expected to be active and well-informed in their financial activities and responsible for the consequences of their choices.

The sheer variety of financial products and services that are easily accessible would astonish people living just half-a-century ago. In the past, the average person had two basic banking products - a cheque account and a passbook saving account. These were easy to open and maintain. Now, an individual may be offered a wide array of banking products - products with fees that pay interest; those with no fees but also no interest; those with no fees but with limits on the number of transactions each month; those with overdraft facilities; and so forth.

The plethora of financial products available forces people to make complex decisions, even for the simplest everyday transactions. Increasingly, taking best advantage of available opportunities places heavy demands on the ability of individuals to make well thought out choices. A person's financial acumen influences all aspects of their life, from managing wages month to month and deciding what mode of transportation to use, to choosing where to live and planning for retirement. Erroneous decisions can enmesh households in debt and lead to much lower living standards than households would enjoy had their financial decisions been more prudent.

It is important to note, however, that what is lacking is not information (for example, who is charging what for a mortgage?), but rather the ability to interpret the information (for example, how well do alternative mortgage rates fit my requirements?). Information is of value only to the extent that it can be understood and applied appropriately by individual users of the myriad of financial products and services available (Hogarth and Hilgert, 2002).

Beal and Delpachitra (2003) note that poor financial literacy can result in individuals over-using credit cards whereby debts cannot be met, committing to unrealistic mortgage agreements, overpaying for insurance and still not obtaining appropriate coverage, contributing too little or nothing to their retirement fund, partaking in get-rich-quick schemes and falling prey to scams, making unwise

high-risk investments, and undertaking inappropriate personal and vehicle loan contracts. On the everyday level, individuals often make unwise commitments to mobile telephone contracts, buy now-pay later purchases, long-term fitness centre contracts and expensive diet plans (Hogarth, 2002).

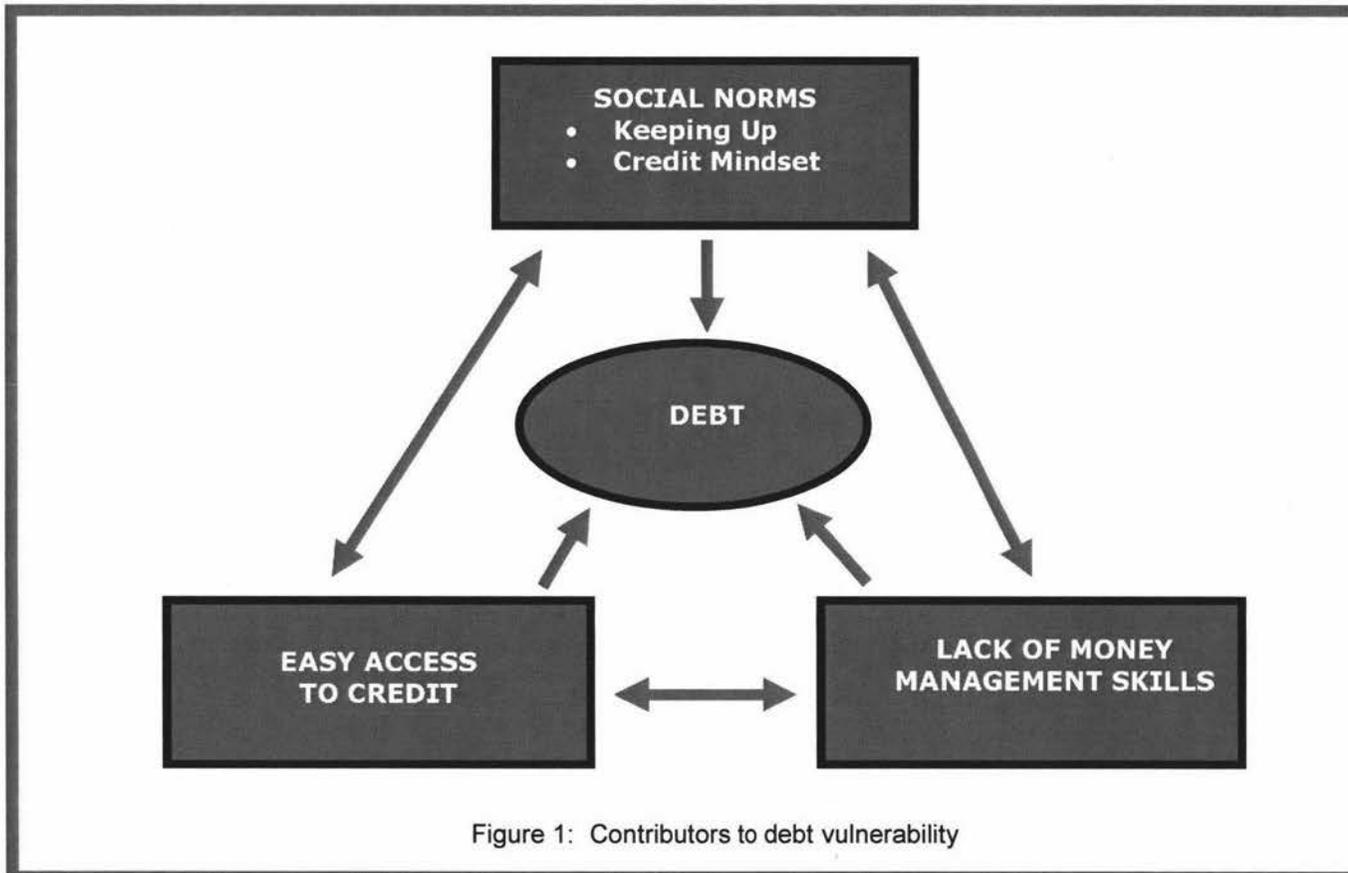


Figure 1: Contributors to debt vulnerability

Poor financial choices can result in a number of negative outcomes. The consequences of behaviours such as poor credit card usage, high debt levels and low savings rates are of concern from both a societal and an individual point of view. Bankruptcies; marriage breakdowns, where financial problems play a prominent role; crime pressures placed on individuals because they are part of a consumer society; personal hardship from growing consumer debt; and low levels of national savings, which has an economic impact on the nation as a whole, are some of the issues arising from poor financial literacy within society (Kinnunen and

Pulkkinen, 1998). According to Wolcott and Hughes (1999:10), "financial hardship can increase isolation, emotional stress, depression and lower self-esteem, which, in turn, can generate or exacerbate marital tensions that lead to divorce".

The largest impacts of financial decisions fall on the individuals making them and their families. However, the general population is also affected because unwise financial decisions can worsen the plight of many families, requiring additional taxes and other social resources to be redistributed as welfare benefits. According to Dodge (2003), well-informed, financially capable individuals can make better decisions for their families, increasing their financial security and well-being. Not only can they manage their personal affairs and their households more advantageously, they can be more effective and productive members of society; capable of making reasonable judgments on public policy issues that have a bearing on their personal prospects and those of the nation.

Changes in the financial marketplace for debt and credit have increased access to personal credit. This has been described as the democratisation of credit and has resulted in changes in the savings, spending, and borrowing habits of New Zealanders, notably with regards to credit cards and mortgages. Debt has been made much easier to obtain. The ready availability of credit cards, together with easier access to personal loans, and interest free and other payment options, has led to an increase in spending on consumption and a rapid rise in both personal and household debt levels (Draut and Silva, 2003).

From a social and economic perspective, there are questions about the impacts - both positive and negative - this has had, particularly for those on lower incomes. According to Betti, Dourmashkin, Rossi, Verma and Yin (2001:1), "being in debt is normal consumer behaviour and a certain level of debt is inevitable for most people". Borrowing money can enable individuals to smooth their consumption patterns over time. It allows people to obtain products - such as houses, consumer products or education - much sooner than they would otherwise have

been able to if they had been forced to delay such purchases until they had the full amount (Cameron, 1994).

The importance of managing credit is fundamental to ensuring that it does not turn into unmanageable debt. There are few limits to how many sources of credit the average consumer can have at any time (for example, credit cards, department store cards, bank loans, overdraft facilities), and there is evidence that multiple sources of credit are commonly a factor in reported cases of unmanageable debt (Lyons, 2004). Debt has clear implications. It is associated with difficulty in repaying owed money, personal and family stress, lifestyle compromise and, in some cases, legal issues. Unmanageable debt can result in intense financial pressures impacting on longer-term commitments. In 2005 some New Zealand bank staff took industrial action over their concern that the amount they were paid was directly linked to how much debt and other services they sold to customers.

The increasing accessibility of credit has been matched by ever-higher levels of household borrowing. Household debt has risen much faster than household disposable income. Over the 10 years to December 2006, household debt per adult has increased more than 2½ times. Total housing debt increased over 2¾ times and consumer debt more than doubled. Total household debt measured as a percentage of all households' disposable income rose from 88 percent to 160 percent, to more than \$150 billion. Around \$13 billion of this total is consumer debt, with credit and store card debt accounting for more than \$5 billion of it. The bulk of the balance is short-term instalment credit - much of which used to be called hire purchase debt (Reserve Bank of New Zealand, personal communication, 20 February 2007).

In 2003 the New Zealand Council of Christian Social Services released a report, *The Dynamics of Debt for Low Income Families*. This report argued that debt can have detrimental impacts on individual well-being, families and relationships, physical and social deprivation, and child development (Williams and O'Brien,

2003). In an earlier study of low-income families, Waldegrave, King and Stuart (1999) found that 64 percent of households were in debt (excluding mortgages), with amounts ranging from only \$19 to up to \$20,000. One-fifth of the overall sample found it very difficult to pay household running costs due to debt, with a further quarter stating that this was quite difficult.

In New Zealand there has been a 22 percent rise in bankruptcies in the eight months to February 2007, to 2,380, up from 1,950 for the same period a year ago. In the past, bankruptcies have risen by only a few percentage points each year. Household debt levels are increasing, in part because banks and other lenders are pushing the boundaries of lending, including offers of 100 percent mortgages. Consumers are also able to obtain competitive credit card rates and companies have eased their lending criteria (Ministry of Economic Development, 2007).

The development of the credit market, including easy access to consumer credit and credit products, aggressive marketing, and positive attitudes toward credit-based consumption, has stimulated the growth of credit use. A key area for concern is growing youth indebtedness. There is strong peer group pressure to conform; having the 'right gear' is a trademark of 'belonging'. What are considered as necessities by contemporary youth can be expensive - mobile phones, 'brand' clothing, recreational activities, eating out, having a car. There are numerous sources of debt which are thought to pose risks to young people - for example, credit cards, mobile phones, student loans, car finance and expenses, fines, debt to family and friends (borrowing from friends is a far wider practice today) (Bridges and Briesch, 2006).

In recent years manufacturers have devoted special attention to pre-pubescent children, aged between six and 13, commonly referred to as 'tweens'. As manufacturers have attempted to engage with this young age group to develop "from-the-cradle-to-the-grave brand loyalty", children have been put under increasing pressure to consume (McNeal 1998:40). For example, research

undertaken in Australia demonstrates that children who own mobile phones are motivated by status and aesthetics in their purchasing decisions. Fifty-three percent of child mobile phone owners considered that the brand of their phone was important and 62 percent thought that the way the phone looked was important (Roy Morgan Research, 2006). It has been estimated that tweens account for A\$4 billion worth of direct and indirect consumer decisions in Australia and that two-thirds of major retailers worldwide now actively target children (Bridges and Briesch, 2006). Young people are responsive to advertising (in particular those with celebrity endorsements), capable of a high degree of brand recognition, and interested in keeping up-to-date with new technologies. These characteristics have led advertisers and marketers to devote special attention in the last decade to children (Achenreiner and John 2003).

A substantial amount of the literature on debt is concerned with individuals who encounter hardship due to the amount of money they have borrowed, and their difficulties meeting the costs of principal and compounding interest repayments. However, a related problem is financial exclusion. A majority of the studies undertaken correlate financial exclusion to difficulties some low-income families face in accessing affordable credit. Fringe financial service providers often locate in low-income communities and target individuals with minimal financial literacy. Some lenders have used unscrupulous practices and products to prey upon vulnerable segments of the population (Kempson and Whyley, 1999).

Financially excluded people are either unable to obtain money to ease consumption pressures, or they are unable to use mainstream credit facilities, and are therefore forced to purchase money from non-bank financial institutions or 'loan sharks'. Such suppliers may charge far higher interest rates for borrowing small amounts of money than mainstream lenders - sometimes extortionately high. They typically supply loans to individuals with a poor credit rating that mainstream suppliers would not lend to due to higher risks of default (Kempson and Whyley,

1999). Although fringe providers undeniably serve a market need, their growth and approach raises important issues (refer Appendix).

Many low-income households, worried about managing their cash, may only use the simplest products and try never to get into debt. Equally, few manage to build up any savings. This is reflected in the limited range of financial products that they use and means that they are excluded from methods of financial management that could help them. On the other hand, those who do use credit facilities may, through lack of knowledge, make poor decisions and incur unnecessarily high charges, or take on commitments they cannot meet. This is reflected both in the types of debt that lower income households tend to take on, and in the way that poor value services concentrate their activities in low income communities (Draut and Silva, 2003).

The net result is that low-income families may have to pay far more for their finance than those who are in more favourable circumstances financially. If their loans are structured to be paid off over a long period of time, the compounding interest payments can be high. As a result, those with the most to lose often find themselves caught in a cycle of debt that makes it onerous to get out of, let alone accumulate assets and exit hardship. As Carr and Schuetz (2001:9) note, "First, because fringe lenders do not provide savings accounts, households that rely exclusively on them lack both the incentive and option to save. Second, the heavy concentration of fringe lenders in minority communities means that those areas are disproportionately burdened with second-class financial services options. Finally, reliance on fringe lenders, even to the extent they provide needed financial services, routinely comes at a very high cost".

Financial exclusion has sometimes been ignored as an issue because borrowing is seen as a luxury rather than a necessity. However, Kempson and Whyley (1999:27) argue that while many low-income people would prefer not to borrow money due to concerns about meeting repayment obligations, it is sometimes

inevitable - “research has clearly illustrated that, while credit use among low incomes may not be desirable, it is often unavoidable. Indeed, borrowing can be a key strategy in making ends meet”. Individuals with a basic knowledge of lending programmes, of the credit process, and of their rights, may be better able to protect themselves against bad credit situations. Financial education alone may not be the sole answer to predatory lending, but it is certainly an important part of the solution.

Levels of financial literacy are not necessarily aligned with more general literacy or numeracy skill levels. For example, it is possible to be highly literate and yet have extremely poor financial knowledge and understanding and limited financial management skills (Coben, Dawes and Lee, 2005). While there is a close link between low levels of basic skills and effective access to financial products and services, the interplay of these skills in financial education is not well understood.

In 2005 market research company Colmar Brunton, on behalf of the Retirement Commission, with the support of the Ministry of Economic Development, undertook the first national survey of adult financial literacy in New Zealand. Funded by the ANZ Bank, the purpose of the survey, involving the face-to-face interviews of 856 New Zealand adults aged 18 years and over, was to determine the participants’ ability to make informed judgments and to take effective decisions regarding the use and management of money. The study also sought to find out what individuals knew about goal setting, financial planning, budgeting, debt management, saving, investing, and managing risk.

In March 2006, the findings of the *ANZ-Retirement Commission Financial Knowledge Survey Research Report* were released. While the participants generally had a reasonable level of personal financial knowledge, the survey highlighted the strong correlation between financial literacy and an individual’s socio-economic level. Across all the subject areas examined, knowledge increased with age, income, education and net wealth. The survey respondents

with the lowest levels of personal financial knowledge were young (in the 18-24 age bracket) or older (75 years and over). New Zealanders generally felt positive about how well they managed their money, with 83 percent saying they felt confident about managing their financial affairs. Eighty percent of respondents said they had financial goals and more than half saved regularly. However, 26 percent said their greatest difficulty with managing money was that they did not have enough, while a further 19 percent said controlling their own spending was their greatest difficulty. The survey results underlined a number of knowledge gaps in the areas of investments, debt management through the consolidation of loans, the effect of compound interest on savings over a long period, mortgage choice and managing mortgage debt, understanding New Zealand Superannuation, and effective use of credit cards (Australia and New Zealand Banking Group, 2006).

As the number and complexity of financial products and services grows, basic financial decisions are made more difficult and the consequences of fraud, exploitation, or simply making bad choices become more ominous. New Zealanders need to be able to make informed and effective decisions on their finances on a daily basis. What is important is that they are aware of all their options, and the issues and implications involved.

## **CHAPTER FOUR:**

# **Why Does Financial Education Need To Be Included In The School Curriculum?**

The starting point for providing an individual with a basic understanding of personal finance is youth financial education. The best place for reaching young people is through the schools. Proponents of financial education contend that school curricula provide a ready-made infrastructure for reaching a wide audience with comparative ease (Morton, 2005). Students represent a confined assemblage because their attendance is mandatory and, most importantly, they are a young audience.

Morris (2001) conducted a survey of New Zealand senior secondary school students, based on the US Jump\$start study. The multiple-choice financial knowledge questionnaire was administered to 804 senior students from a cross-section of New Zealand secondary schools. The questions covered financial basics, including financial planning, income and taxation, budgeting, insurance, credit and borrowing, spending and banking, and saving and investing. Two-thirds of the questions required the recollection of factual information or straightforward mathematical calculations. None of the questions involved the use of complex knowledge. The students answered on average 55 percent of the questions correctly. There were significant differences in results between New Zealand European, Maori, Pacific Island and Asian ethnic groups. While there were no decisive differences among regions or between genders, students in the lowest and highest socio-economic groups had the poorest success rate. Morris (2001) concluded that New Zealand senior secondary school students were not sufficiently financially literate to adequately manage situations they were likely to encounter as adults.

Managing money is one of the important and challenging features of everyday living. In contemporary society, individuals must make frequent decisions that represent important financial concepts - they must choose when and how much to borrow, when and how much to save, whether to buy and how to finance purchases of homes and consumer goods, and how to plan for unforeseen circumstances and for retirement. Financial education should provide an individual with the knowledge, proficiency and skills base necessary to become a questioning and informed consumer of financial services, and to manage their finances effectively and make informed choices. The concern is that too many young people leave school with limited financial knowledge and understanding, and so are ill-equipped to cope with the complex financial decisions and choices with which they are faced in the 'real world'.

In 1999, the American Savings Education Council surveyed 1,000 students aged between 16 and 22 about financial education. This survey included questions that covered the students' views, attitudes and behaviour. The students reported that they felt confident about understanding saving, investing, credit, budgeting, and basic financial knowledge. Unfortunately their behaviour and attitudes did not reflect this. The students who had taken a class in financial education considered they were more knowledgeable about finances, but the survey results showed that they were no more likely to think that it was important to save on a regular basis than the students who had not participated in a class. In addition, the students were no more likely to budget income or compare prices before buying. Over 90 percent of the students reported that they received their financial education from family and friends rather than from school (Lucey and Giannangelo, 2006).

Parents are children's primary role models when it comes to shaping their financial knowledge and behaviour (Hilgert, Hogarth and Beverly, 2003; Morton, 2005). This method is not useful, however, if parents are also lacking financial knowledge and share unreliable financial information. In 2001, the American Savings Education Council undertook a survey that looked at whether or not parents were

good role models and teachers of money management. Only a quarter of the parents surveyed considered they were very effective when it came to providing their children with financial guidance. The survey findings confirmed that “parents do not appear to be adequately prepared to be teachers and role models to their children with respect to financial matters” (American Savings Education Council, 2001:13).

Parent-child interactions about the financial situation of the family are likely to play a substantial role in a child’s first experiences of money (Kempson, Bryson and Rowlingson, 1994). Children learn from an early age that money is an important consideration for their families. By accompanying parents when shopping, children witness financial transactions and begin to participate by indicating the products they would like. Children also hear and participate in family discussions and decisions around money and purchases (Cohen and Xiao, 1992). These early experiences with money can allow children to test and revise their financial skills.

Ward (1974) used the term ‘consumer socialisation’ to refer to a child’s financial learning process. Ward (1974:2) defined consumer socialisation as “the process by which young children acquire skills, knowledge and attitudes related to their functions as consumers in the market place”. He compared the child socialisation process to Piaget and Kohlberg’s developmental “function of stages in cognitive organisation between infancy and childhood” (Ward, 1974:6). He also noted the importance of Strauss’ research that observed children may not have immature logical and reasoning processes compared to adults, but may employ processes that are different.

Rodman (1992) argues that children need to hear parents talk positively about money and this, he contends, is sporadic. According to Shropshire and Middleton (1999), discussions about money in low-income families are more likely to be negative and concerned with the family not having enough money. Recent research has suggested that of particular concern are those children growing up in

low-income families whose economic disadvantage is compounded by exclusion from the financial products and services that others take for granted. Children in these families are likely to have no, or limited, opportunities to learn about the mainstream financial world (Pliner, Freedman, Abramovitch and Darke, 1996).

Loumidis and Middleton (2000) found that from an early age, children have quite different levels of exposure to financial matters. Children from low income families know far less about banks and banking services than their middle-income peers. On the other hand, if their family is low-income, children tend to have a much greater awareness of the budgeting techniques used by their parents, and they are very aware that their parents have to pay regular bills. It has been suggested that the process of money management should be taught as soon as children become aware of money, and that giving children money of their own to handle maximises the chance of successful money management in adulthood (Abramovitch, Freedman and Pliner, 1991).

Unfortunately, regardless of income, ethnicity, or other socio-economic factors, children basically do not receive adequate financial education from their parents. This is primarily because parents themselves do not know enough about good financial practice to serve as role models and teachers for their children (Berti and Bombi, 1981). It is widely considered that schools have an important role to play in improving the financial education of young people. The Personal Finance Education Group contends that "schools are unique in having access to, and influence on, all young people across social, economic, ethnic and religious groups" (HM Treasury, 2007:28). Universal access through schools means that all children can gain exposure to financial instruction. There is some evidence that financial knowledge provided via the school system to children is passed on to parents - this is sometimes referred to as the 'trickle' effect of knowledge (Kempson, et al., 1994).

Research suggests that greater financial participation by children may increase the likelihood of financial maturity, financial knowledge, and highly-developed spending patterns as adults (Abramovitch, et al., 1991). Studies have examined the link between financial knowledge and broader financial management skills. For example, one study found a significant correlation between the level of financial knowledge and good financial management practices such as cash flow management, savings, and investing. Individuals who were familiar with financial concepts and products were found to be more likely to balance their cheque book every month, budget for savings, and hold investment accounts (Hilgert, et al., 2003). Likewise, another study on consumer creditworthiness and consumer literacy concluded that financial knowledge is the single best predictor of behaviours, such as budgeting, saving, and shopping sensibly, that translated into positive outcomes on credit agency reports. This study also found that the principal sources of financial knowledge were bad experiences, school instruction, and other education (Courchane and Zorn, 2005).

It is generally agreed that individuals need to be more knowledgeable about their personal finances, and there is a growing consensus that financial education helps to achieve this goal. The question is, what pedagogical methods and approaches can best promote financial knowledge and sound financial decisions? It is important to determine what kinds of financial education are most effective, not only at increasing knowledge, but also at changing financial behaviour.

## **CHAPTER FIVE:**

# **What Are The Best Delivery Methods For Teaching Financial Education?**

While it is relatively easy to discuss the importance and need for financial education, the best methods of putting financial education programmes into practice are far less clear-cut. Of course it is important to develop the appropriate pedagogy and settings to ensure learning. Unfortunately there is no straightforward solution regarding how best to deliver financial education information. Like all forms of education, a one-size-fits-all approach may suit certain segments of the population, but is likely to be inadequate for many others with widely disparate needs and preferences. The perplexing question is, if financial education is to become a space/subject in the school curriculum, where is the space to be created or taken away from?

To date priority has been given to teaching financial education by incorporating personal finance topics into several disciplines. Interdisciplinary curriculum has been defined as “a knowledge view and curricular approach that consciously applies methodology and language from more than one discipline to examine a central theme, issue, problem, topic, or experience” (Jacobs, 1989:8). It has been argued that complex issues requiring multiple types of knowledge cannot be addressed within one discipline alone. In reviewing research on an integrated, interdisciplinary curriculum, Lipson, Valencia, Wixson and Peters (1993) found that such curriculum helps students apply skills. They also noted that an integrated knowledge base leads to faster retrieval of information, and an integrated curriculum encourages depth and breadth in learning.

Personal finance is considered to be a good example of an interdisciplinary subject that is connected to real life and requires students to develop and apply

competencies in English (writing a financial plan), mathematics (calculating the impact of compound interest), social studies (learning about economic systems), economics (learning about economic concepts), and consumer education (learning to make wise purchase decisions). Evidence suggests that children learn best about money when the classroom environment allows for meaningful practical activities that are linked to the outside world (Fanelli and Tracy, 1995). Using real life financial problems that individuals face on a daily basis, and then applying a systematic problem-solving approach to these problems, is thought to provide meaning and relevance to a student's financial education experiences. Curricula that foster critical thinking and analysis and use simulation, case studies, and other interactive techniques have the greatest success in fostering awareness and promoting improved understanding of financial principles (Lipson, et al., 1993). Examples include mathematics, economics, and social studies.

There are clearly opportunities within mathematics to use personal finance as a context for the development of key concepts. Financial education provides a rich context for interdisciplinary mathematics instruction, affording teachers the opportunity to teach mathematics skills using real world experiences students encounter on a daily basis - for example, on the choices we make in a world where we can't have everything we want and the consequences of those choices, or basic personal finance principles of money management - earning, spending, credit, saving, and investing (Mandell, 2005). According to Saul (1997), learning about money has the potential to improve a student's understanding and appreciation of the usefulness of mathematics because it connects with the real world, and as students learn so their confidence in everyday mathematics develops.

In 2002, the National Council on Economic Education published *Mathematics and Economics: Connections for Life, Grades 6-8*. This curriculum was designed to integrate the teaching of mathematics content and skills within the context of economics lessons. Unfortunately, to date, there is relatively little empirical

evidence regarding the efficacy of this type of integration on student learning in mathematics or economics (Watts, 2004). Studies investigating integrated approaches have focused on mathematics and science, and science and reading (Guthrie, Schafer, Von Secker and Alban, 2000). According to VanFossen (2003), such studies provide only anecdotal evidence as to their effectiveness and impact on student learning outcomes. He contends that although it is often argued that the use of real world contexts, such as economics and personal finance, can enhance economic understanding and mathematics application, no study of such an interdisciplinary approach has been conducted and empirical research is urgently required in order to support these assumptions (VanFossen, 2003).

Watts (2004) points out that “we [economic educators] should be careful and modest in what we claim to know from research on economic education, especially at the pre-college level, especially in making claims about effective teaching methods and curriculum reforms”. He issues this cautionary warning due to the lack of available empirical research to support claims regarding effective teaching methods and curriculum reforms in financial education. A number of studies have demonstrated that the students of teachers with appropriate economic content knowledge, who use high-quality economic education materials, learn economics. We do not know what methods of instruction might be better than others or whether integrated approaches produce improved results (DiSpalatro, 2000).

Incorporating financial education into other subject areas results in what is perceived by some to be a limited exposure to personal finance, often referred to as ‘spot coverage’. Although some piecemeal financial education may be better than nothing, it is considered that it cannot substitute for the logical, sequential, in-depth, and comprehensive focus of a personal financial education curriculum. A number of studies suggest that financial education should be integrated into existing subjects such as maths, social studies, and English at primary and intermediate levels, and as a stand-alone course at the secondary school level (US Department of the Treasury, 2002). Ideally a financial education programme

would be taught during the first three years of high school as some students leave school after this period.

Although research evidence is meagre, some studies have attempted to examine the impact of providing financial education at stages when an individual is about to make a specific financial decision (referred to as a 'teachable moment'). Since experience seems to be an important component of education, linking financial learning to teachable moments might well do the most to increase knowledge and improve the quality of financial decisions (Lerman and Bell, 2006). Other research has emphasised behavioural strategies, especially at major decision points (Sonnenberg, 1999).

Brophy and Alleman (1992) claim that a curriculum should not separate skills and knowledge. They argue that the purpose of the curriculum should be to engage students in higher order thinking so that they can develop understandings that can be applied to life outside the classroom. In developing a set of criteria to be used in designing what they describe as an 'ideal curricula', Brophy and Alleman (1992) propose that curriculum development should be driven by significant long-term goals, rather than content coverage lists. Content should be organised into networks around important ideas, and any teaching of these ideas should be aimed at understanding and application to life outside the classroom.

The manner in which financial education material is delivered is a significant factor. Early educators, such as John Dewey, emphasised the importance of learning by doing, arguing that teaching should not be isolated from real life experience (Harris, Denise and Thomas, 1989). Individuals tend to learn more when they believe the material is relevant to their lives and when they are able to practice what they learn. According to Mandell (2005), personal finance is taught most effectively to high school students if it is both interactive and relevant. It is important that students are active participants in financial education, rather than passive. Research suggests that the most effective financial education

programmes are those that are delivered in person (Bayer, Bernheim and Scholz, 1996). According to Zollo (2004), young people are demanding that more messages be directed toward them. Therefore materials need to be immediately engaging, as well as lifestyle-relevant, or they will be dismissed.

Educators need to take into consideration that adolescents are naturally more interested in learning about the financial issues they perceive as salient in their lives at that particular time. Topic choices should therefore carefully reflect the students' current concerns and motivations. A car, for example, is an asset most high school students would like and might buy in the near future. Class lessons could deal with making decisions about the purchasing, financing, and maintenance of a vehicle, including both the benefits and the costs of car ownership, the advisability of financing the car purchase with credit, and why credit might make sense for a car purchase but not for basic living expenses. The teaching approach would involve a great deal of hands-on learning and would raise financial topics partly as a means to personal goals. Undertaking such an approach would require programmes that simplify financial concepts and make them apply to real-life situations.

Unfortunately relevant financial education issues are often embedded in long lists of desirable financial concepts that include abstract topics quite distant from students' lives. A focused approach on a limited number of highly relevant topics concentrating on real-life experiences has been shown to be more effective (Bayer, et al., 1996). Instruction should consider a variety of key transition points, such as moving out of a parent's home, taking a student loan, obtaining a small business loan, and starting a job and facing options for superannuation and health insurance. Ideally, programmes should identify the most important issues that arise at various decision points and help students avoid mistakes and missed opportunities. A judicious approach to financial education must delineate which skills are necessary for students to master, which provide a framework for students to engage in continuous learning, and which require financial specialists.

(A limited number of teachers are well qualified to teach financial topics to students. The need to ensure that teachers are properly prepared and that what they teach is properly vetted and sensibly limited to important, accessible topics should not be underestimated.)

One extension beyond educating people at decision points is to link education with steps that deal directly with behaviour. Being able to act on what was just learned increases the chances of improved financial behaviour. Research suggests that appropriate direct experience complements classroom teaching in a way that develops understanding in students. For example, it has been shown that students understand consumer relationships before they understand production because they have more personal experience with the former (Furnham, 1996). According to Pliner, et al. (1996), children who are given pocket money learn how to handle money more responsibly, and are more advanced money managers. Similarly, managing a savings account may contribute to a child's ability to understand concepts related to saving and investment.

Partnerships between schools and financial institutions are not a new concept. According to Cruce (2002), the origins of school-based banking programmes lie in early savings banks and post office banks. In descriptions of children's banking programmes in the past, including programmes in Europe as early as 1810, the language used suggests that the principal goals were to "instil moral rectitude and discipline, and reduce pauperism and dependence on relief by poor households" (Cruce, 2001:8). This is illustrated by educator Melvin Bowman's writing in 1922: "[School-based savings] forms habits of self-denial, industry, thoughtfulness, frugality, prudence, economy and thrift. It tends to prevent pauperism, crime, prodigality, and various vices, and to make the children thrifty, orderly, economical, and discriminating in the use of money. It is a great factor in building character and in preparing children for their future duties as citizens and homemakers. Good habits and good accounts are desirable assets" (cited in Cruce, 2001:12).

School banking programmes continued to grow through the 1970s, thereafter declining largely because of the increasing costs to banks of handling small deposits (Cruce, 2002). These early programmes made saving for the small saver accessible. Several factors contributed to accessibility, including some of the guidelines that Bowman outlined in his 1922 *12 Principles for the Success of a School Savings Bank*. He considered that programmes should operate “like a real bank, deposit money immediately and draw interest, distribute passbooks that provide students standing at the bank and cause them to have a much greater interest in their savings, make withdrawals difficult but not impossible, make children feel at home at the bank, be co-ordinated with the regular school subjects in teaching thrift, and provide protection for the funds” (Cruce, 2002:18).

School-based banking programmes have regained popularity as concern about financial literacy has grown (Cruce, 2002). Such programmes aim to generate enthusiasm for financial education, to motivate greater saving among students, and to build a savings account. Credit unions, in particular, have been successfully establishing banking-at-school programmes. School banking programmes vary by target population, type of financial education, and account design. For example, in the United States, the Illinois State Treasury Office instituted a Bank at School programme that serves over 200,000 students and whose goals include encouraging students to develop the habit of saving for the future (Scanlon and Adams, 2005). Others are motivated more by the idea that disadvantaged children should have access to the same secure savings instruments and opportunities to accumulate assets as other sectors of the population (Pliner, et al., 1996).

Beginning at primary school or earlier, the banking-at-school programme offers children the opportunity to build financial knowledge and skills through financial education. The programme creates a savings product for students that could make financial education relevant, affording a way for them to apply financial concepts through owning a savings account, while increasing familiarity with

financial institutions. One can imagine a policy where all children entering school would open a savings account and begin to receive age-appropriate financial education. Research suggests that the use of mainstream banking services contribute to positive financial behaviour and that negative financial behaviour increases when mainstream banking is not used (National Endowment for Financial Education, 2004). Research also suggests that people who have access to institutionalised mechanisms of saving “are likely to have higher saving rates than those who lack such access” (Sherraden, Johnson, Elliott, Porterfield and Rainford, 2006:12). A Luntz-Webber/Merrill Lynch survey found that individuals introduced to financial education and decision-making skills as children had more effectual financial habits as adults. Results demonstrated, for example, that children who received pocket money or operated a bank account saved 36 percent more and 108 percent more of their income, respectively, as adults (Kotlikoff and Bernheim, 2001).

There are opportunities for partnerships in the delivery of financial education. In particular, this has been illustrated by the proactive stance of a number of banking institutions. Findings from research suggest some concern about banks having a conflict of interest in the provision of training and of products and services to students (Sherraden, et al., 2006). However, while there may be a question as to the most appropriate role for banking institutions, there is nothing to suggest that banks should not have a role at least as intermediaries.

Ultimately it must be recognised that personal finance concepts are more likely to be taught if they are included in compulsory standardised testing (VanFossen, 2003). Research suggests that high-stakes testing (test scores that have consequences for those being tested and are seen as reflections of instructional quality) leads to changes in curriculum and teaching practices (Kurfman, 1991). As Kurfman (1991) notes, teachers tend to emphasise the disciplines they know will be included on such exams. In the United States, for example, VanFossen (2003) found that intermediate level teachers in Indiana devoted, on average, only

14 minutes per day to social studies topics, but indicated they would devote significantly more time to social studies were it to be tested.

Deciding to offer a financial education programme is but the first step on a long journey toward instilling sound financial education. Educators must make many difficult decisions concerning the fundamental goals of the endeavour, the information to be presented, the students to be targeted, and the means by which the programme's ultimate success can be gauged. Teaching styles and methods must be carefully crafted to suit the students if the programme is to be effective.

## **CHAPTER SIX:**

### **How effective are financial education programmes?**

In recent years financial education resources and programmes have grown rapidly worldwide, with input from the public, private, and non-profit sectors. Although significant progress has been made in promoting the importance of financial education, less has been done to effectively implement programmes and assess their impact on financial knowledge and behaviour. What kind of an impact financial education has and to what degree are often difficult to measure. Researchers and practitioners continue to debate the rigour of various evaluation techniques and the measures to use (Lyons, 2004).

While theory and case studies can assist in designing and developing financial education initiatives, a fundamental challenge remains in assessing the success of a financial education programme. In a number of cases, effectiveness is determined solely by the number of attendees participating in a financial education programme, or by the positive comments of educators (Hogarth, 2002). According to Lyons, Palmer, Jayaratne and Scherpf (2006), the growing field of financial education makes the development of a serious research and evaluation programme all the more important. Internationally there are a considerable number of programmes offering training in financial education. But which are providing the most effective instruction for improving both knowledge and financial decisions?

In order to evaluate the merits of financial education in practice, it is important to understand the link between knowledge and action. In many cases, financial education is only useful to the extent that the knowledge it yields produces positive changes in behaviours (Jacob, Hudson and Bush, 2000).

Hilgert, et al. (2003) analysed the correlation between knowledge (what individuals know) and behaviour (what individuals do), focusing on four financial management activities - cash-flow management, credit management, saving and investment. In order to analyse the knowledge-behaviour link both directly and separately from the effects of education itself, Hilgert, et al. (2003) studied patterns of financial behaviours and identified common characteristics shared by individuals who presented certain behaviours. Using data from the University of Michigan's monthly *Survey of Consumers*, they found that financial knowledge can be statistically linked to financial practices. Multivariate analysis revealed that financial knowledge data were consistently correlated with positive behaviours across all four types of activities. For each type of activity, individuals with the highest financial knowledge scores were the most likely to engage in positive financial behaviours and were the least likely to report poor financial habits. The only other variable that was consistently significant was financial experience - those individuals who had personal experience or had learned a significant amount about financial matters from their family and friends were more likely to follow recommended financial practices, although these effects were smaller than those of financial knowledge.

Therefore, while acknowledging that knowledge is not necessarily the only way to impact behaviour, Hilgert, et al. (2003) identified a significant link between knowledge and behaviour. Their findings indicate that increases in knowledge and experience can lead to improvements in personal financial practices, and that financial education can be useful when it successfully affords new levels of financial knowledge. In addition, they noted that "there is a difference between providing information and providing education" (Hilgert, et al., 203:321). Resources and programmes developed to teach financial education may need to be used with "audience-targeted motivational and educational strategies to elicit the desired behavioural changes in financial management practices" (Hilgert, et al., 203:321).

Some financial education programmes are evaluated for effectiveness through the pre-testing and post-testing of attendees in order to determine changes in their financial knowledge. For example, the National Endowment for Financial Education's High School Financial Planning Programme was evaluated in 1998 and 2004 to assess its impact on adolescents' financial knowledge, behaviour, and ability. Students were asked about their financial management behaviours, financial knowledge, and financial ability before and after studying the financial education curriculum (Danes, Boyce, Huddleston-Casas, Nakamoto and Fisher, 1998; Danes and Haberman, 2004).

In the 1998 study, the post-test results highlighted a significant change in the number of students who had begun to keep track of their expenses. The programme participants also increasingly indicated self-confidence in making decisions about money, reported setting aside money for future purchases, demonstrated improved knowledge of investments, and understood the cost of buying on credit. Responding to a three month follow-up survey, 58 percent of the students said that they had improved their spending habits and 56 percent said that their savings habits had improved as a result of the programme (Danes, et al., 1998).

The 2004 study findings were similar - the students reported significant improvement in their financial knowledge, behaviour, and confidence immediately after completing the programme. Students surveyed three months later showed that the positive impact of the financial education programme continued and even increased over time (Danes and Haberman, 2004). Evaluations of the National Endowment for Financial Education's programme provide cogent evidence of a strong post-programme impact on knowledge and skills, and increased confidence in managing money.

Between 1957 and 1985, 29 states in the United States passed legislation mandating some form of consumer education in secondary schools. In 14 states this enactment required the specific coverage of topics relevant to household financial decision-making, from budgeting, credit management, and balancing cheque books to compound interest and other investment principles (Highsmith, 1989). The goal of the curriculum mandates was to provide students with practical decision-making skills. For example, in the state of Georgia it was noted that “each citizen should have the skills and knowledge to be an informed consumer in order to use available resources in an efficient and beneficial manner” (Bernheim, Garrett and Maki, 2001:437).

Bernheim, et al. (2001) concluded that individuals who had graduated from US high schools in states with compulsory financial education classes were more likely in adulthood to have higher savings rates and a higher net worth as a percentage of income than those who had not attended such classes. In their 1995 study, individuals between the ages of 30 and 49 years were surveyed to determine if participation in a compulsory financial education class at school altered their financial habits as adults. Bernheim, et al. (2001) found that before financial education was mandated, there was no difference in savings rates and net worth across states. However, once compulsory financial education classes were established in several states, a regular and noteworthy divergence in financial behaviour took place. Those adults who had undertaken financial education classes at high school had higher savings rates (1.5 percentage points higher) and a higher net worth as a percentage of income (one full year’s earnings) than those who did not receive financial education. Compared to the overall population, the rate of saving out of income for students exposed to the mandate was 4.75 percent higher; their net-worth-to-earnings ratio was 9 percent higher than that of students who were not exposed.

The results of this study demonstrate that curriculum mandates increase exposure to financial education. In addition, financial knowledge passed on to high school

students may well continue on into later life (Bernheim, et al., 2001). According to Mandell (2004), the conclusions from this research are consistent with the Jump\$tart survey results - financial education, while not modifying financial knowledge, sometimes modifies financial behaviour, even later in life, when the chances to apply this education through experience increase.

Mandell (2004) compared the responses of senior high school students in the United States who had participated in a Jump\$tart financial education programme with those who had not. He analysed 11 questions that directly related to the experiences of senior high school students, such as the use of credit cards, vehicle financing, and higher education expenses. The students' answers were grouped on whether or not they had had direct practical financial experiences. Mandell (2004) found no systematic relationship between programme-related improvements in financial knowledge and financial experience, such as having a credit card, a cheque account, or a car. On some points students with financial experience gained more from the programme than did the overall adolescent population. However, on other examined issues the students showed results that were either inconsistent or mixed. Mandell (2004:9) came to the conclusion that for high school students "relevance by itself is not the answer to improving financial knowledge and/or behaviour".

Mandell (2004) acknowledged that little was known about what was actually taught in the Jump\$tart financial education programme. It is possible that the programme did not address the issues that were covered in the test, or did so ineffectively. Another possibility is that the questions used to judge knowledge could have had varying interpretations. For example, one of the multi-choice answers to the question, "If you had a savings account at a bank, which of the following would be correct concerning the interest that you would earn on this account?" was "Earnings from savings account interest may not be taxed" (Lerman and Bell, 2006:14). This answer was deemed incorrect. As Lerman and Bell (2006:14) point out, "interest earnings for those below the tax threshold (which may be the

case for many students) will go untaxed while earnings from work are taxed from the first dollar". Unfortunately Mandell's study did not investigate whether or not well-run financial education programmes aimed at modifying immediate financial choices and behaviour actually did so.

The value of assessing the success of individual financial education programmes in relation to their original objectives is unquestionably necessary. This plays an important role in determining whether programmes are being correctly designed and targeted to have the intended impacts. According to the United States Consumer Bankers' Association's 2003 *Survey of Bank-Sponsored Financial Literacy Programmes*, 43 percent of financial institutions offering public school financial education did not measure the effectiveness of their programmes. Most of those that did seek to gauge their programme's success based evaluations on the number of qualified customers produced, understandably focusing on the business opportunities created for the banking industry. Many other banks based their assessments simply on the number of participants (Lucey and Giannangelo, 2006). Due to the constraints many organisations face when attempting to evaluate their own efforts, ongoing independent research continues to be an essential tool to help inform financial educators and shape future financial education initiatives.

## **CHAPTER SEVEN:**

### **International Experiences**

The Organisation for Economic Co-operation and Development (OECD) defines financial education as “the process by which financial consumers/investors improve their understanding of financial products and concepts and, through information, instruction, and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being” (OECD, 2005:4).

During the last decade, the OECD has identified a number of changing economic conditions, along with an associated need for increased financial literacy. For example, with the reduction in benefits of government-supported superannuation programmes, increasing numbers of people will have to rely on personal savings and private schemes to fund their retirement. Therefore there is an escalating need for people to develop the skills necessary to plan and support their retirement. Such issues prompted the OECD in 2003 to undertake the first major international study of financial education. The principal goals of the project were to raise awareness of the importance of financial education in OECD and developing economies, to survey programmes and initiatives in the financial education field and assess their effectiveness, and to develop recommendations and best practises in order to help governments worldwide promote good financial education programmes (OECD, 2005).

The first phase of the project included a stocktake of existing programmes and the development of a methodology for policymakers to compare strategies and programmes. This stocktake enabled the development of a framework that could be used across countries to identify levels of financial literacy and to determine what resources were needed to educate populations to base competency levels.

According to the OECD (2005), worldwide financial literacy levels are inadequate, especially for the less-educated and low-income populations. Results from this study showed that countries are becoming increasingly aware of the importance of financial education and are providing a variety of programmes, ranging from websites to the distribution of brochures, to offering training courses or conducting media campaigns. It noted, however, that few programmes had been sufficiently evaluated (OECD, 2005).

In adopting a set of recommendations on principles and good practices in 2005, the OECD Council outlined a role for governments, financial regulators and financial institutions in promoting and delivering objective, non-product-related financial education. The OECD recommended financial education programmes suited to the needs, circumstances and financial literacy levels of particular population sub-groups, as well as the appropriate education and competence of teachers (HM Treasury, 2007).

Individuals are generally more confident about their knowledge than their actual knowledge would in reality attest. This may be because people 'don't know what they don't know', and are unaware of how their lack of knowledge may be costing them money or opportunities. For example, a 2003 German survey conducted by Commerzbank AG found that 80 percent of respondents were confident in their understanding of financial issues, but only 42 percent were able to answer half of the survey questions correctly (OECD, 2005). Similar results have occurred in the United States, the United Kingdom and Australia. An individual's over-confidence regarding their financial knowledge may work as a deterrent in their seeking out advice. Such data illustrates the necessity to educate individuals to recognise the limits of their information and the need to learn more.

The G8 International Conference on Improving Financial Literacy, co-organised by the Russian G8 Presidency and Minister of Finance of the Russian Federation and the OECD, was convened in Moscow in November 2006. The conference brought

together a broad range of government officials, representatives of international organisations and financial institutions, as well as business representatives, with the aim of establishing a mutual understanding of the challenges in the financial education field. The principal goal of this conference was to highlight the importance of financial education and to examine countries' experiences, progress and good practices (HM Treasury, 2007).

Conference delegates agreed that the co-ordination of efforts by Ministries of Finance, Economy and Education, Central Banks, and special agencies were important for the establishment of an efficient national system of financial education. The role of governments in promoting financial education and providing consumer protection was seen as critical, and needed to be developed in close partnership with other stakeholders, especially with private sector and financial institutions. It was also considered necessary to develop an international methodology that would enable the regular evaluation of financial education levels and the effectiveness of existing programmes. The conference concluded that the next step to be taken to improve financial education levels involved each country developing an individual strategy, based on best practices, at the government level (HM Treasury, 2007).

While governments and organisations internationally have approached financial education in different ways, there are a number of recurring themes. These include a move from general to more targeted programmes aimed at different groups in society; an increasing focus on young people, particularly school students; and the emergence of nationally co-ordinated approaches to developing and delivering programmes, often through a co-ordinating body.

## **(i) The United States**

A survey conducted in the United States by FleetBoston in 2003 found that only 27 percent of participants thought they were well informed about managing their household finances, and fewer than half considered they were good role models in relation to spending and saving for their children (Mandell, 2004). In a 2004 survey examining adults' knowledge of personal financial basics, Bankrate.com noted that the average adult in the United States received a 'D' grade when answering questions on basic financial knowledge and good financial behaviour. In many situations, survey participants knew what they should be doing, such as building an emergency savings fund or transferring credit card debt to lower interest cards. However, a significant number failed to take the appropriate actions. For example, while 61 percent of respondents said it was important to comparison shop when purchasing insurance, only 39 percent actually undertook this task. The general disconnection of knowing what to do and the reality of actually doing it, illustrates how individuals do not realise their need for financial education (Lucey and Giannangelo, 2006).

A Visa USA 2004 survey found that 56 percent of parents considered that high school graduates were totally unprepared to manage their personal finances responsibly (US Department of the Treasury, 2006). Another survey was administered by Americans for Consumer Education and Competition, a consumer education organisation endeavouring to improve the financial literacy of American adolescents. Results from its 2001 national survey of 800 senior high school students, entitled *America's Money Skills Report Card*, revealed that two-thirds of the students considered that financial issues did not substantially impact on their lives. Only 32 percent of the students indicated that their parents regularly talked to them about financial issues. The average student answered only 37 percent of questions correctly; revealing disturbingly low levels of financial knowledge and that few of the students received a passing grade (Hilgert, et al., 2003).

Greenspan (2002) identified financial education programmes at the primary and secondary school levels as necessary resources, critical to an individual's successful management of personal finances, and instrumental in giving them the tools with which to make educated choices between the financial products available to them.

As financial education has become an increasingly important priority, the Federal Government has strengthened its efforts to co-ordinate financial education projects and disseminate financial information. In 2002 the United States Treasury Department established the Office of Financial Education to co-ordinate efforts by the Federal Government to improve the financial literacy of all citizens. An important recommendation emanating from the Office of Financial Education was the acknowledgement that financial education needed to be integrated into school curricula (US Department of Treasury, 2002).

In recognition of the growing need for a more financially-literate population, the Financial Literacy and Education Commission was established in 2003 through the passage of the Financial Literacy and Education Improvement Act. Developed from a recommendation in the Fair and Accurate Credit Transactions Act (referred to as the FACT Act), the Treasury-led Commission is made up of representatives from approximately 20 different government agencies with an interest in financial education, including the Federal Reserve, the Department of Education, the Treasury Department, the Social Security Administration, and the Department of Health and Human Services. The Commission is responsible for encouraging and advancing public, private and non-profit sector efforts to promote financial education, co-ordinating the federal government's financial education efforts, identifying and promoting best practices, developing a national financial education strategy, and producing financial education resources (US Department of the Treasury, 2006).

The Financial Literacy and Education Commission's national strategy was released in 2006. This report detailed why financial education was required and what resources were currently available in the public, private and non-profit sectors. It provided a number of recommendations for the advancement of financial education. For example, the need for a joint Treasury and Department of Education summit on integrating financial education into the school curriculum was identified, together with the teacher training requirements for such an integration. The report also documented the need for a symposium to examine existing financial education research and to determine future research requirements (US Department of the Treasury, 2006).

The 'No Child Left Behind' legislation included the Excellence in Economic Education Act, with objectives to increase student and teacher understanding of financial issues, promote research on effective financial education teaching methods, measure the impact of financial education, and develop teaching resources. In 2002 almost \$400 million was authorised for innovative local education programmes, including financial education, but in the first year very little of this money was actually used for financial education (National Council on Economic Education, 2005).

Private sector organisations such as the National Council on Economic Education, the Jump\$tart Coalition, and the National Endowment for Financial Education have been leaders in calling for financial education, developing voluntary national standards and curricula for financial education, as well as instruments that assess young people's financial literacy.

The Jump\$tart Coalition for Personal Financial Literacy, a highly visible Washington DC-based non-profit organisation that seeks to improve the financial literacy of students from kindergarten through to college, was established in 1995. The role of the Jump\$tart Coalition is to evaluate the financial literacy education of students, and to support the development and promulgation of financial education

standards and resources. Jump\$start has developed standards to guide the advancement and implementation of financial education initiatives.

Through its biennial national survey of senior high school students' financial education levels, the Jump\$start Coalition has contributed important research-based data to the financial education movement. Unfortunately student performance on these multiple-choice tests has been less than impressive. The average score reported in the 2006 survey was 52.4 percent, up from the low of 50.2 percent in 2002, but below the 1998 score of 57.3 percent (US Department of the Treasury, 2006). These scores led the Jump\$start Coalition to conclude that schools in the United States needed to improve their teaching of financial education.

Partly in response to the Jump\$start biennial test results, a number of states have passed legislation implementing financial education mandates that require schools to incorporate topics related to budgeting, savings, and credit into their curricula. Coverage, however, is far from universal and the mandates differ widely in their specific requirements. For example, the National Council on Economic Education's biennial survey of states, measuring progress on the implementation of financial education in schools, found that although 38 states had adopted financial education standards, only 23 required explicitly or through required testing that these standards be followed. Nine states required students to be tested in financial education, while seven states had made the completion of a financial education course a requirement for high school graduation (National Council on Economic Education, 2005). Nonetheless, there is evidence that mandates in general can be quite successful in shaping adult practices. In fact, adults who had gone to high schools in states where financial education was mandatory were found to have savings rates that were 1.5 percent higher than those who attended schools in states with no such requirements (Bernheim, et al., 2001).

In 1997-98 an evaluation of the National Endowment for Financial Education's (NEFE) High School Financial Planning Programme looked at the short-term effects of financial education in schools. Some 30 percent of students reported that they began a savings programme after taking part in the NEFE High School Financial Planning Programme. Another 15 percent who were saving before taking part in the education programme began to increase the amount they regularly saved. On average, another 40 percent said they had gained skills for tracking spending, were more informed about the cost of credit, more knowledgeable about investments, and more confident about their money management skills (National Endowment for Financial Education, 2004).

Schools have a wide variety of programmes from which to choose. While some schools offer formal courses during the school day, many school systems rely on special programmes to educate small groups of students on a voluntary basis as an extra curricular activity. Junior Achievement, a national organisation that reaches over four million students around the country each year, focuses on partnering businesses and educators to provide practical, hands-on training to students from kindergarten through to high school. Other school-based initiatives rely on financial institutions or other corporate sponsors whose volunteers may act as instructors or offer basic banking services to students (Robinson, 2002).

## **(ii) The United Kingdom**

In the United Kingdom, education is a devolved responsibility and is provided differently in England, Wales, Scotland and Northern Ireland. Each country designs its own curriculum, though a national curriculum applies to England and Wales. Financial education is included in school curricula in England, Scotland and Wales. However, the number of hours of instruction and the provision of financial education students receive in practice is uneven, with many teachers lacking the skills and confidence to teach the subject (Atkinson, McKay, Collard and Kempson, 2007).

The 2000 Financial Services and Markets Act set up the Financial Services Authority as an independent financial regulator, with the primary objectives of consumer protection and consumer awareness. As an independent non-governmental body, the Financial Services Authority has the statutory responsibility for the promotion of public understanding of the financial system. One of the Authority's principal aims is to secure the provision of financial education for all young people in school-based education between the ages of five and 19. "In the long term our widely supported priority is to ensure that education for financial literacy is embedded in the education system for all children to help them leave school prepared for the rights and responsibilities of adult life" (Financial Services Authority, 1999:4). Emphasis is placed on working with all students across all school groups, not just focusing on specific ages, abilities or particular needs.

In 2003, the Financial Services Authority launched, in partnership with Government, industry and the voluntary sector, a UK-wide *National Strategy for Financial Capability*. Focusing on seven themes, this strategy sets out a vision of "better informed, educated and more confident citizens, able to take greater responsibility for their financial affairs and play a more active role in the market for financial services" (Financial Services Authority, 2004:12). One of the seven work

streams is the Schools Working Group. In order to achieve a step change in financial education in schools across the United Kingdom, this group's three principal objectives are to raise the profile of, and champion financial education in schools; strengthen the delivery of financial education by assisting teachers with best practice and resources and identifying opportunities in the curriculum for financial education; and provide training and support to teachers to enable them to become more confident in teaching financial education (Financial Services Authority, 2004).

In England, the financial capability framework has been incorporated into the school curriculum. The Department for Education and Skills issued best practice guidelines on how to deliver material in age-appropriate ways to support teachers involved in financial education. This guidance applied to England, but was also adopted by Wales. Providing information on the development of financial capability for children aged from five to 16, the guidelines were developed to assist teachers understand how financial education could have a positive impact on the financial capability young people need for their adult and working lives (Atkinson, et al., 2007).

The Department also provides links to resources to support teaching and learning, and guidance on how to assess progress. Financial capability is not a mandatory component of the curriculum for primary school children, but was made mandatory for secondary level education in 2002. It is currently included in the citizenship and personal social and health education curricula. Specific objectives include teaching students the basics of 'looking after money' and understanding the role of financial services. From 2005, further opportunities for the coverage of financial capability were provided when all secondary schools were required to provide the equivalent of five days enterprise activity for students aged 14 to 19. Financial capability is one of three main elements of enterprise education and its inclusion was intended to equip young people with the financial understanding necessary to

make informed choices as consumers of financial services, as well as manage their own finances effectively (HM Treasury, 2007).

Assistance in the form of curriculum materials and teacher training is provided by the Personal Finance Education Group, a UK educational charitable organisation funded by the Financial Services Authority, educational institutions, business and Government. The Group's mission statement is "for all young people to leave school with the confidence, skills and knowledge they need in financial matters so that they can participate fully in society" (HM Treasury, 2007:28). The Personal Finance Education Group offers a Quality Mark for recommended financial capability teaching resources, which is supported by government curriculum bodies. The quality assurance mark confirms that resources are effective classroom materials and that they are accurate, current, and appropriate for teaching financial education. The Personal Finance Education Group's principal project, *Excellence and Access*, aims to raise the confidence and competence of teachers involved in teaching financial education. The project has developed good practice guidelines, case studies, support material, and seminars (Financial Services Authority, 2004).

The Financial Services Authority's *National Strategy for Financial Capability* includes the *Learning Money Matters* programme, run in partnership with the Personal Finance Education Group. The goal is to assist teachers to feel more confident about teaching financial education by affording support through the provision of lesson plans, class materials, tools and training on including financial education in subjects such as mathematics, citizenship, personal social and health education, enterprise, and business studies. The goal is to reach 1.8 million children in 4,000 secondary schools, giving them an insight into their likely financial needs as they move into adult life (Financial Services Authority, 2004).

In Scotland, education is the responsibility of the Scottish Executive Education Department (SEED). Learning and Teaching Scotland is a national body,

sponsored by SEED, to review and provide advice about everything relating to the school curriculum. Financial education is part of the curriculum for students aged between five and 18. Guidelines specifying specific education outcomes and ways to connect financial capability education to transferable skills are provided by the Scottish Centre for Financial Education, established by Learning and Teaching Scotland. Copied by many other countries, including New Zealand, *Financial Education in Scottish Schools: A Statement of Position* sets out the four essential and interrelated aspects of financial capability - financial understanding, financial competence, financial responsibility, and financial enterprise. Opportunities for teaching financial education across the curriculum in Scottish schools have been identified in both core (mathematics, personal and social education, English) and optional subjects (geography, modern studies, business management, social and vocational skills) (Scottish Consultative Council on the Curriculum, 1999).

To establish a baseline for measuring changes in financial capability, the Financial Services Authority commissioned a large-scale survey to determine how well people make ends meet, keep track of their finances, plan ahead, choose financial products, and stay informed about financial issues. The survey indicated that 18 to 25-year-olds were markedly poor at planning ahead and choosing financial products. The survey identified younger people, the unbanked, those with low levels of educational attainment, and those living in social housing as less capable across the board or who had a significant weakness in one area (Financial Services Authority, 2006).

Research was also undertaken into the existing provision of financial education within UK schools. This study found that while 48 percent of primary schools and 91 percent of secondary schools were delivering some form of financial education, in over 70 percent of cases it was in the form of occasional lessons, usually happening once or twice a term or less. Only a quarter of schools delivering financial education monitored its impact (HM Treasury, 2007).

Fifty-three percent of secondary and 34 percent of primary schools considered it a very or fairly high priority to teach financial education. The primary reason given for not teaching financial education was lack of time in the curriculum. The study showed that financial education was most commonly taught in mathematics and personal social and health education lessons in primary schools. Some secondary schools included it in optional subjects at key stage 4 (year groups 14-16). For example, around half of secondary schools covered the subject within business studies. Forty-seven percent of primary and 68 percent of secondary schools indicated that they wanted more support in teaching financial education, in the form of materials, more advice from Government and training (HM Treasury, 2007).

Together with the development of other indicators to measure progress, the Financial Services Authority intends to repeat its baseline survey by 2010. Such measures will provide useful data to determine the impact of the current programme of projects being used to deliver a step change in levels of financial capability across the United Kingdom (Financial Services Authority, 2006).

The importance of financial capability as a broad life skill means that it supports and enables a wide range of Government objectives and policies. In 2003, the Government published a green paper entitled *Every Child Matters*. This paper was published alongside the formal response to the report into the death of a young child who had been abused, tortured and eventually killed by her caregivers. Following consultation, the Government published *Every Child Matters: The Next Steps*, and passed the Children Act 2004, providing legislation for the development of more effective and accessible services focused around the needs of children, young people and families. The *Every Child Matters* agenda recognises the importance of all children's services contributing to five broad outcomes, including "achieving social and economic well-being" (Financial Services Authority, 2004:14). It is considered that building financial capability will support economic well-being by encouraging children and young people to engage

with money and build financial and enterprise skills, and through helping parents to manage their money effectively.

The universal Child Trust Fund, an endowment paid at birth to all children in the United Kingdom, was introduced in 2005 as a long-term savings and investment account for children. The account belongs to the individual child and cannot be used until they reach the age of 18. The Fund was designed to strengthen the savings habit of future generations and to ensure that at age 18 every young person would have access to a financial asset. Children born on or after 1 September 2002 receive a £250 voucher from the Government to start their account. In September 2009, the first Child Trust Fund children reach age seven and will receive additional Government payments. In 2018 they will take control of their accounts, managing the investments within them, and by 2020 these first accounts will mature, allowing holders access to their funds (HM Treasury, 2007).

The Child Trust Fund creates an opportunity and an impetus for financial education, both at school and at home. From its inception, the Government has consistently acknowledged that the Fund would afford a focus for financial education in schools, providing a practical and real-life example as a context within which to teach financial skills to enable young people to manage their own Fund accounts at age 16 and to make well-informed decisions about their finances throughout their lives.

To date, over 2.5 million Child Trust Fund accounts have been activated and approximately three-quarters of parents are using their child's voucher to open a savings account (HM Treasury, 2007). To ensure that parents understand the choices available to them, the Government continues to run advertising and provide information to new parents, for example through the Child Trust Fund Week, to further raise awareness and participation among parents and families.

The Government has set out its long-term approach to financial capability in a consultation document (HM Treasury, 2007). The focus of this approach is the Government's commitment to ensuring individuals play a more active role in the financial services market. Recognising that "regulation may protect consumers from making some bad decisions, but it cannot empower them to make good ones", the document emphasises the Government's role in 'demand side' initiatives as well as in promoting 'supply side' reforms (HM Treasury, 2007:19). The consultation document identifies significant benefits from improved financial capability for individuals, the financial services industry and the economy, including lower levels of debt, increased savings and more appropriate use of financial products, reduced welfare dependency, and a more efficient, innovative and competitive financial services market (HM Treasury, 2007).

While the consultation document notes the progress made in a number of areas under the Financial Services Authority's *National Strategy for Financial Capability*, including the promotion of financial education in schools and schemes working with young people, it sets out a more active role for the Government in the future. "The Government's aim is to contribute to a substantial increase in measured levels of financial capability across the population in the next 10 to 20 years, taking account of long-term challenges and opportunities, and using available evidence to help determine priorities" (HM Treasury, 2007:41). The document identifies a number of policy developments that will provide opportunities to promote financial capability, as well as highlighting a number of areas where the Government can take action to "accelerate the pace of change and to use fully the levers it has to achieve higher levels of financial capability" (HM Treasury, 2007:41). The Government aims to build on recent work to increase the teaching of financial education in schools by producing new guidelines for schools on incorporating the Child Trust Fund as a context for teaching financial capability. The Government will also improve the adequacy of support and resources available for primary schools in time for the introduction of additional Child Trust Fund payments to seven-year-olds in 2009, and consult on the Qualification and Curriculum

Authority's (responsible for curriculum content and accreditation) proposals for including financial capability within the national curriculum. The Government will also explore options for giving personal social and health education teachers more support to teach financial education. As part of the reforms to education for the 14-19 age group, financial education will be taught more explicitly in the curriculum by including it in the new functional mathematics component of the General Certificate of Secondary Education (GCSE) mathematics (HM Treasury, 2007).

There are an increasing number of qualifications in financial education at GCSE, AS and A level-equivalent levels. These attract Universities and Colleges Admissions Service (UCAS) points, making them an option for students wanting to go on to higher education. In order to encourage more schools to provide these qualifications, from 2007-08 the Learning and Skills Council will fund these courses (HM Treasury, 2007).

Noting the link between financial capability and a wide range of Government objectives, and the importance therefore of working across departmental boundaries to establish common goals for improving financial capability and to enable faster progress to be made, the consultation document sets out plans to establish a new ministerial group to review a range of policies and programmes. The group will be chaired by the Economic Secretary to the Treasury and will include representatives from the Departments of Education and Skills, Work and Pensions, Trade and Industry, Communities and Local Government, and the Cabinet Office. The ministerial group will work alongside the Financial Services Authority's Financial Capability Steering Group. It's work, as well as that of the feasibility study on generic financial advice and responses to the *Financial Capability: The Government's Long-Term Approach* consultation document, will feed into a new financial capability action plan that will be published by the end of 2007 (HM Treasury, 2007).

### **(iii) Australia**

Roy Morgan Research (2003), on behalf of the ANZ Bank, undertook the first national survey of adult financial literacy in Australia. The principal objectives of the survey were to establish benchmarks for the ongoing measurement of financial literacy across the adult population, to identify sections of the population where there were low levels of financial knowledge, and to determine what aspects of financial services were of the greatest concern for individuals. The survey of 3,500 randomly chosen respondents aged 18 years and over evaluated understanding of topics ranging from investment decisions, retirement planning and financial records, to basic mathematics. In the Financial Terms section of the survey, 67 percent of respondents indicated that they understood the concept of compound interest, but when they were asked to solve an actual problem using the concept only 28 percent were rated as having a 'good level' of comprehension.

One of the unequivocal facts emerging from this study was the negative correlation between financial literacy and socio-economic status. Those with low levels of financial literacy also had low education and income. Another relevant factor related to age, with 18 to 24-year-olds showing lower levels of financial literacy (Roy Morgan Research, 2003). This age factor was also recognised in the Australian Law Reform Commission's 1997 *Seen and Heard* study, which found that young people were ill-informed about a wide range of services (Beal and Delpachitra, 2003).

Following the publication of the ANZ Bank's *Survey of Adult Financial Literacy in Australia*, the consumer protection regulator for financial services in Australia, the Australian Securities and Investments Commission, developed the *Consumer Education Strategy for 2001-04*. One of the key projects identified in this strategy was the need to encourage and facilitate financial education in schools. The long-term aim of the project was to have every student leave school with the necessary basic skills in financial matters to become confident and informed consumers in

their work and personal life (Australian Securities and Investments Commission, 2003).

To achieve this goal, the Commission highlighted the need to assist in enhancing and building on existing financial educational programmes in schools; to organise up-to-date, relevant and stimulating teacher resources to support the teaching of financial education; to develop a co-ordinated approach to the supply and sharing of information on financial education for teachers across Australia; and to promote teacher training and professional development courses to support the effective teaching of financial education (Australian Securities and Investments Commission, 2003). To provide strategic advice and feedback on the financial education in schools project, the Australian Securities and Investments Commission brought together an advisory committee of representatives from the education sector, including members from the Departments of Education, professional teacher associations, Parents' Council, and the Association of Principals.

In 2004 the Commonwealth Government established a high-level Consumer and Financial Literacy Taskforce to conduct a preliminary stocktake of consumer information initiatives, with a focus on current financial education activities, and to provide recommendations on a possible national strategy. The Taskforce's *Australian Consumers and Money Stocktake* found over 700 initiatives underway by public, private and community sector bodies. Unfortunately a large amount of the material being produced was either not known, not properly targeted or not used by Australians. In looking at solutions to these problems, the Taskforce drew on international research and expertise to determine what worked well in other countries.

In conjunction with the Taskforce, the Australian Government established the Financial Literacy Foundation in 2005. Providing a national focus for financial education issues, the Foundation works in partnership with government, industry

and community organisations. The Foundation's national strategy comprises a nationwide information campaign, a website, education programmes, and researching and benchmarking financial education standards. Its Advisory Board is responsible for contributing independent and strategic guidance on financial education issues.

One of the Taskforce's key recommendations was the establishment of a national financial education body to assist with the formulation of a nationwide strategy for improving financial education. A working group was established by the Ministerial Council on Education, Employment, Training and Youth Affairs. Consisting of representatives from all federal, state and territory education departments and consumer affairs agencies, together with the Financial Literacy Foundation, the working group developed the *National Consumer and Financial Literacy Framework*.

Based on guidelines from the model developed by the Scottish Centre for Financial Education, the Framework incorporates four inter-related dimensions of consumer and financial education - knowledge and understanding, competence, enterprise, and responsibility. The *National Consumer and Financial Literacy Framework*, endorsed by the Australian Education Systems Officials Committee on 4 November 2005, identifies national standards (via learning statements) for Years 3, 5, 7 and 9. Through this framework, all students will have access to financial education in their compulsory years at school, with the Federal Government mandating that school systems must deliver outcomes of the framework to students in Years 3, 5, 7 and 9 by 2008. Through its description of the essential knowledge, skills, understandings and values, the Framework is intended to assist schools to determine how best to integrate financial education into the school curriculum by 2008. It also provides guidance on teacher requirements to ensure time is set aside for planning teaching, learning and assessment strategies, evaluating resources, and attending the necessary

professional development courses (Ministerial Council on Education, Employment, Training and Youth Affairs, 2005).

The task of formalising financial education into the school curriculum has resulted in a number of new resources. One of the most interesting is a one hour in-school production entitled *Centsational Harry and the Balance of Life*, which makes use of theatrical tools such as circus, song, dance, mime, percussion, comedy and poignancy, to tell the story of Harry, a colourful Australian character, as he attempts to purchase a rare commodity to save the lives of his two new friends. In order to succeed, Harry must make responsible use of his mobile phone, balance a budget, distinguish wants from needs, and set financial goals. The play, performed by a cast of three professional actors, is designed to both entertain and inform students about the concepts and challenges involved in managing money. It is considered that a dramatic narrative is a useful way for students to learn because it educates through multiple senses, as well as creating emotional involvement.

## **CHAPTER EIGHT:**

### **Financial Education In New Zealand Schools**

In the mid-1990s, the United States and the United Kingdom began to invest substantial amounts of money and effort into research and the development of policy, curriculum, resources, programmes and professional development for financial education in schools (Fox, Bartholomae and Lee, 2005; Lyons, et al., 2006). In comparison, the policy and fiscal support for financial education in New Zealand schools has been weak and fragmented. Financial education is currently not a compulsory part of the school curriculum in New Zealand. Some components of financial education are taught in different subjects in both primary and secondary schools, but according to Feslier (2006:9) “this is not structured and is more by chance than through planning”.

Supported by a growing body of research from universities and associated institutions, the United Kingdom and the United States have taken a wide range of steps at government, institutional and business levels to address identified shortcomings in financial education. Only a very minimal amount of comprehensive work on financial education has been completed to fully assess or address this problem in New Zealand.

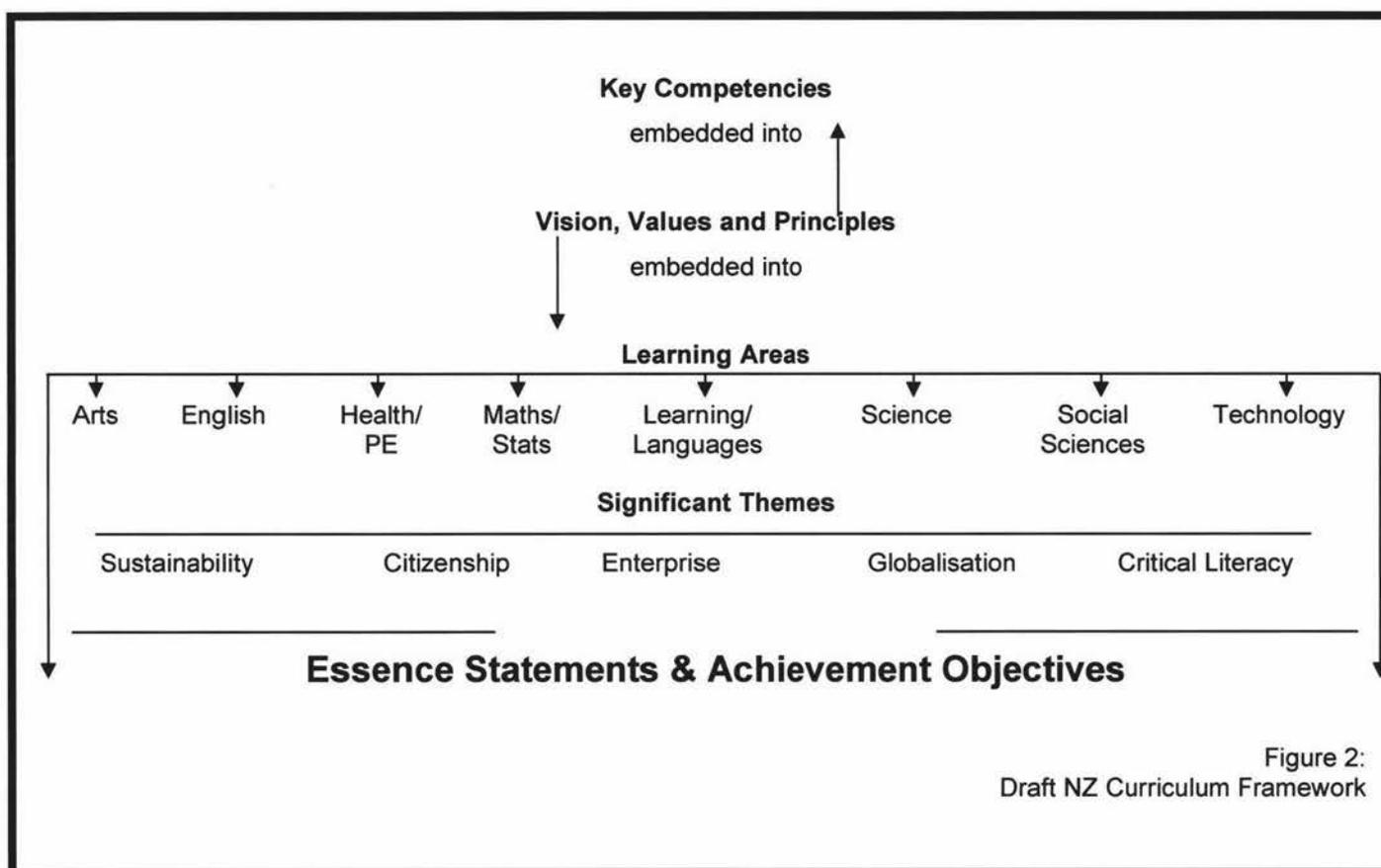
The *New Zealand Curriculum Framework: Te Anga Matauranga o Aotearoa* (1993) is the overarching foundation policy schema used for learning and assessment in all New Zealand schools. It describes the general principles underpinning the curriculum; detailing the essential learning areas (subjects) and national objectives for primary and secondary schooling from Years 1 to 13 (Ministry of Education, 1993). The current framework, developed during the 1990s, is articulated in the form of seven curriculum statements (essential learning areas), each with strands and sub-strands. Each strand represents eight sets of essential skills, each with its own defined achievement objectives, along with the attitudes and values to be

developed and reinforced through the school-based curriculum (Ministry of Education, 1993). For example, the English curriculum statement has three strands - oral language, written language, and visual language. Within these strands are more complex clusters of content and skills (for example, learning to spell and handwrite and use correct grammatical forms). Teachers are expected to monitor the performance of each student against the defined achievement objectives prescribed in the curriculum framework document.

In 2000, the Ministry of Education commenced a stocktake of the New Zealand curriculum. The purpose of the stocktake was to reflect on the changing needs and priorities for future curriculum directions, taking stock of the last decade's developments and their implications for teaching and learning. A report was presented to the Minister of Education in September 2002, and was considered by Cabinet in early 2003. The Government agreed to the establishment of the New Zealand Curriculum Project to address the recommendations in the stocktake report.

The Ministry of Education released the *Draft Curriculum Stocktake Project Report* in 2006. Submissions on the document were called for and the final version of the *New Zealand Curriculum Framework* is due for release in September 2007, for school uptake in 2008. The Curriculum Stocktake Project Report provides analysis of the purpose, quality and appropriateness of the curriculum in New Zealand's contemporary educational, social and economic environment.

The strategic elements of the new Framework contain the vision, values and principles that guide and underpin curriculum decision-making. The classroom-focused components of the Framework encompass significant themes and learning areas, with their associated essence statements and achievement objectives.



Describing the purpose of the curriculum as being to clarify expectations for all New Zealand students and to develop the human capability necessary for a prosperous and inclusive New Zealand society, the proposed vision statement, states: “Education has a vital role to play in helping our young people to reach their individual potential and develop the competencies they will need for further study, work, and lifelong learning. It is by developing these competencies that they are equipped to participate fully in New Zealand society and contribute to the growth of its economy. Education is the key to sustaining our nation’s development and to its successful transformation into a knowledge-based society. Education empowers our young people to stand tall as New Zealanders, seize opportunities, overcome obstacles, and make a difference” (Ministry of Education, 2006:8).

The key competencies (managing self; relating to others; participating and contributing; thinking; using language, symbols and texts) have been modelled on OECD guidelines of the capabilities people require in order to “live, learn, work and contribute as active members of their communities” (Ministry of Education, 2006:11). They are a new addition to the curriculum document and replace the 57 essential skills in eight groupings in the current Framework document.

The curriculum contains a number of learning areas, which are broad groupings of knowledge. The new draft curriculum identifies eight learning areas that are considered essential for a general education - Arts, English, Health and Physical Education, Learning Languages, Mathematics and Statistics, Science, Social Sciences, and Technology. The learning areas provide the Framework’s structure and suggest contexts in which competencies can be developed.

The achievement objectives have been reviewed to ensure they reflect more appropriately the forward-looking themes of sustainability, citizenship, enterprise, globalisation, and critical literacy. The achievement objectives are what a teacher’s delivery of the curriculum is measured on. As such, they are the most influential components of the Framework from a school perspective and determine the ‘taught’ curriculum.

The New Zealand school curriculum follows an outcomes-based approach rather than a syllabus approach. Although the draft curriculum framework prescribes the national direction for education, providing statements about what should be covered in schools, it is less explicit about the appropriate allocation of time and resources for the separate subjects and the various skill developments suggested. It is designed in this manner to afford flexibility, allowing individual schools and teachers autonomy to design programmes that are appropriate to the specific learning needs of their students. As noted in the Curriculum Stocktake Project Report, “each school will design and implement its own curriculum in ways that will

engage and motivate its particular students. Schools have considerable freedom in deciding exactly how to do this” (Ministry of Education, 2006:26).

Within the new draft curriculum framework document, financial education is not mentioned in the vision, the values, the learning areas, nor the achievement objectives. Financial literacy is used as an example within the theme ‘critical literacy’ (enabling students to “build personal financial capability so that they are able to contribute to New Zealand’s future economic well-being”) that teachers can choose to use as a learning context if they should wish to do so (Ministry of Education, 2006:26). However, there is no requirement for this to occur. There is no evidence to suggest that financial literacy, described as an element of a ‘significant theme’, will find its way into the classroom. The reality is that under the current and new draft *New Zealand Curriculum Framework*, students can progress from Year 1 to Year 13 without once encountering financial education.

To date there is no Ministry of Education-endorsed national curriculum in financial education to advise teachers as to the knowledge and skills that need to be taught at each Year level, or to provide guidance on learning outcomes, should teachers choose to include financial education in their teaching programmes. What is urgently needed is the introduction of achievement objectives relating to financial education. The bottom line is that without achievement objectives, financial education will not be taught, regardless of how persuasive the rhetoric might be.

The influence of assessment can unintentionally limit the taught and learned curriculum. Through the use of achievement objectives, schools and students are under increasing pressure to demonstrate what they have achieved. Along with countries such as Australia, Canada, the United Kingdom and the United States, New Zealand has moved from an input-based to an outcomes-based schooling model. Regular student assessment has become an important means of monitoring the performance of the education system and of highlighting the relative performance of schools. Elley (1996) argues that this approach is based

on an unjustified assumption that all learning can be measured and graded, and that outcomes-based systems under-value, and therefore undermine, learning which cannot readily be measured.

One of the principal responsibilities of the New Zealand Qualifications Authority, established in 1990, was the development of a single framework of national qualifications for all New Zealand educational institutions, including schools. Change was thought necessary so that New Zealand could obtain an international competitive advantage through its skilled and knowledgeable workforce. It was considered that this would be achieved through the increased participation of the 15-19 age group in education, and through the promotion of vocational subjects as being of equal importance to academic subjects. Students would therefore have the opportunity to participate in a wide range of courses within the school environment. According to Hood (1992:2), "the main reason for low participation and the lack of qualifications in the workforce lie within the school system - namely the emphasis on a narrow academic curriculum and on external examinations with high in-built failure rates. Those practices have repeatedly signalled to a high proportion of the population that higher levels of education are for them irrelevant, inappropriate and unattainable. Those practices may have been justified in the past. They are no longer justifiable either in economic or social terms".

Faced with the increasing dissatisfaction of a single examination to measure the full extent of a student's understanding of a subject area, the National Qualifications Framework was founded on standards-based assessment because of its set, clearly stated, and well-defined standards of achievement. It was considered that, unlike norm-referenced forms of assessment, standards-based assessment provided a more transparent instrument for establishing the knowledge and skill base achieved by students and did not foster the failure of a set number of students. Standards represent expectations for student performance and specify the content that students should know and be able to demonstrate.

In 2002 the new qualification policy for schools was implemented. The National Certificate of Educational Achievement (NCEA) became the single qualification, involving a standards-based approach to assessment. Credits for the NCEA are awarded at either a credit, merit or excellence level of achievement, and are accumulated as students demonstrate their ability to meet pre-defined outcome standards. At least half of the achievement standard credits must be gained through external assessment.

Assessment regimes have a powerful effect on school curricula. According to Madaus (1988), when test results are the sole or even partial decider of future educational or life choices, society tends to treat test results as the principal goal of schooling. Madaus (1988) argues that testing can play a role in determining the curriculum because teachers tend to pay attention to the formal testing of assessed material, adjusting their teaching accordingly, and modifying curriculum content to match the testing. The impact of testing “narrows the curriculum; concentrates attention on those skills most amenable to testing; constrains the creativity and spontaneity of teachers and students, and finally demeans the professional judgement of teachers” (Madaus, 1988:85). A consequence can be that some subjects are considered more important than others because more attention is focused on them in the testing regime. Assessment can drive the curriculum content, the relative time spent on subjects, and the pedagogical approaches. Curriculum and assessment are therefore strongly interactive.

A significant number of New Zealanders are leaving school without having been taught basic personal finance concepts, and without the knowledge and skills needed to make important financial decisions. Yet, ironically, the core curriculum content standards within New Zealand’s education system specifically encourage the development of critical thinking skills and the use of real life applications of subject matter. The take-up and effectiveness of financial education in New Zealand schools is affected by its position as a non-statutory subject, which means

provision can depend on the outlook of individual schools, how highly staff prioritise financial education, and the confidence of teachers responsible for teaching it.

The two principal organisations involved in financial education at the national level are the New Zealand Retirement Commission and the Enterprise New Zealand Trust. Established in 1993, the Retirement Commission has the statutory role of promoting public understanding of financial issues. One of the Commission's principal functions is to improve levels of financial literacy within the population. This involves concentrating on the development of a national approach for the provision of financial education, information and generic advice. A Government-funded autonomous Crown Entity, the Retirement Commission is able to operate at a distance from the Government, while having regard to Government policy. Along with a degree of independence from the Government, the Commission is also independent from the financial services industry. The Retirement Commission considers this independence is necessary to achieve receptiveness from the public to its educational programmes.

The Retirement Commission is committed to embedding financial education in schools by 2009. The Commission embarked on a national initiative in 2006 to highlight the importance of financial education and increase the visibility of financial education programmes. Rather than attempting to extend the curriculum by adding another subject called 'Financial Education', the Retirement Commission's goal is to develop financial education resources that teachers can use within the existing curriculum. As the Ministry of Education has not written a curriculum framework for financial education teaching and learning, the Retirement Commission has stepped in to fill the gap, commissioning Enterprise New Zealand Trust to develop a financial education curriculum covering all years of schooling, Years 1 to 13. This curriculum seeks to enable schools to align their (critical literacy) financial education teaching with a nationally recognised standard, and is structured to integrate into key learning areas and increase in depth and

complexity as students progress through school. This draft curriculum framework is in its final stages of consultation and is expected to be finalised in 2007 (Feslier, 2006).

The Enterprise New Zealand Trust, a non-profit organisation operating as a charitable trust, develops and promotes financial education programmes and activities for use in New Zealand schools. The delivery of financial education is currently funded by the Retirement Commission, the Securities Commission, the Reserve Bank, IRD, ASB Bank, American Express, and Russell Investment Group Ltd (Enterprise New Zealand Trust, 2006). It operates programmes to promote enterprise education, financial literacy, and business understanding. The Primary Enterprise Programme provides an integrated programme with core financial education components for primary school students. Years 9 and 10 students are catered for through a programme which provides 20 activities delivering financial education within the core curriculum. The Financial Literacy Programme for Years 11 and 12 students comprises modules looking at income, budgeting, banking, credit and borrowing, insurance, tax, and saving. The Year 13 Financial Studies Course covers four topics - external factors influencing investment decisions, investment, financial planning, and student loans.

The purpose of Enterprise New Zealand Trust's financial education programmes is to "raise awareness and provide innovative opportunities for students to participate in real life financial decision-making, whilst developing money management, future investment and financial planning capability" (Enterprise New Zealand Trust, 2005:1). In support of their financial education programmes, the Enterprise New Zealand Trust has developed assessment material and a repository of resources for teacher use. Professional development is a core component of the support offered.

Teachers are required to undertake training before they are authorised to deliver an Enterprise New Zealand Trust programme. The Retirement Commission

considers one of its highest priorities is to up-skill teachers (Feslier, 2006). A significant number of teachers have no formal training in financial education. Financial education is not something they were taught at training college or learned through professional development. The result is that a teacher may fully recognise their students' need for financial education, but simply may not be trained to meet it.

Experience has shown that the (perceived) pressure to teach the statutory elements, and especially those which are assessed, leaves little time for non-compulsory or non-assessed aspects. The Enterprise New Zealand Trust has paid attention to the growing emphasis placed on achievement testing in schools. To this end they have been working with the New Zealand Qualifications Authority to link financial education to unit standards and the achievement standards framework currently used in school curriculum subjects for the National Certificate of Education Achievement.

The development of new standards takes time. The personal financial management unit standards for income and money management (day-to-day financial activity) have passed through the public consultation phase. The 23 draft standards have been submitted for formal technical evaluation, which is the first stage of the registration process. Registration is expected to be completed during 2007. Given that 20-24 credits are considered to be a full year's worth of study, the development of a second batch of standards (creating wealth and financial planning) will provide enough standards for a three-year course of study and enable a further increase in financial education learning opportunities. The full complement of personal financial management standards should be ready for use in schools in 2009. Once the unit standards are in place, it will be imperative that teachers are provided with ongoing professional development opportunities on how to use the standards in relation to financial education programmes.

## **CHAPTER NINE:**

### **Challenges and Opportunities: Next Steps**

I originally settled on the subject of financial education for my Masters thesis knowing very little about the topic. I knew instinctively that financial education was of some importance, but beyond that my general knowledge on the subject was limited. Having spent the best part of two years studying voluminous amounts of literature in the form of books, journals and academic articles on the subject, I am convinced that financial education is not only important, it is an essential requirement.

The need for financial education has become increasingly significant with the deregulation of financial markets and the easier access to credit, the ready issue of credit cards as financial institutions compete strongly with each other for market share, the rapid growth in the development and marketing of financial products, and the Government's encouragement for people to take more responsibility for their retirement incomes. It is obvious that a rapid flow of financial innovations will be a feature of the new information-oriented economy. It is important that individuals are literate about such innovations - so they can use innovations, not be confused by them.

The ability to function with confidence in the financial marketplace may have direct and specific impacts on individual and family financial security. Both financial markets and government activities now require individuals to be able to make informed decisions. This results in increased risks and greater responsibilities for ensuring financial well-being. As the Government moves toward the introduction of Kiwisaver, for example, citizens are expected to be increasingly self-reliant in understanding the benefits they are entitled to and in making informed decisions. More financially capable citizens will be better equipped to take advantage of opportunities and will both increase their access to, and make more informed

judgements about, goods and services provided by financial institutions and other organisations.

Although New Zealand has been a world leader in a number of areas, sadly financial education is not one of them. Other countries have made relatively important inroads into addressing the issue. One of the biggest impediments for this country has been the significant lack of research undertaken in the field of financial education in a New Zealand context. The United Kingdom, the United States and Australia, to varying degrees, are at more advanced stages of research and practice on the topic of financial education and the implementation of initiatives. These countries have taken a wide range of steps at government, institutional and business levels to address identified financial education shortcomings, supported by a growing body of research. The literature in these countries, where the concept of financial education has been refined, provides a rich source of background data, as well as examples of programmes and strategies.

In September 2006, the Enterprise New Zealand Trust organised a one-day meeting of interested parties to prepare a submission for the Ministry of Education on the place of financial education in the new draft national school curriculum. To commence this think-tank, views were submitted by the participants on a working definition of 'financial literacy'. The use of different but overlapping understandings of financial education at this meeting is perhaps both a reflection of, and a contributing factor to, the varied community of stakeholders in the field in New Zealand. It is clear that there exists already an assorted network of groups involved in measures to improve financial education among New Zealanders. However, it is also clear that these groups do not necessarily share an explicit conceptual framework. The result is a series of fragmented areas of activity, with limited clarity on objectives or direction. Contrast this with the experience of the community involved in financial capability in the United Kingdom. There, the presence of a relatively well-accepted lexicon and working definition of the concept

appears to have enabled stakeholders to move forward in a much more co-ordinated way.

There is a very obvious gap in formal research examining financial education in New Zealand. The first major challenge to the field in New Zealand is to work toward a clearer and more shared working definition of what is meant by financial education. It is important to remember though that while definitions and measurements afford a good base from which to develop programmes and resources, they do not provide a comprehensive understanding of the underlying skills, attributes and behaviours associated with financial education. Financial education is multi-dimensional and it is influenced by a range of factors, and while there has been some development of frameworks and benchmarks, little is understood about the actual components and drivers of financial education in a New Zealand context.

Defining the components of financial education is a necessary step in the process of developing effective policy and programmes that will address not only the knowledge gap, but also have a greater likelihood of changing behaviour. A key question that will add to our understanding of financial education in New Zealand is what are the factors that facilitate and impede the development of financial education, and which of these factors impact on the development of an individual's intention to engage in financially effective behaviours? This knowledge can then inform the development of future programmes and interventions. To a large extent, programmes in New Zealand are being developed with the best of intentions, but with insufficient rigorous research to inform the design of such programmes.

Financial education must be given a more secure place on the educational agenda, supported by current resources and critical research. There is also a need for consistent messages to be given at the national level to ensure that practices and systems that promote a lifelong learning orientation - for example,

financial education - are deliberate and planned for in schools. Financial decisions do not occur in a vacuum. They are influenced by a range of factors, including macroeconomic determinants, socio-economic and demographic issues, personal and cultural characteristics, needs and aspirations, life events, consumer skills, and access to information. A clear understanding of these factors needs to be gained before measures can be designed to assess financial education requirements in New Zealand.

There is a pressing need for more research and information on the efficacy of financial education programmes - what works and what does not work - and how people assimilate financial education. Research, of various kinds, should study costs, knowledge impacts, and effects on behaviour. To determine the benefits of particular curricula, effective pedagogical approaches, and student learning preferences, research needs to be undertaken to assess the effects of financial education programmes. Especially useful will be longitudinal studies that follow students for several years to see how the information was used, or not used, to improve the quality of their life.

I would have expected Ministry of Education officials to have stepped forward as participants in the financial education research field. Verifying the need for financial education within the school system is surely of some relevance and importance. Unfortunately Ministry officials have not stepped forward in this manner. New Zealand takes pride in its reputation for being a small country that achieves in the international arena. But it is now past time for educators and policy-makers to catch up with the 'real' world. Whatever else it includes, the 'real' world is a world of markets and financial transactions. In such a world it is wrong to maintain a school system as a virtually financial education-free zone. Becoming visibly involved in this issue would be a good way for the Ministry of Education to begin correcting this incongruity.

There is now an urgent need to expand and improve financial education. International best practice has demonstrated that a nationally resourced and co-ordinated strategy for dealing with financial literacy difficulties, which brings together key policy-making, education and financial service stakeholders, is the best approach. There is a compelling argument for exploring the efficacy of promoting a national policy that would articulate and support a basic financial education for all New Zealand school students. Such a strategy would provide an overall direction and articulate the what, why, how, who and when of the proposed future approach to financial education.

The inclusion of financial education in the school curriculum will not happen unless a framework articulates and provides commitment to a clear strategy. Addressing financial education, together with the issues of financial exclusion and excessive indebtedness, should constitute the agenda of a working group. This time-limited working group should be made up of the major social, financial, advisory and educational players in the field. The strategy should begin with a clear statement of aims in its promotion of unbiased, fair, and co-ordinated financial education. It is important to remember that financial education is only one part of the equation. It can serve to complement other policies that enable financial access, provide for substantive protection in the financial marketplace, and offer mechanisms for redress.

Financial education needs to be embedded in the New Zealand culture in the same way that New Zealanders know how to 'Slip, Slop, Slap' before going out into the sun, or 'Buckle Up' their seatbelt before driving their vehicle. However, these cultural shifts take time and consistent messages. Financial education is in the interest of New Zealand as a whole, and the creation of a financially healthy New Zealand is the responsibility of all - government, the private sector and community-based organisations. It is too large a task for one group of stakeholders to achieve on their own. Initiatives need to be co-ordinated to

maximise communication and impact, and to ensure consistency in the message and the quality of the message.

## Conclusion

The purpose of this thesis is to raise awareness about the issue of financial education in general, and financial education in New Zealand schools in particular. If financial education is to be introduced in a real attempt to empower the individual and allow them to become self-reliant, then financial skills and understanding need to be improved across the population. A principal priority is to ensure that the teaching of financial education is embedded in the education system to enable all students to leave school prepared for the rights and responsibilities of adult life. The final result is not to create financial experts; it is more important to equip students with sufficient knowledge to make sense of financial activities, seek out appropriate information, feel able to ask relevant questions, and be able to understand and interpret the information that they subsequently acquire.

I have examined the state of financial education in the United States, the United Kingdom and Australia; compared various educational approaches; analysed related research; and considered New Zealand's uneven national effort to increase financial education in schools. This thesis has found that there are major campaigns of activity taking place in relation to financial education in the United Kingdom, the United States and Australia. There is a wealth of international data on the subject of financial education. On the international front, there has been a drive for addressing financial education through a wide range of initiatives and collaborations.

The issues discussed in this thesis should serve as a wake-up call to all New Zealanders, because unwise financial decisions and patterns can have long-term consequences. How well students learn to use sound financial management tools will have a major impact on establishing financial control and direction for their futures. The potential long-lasting benefits to both an individual's well-being and to

society makes financial education an imperative requirement for all New Zealand school pupils. Both the means (increasing capacities through education) and the end (improved well-being) are consistent with the mission and values of teaching.

When this is combined with New Zealanders increasing levels of debt, the new financial products and systems individuals are being encouraged to use, and the increasing need for individuals to take responsibility for their own long-term financial security, the importance of having a population which is financially educated becomes glaringly obvious.

Financial education should ideally start in the home, but should certainly start at school. Initiatives should be taught at 'teachable moments', starting at an early age. There is much to do and learn about financial education programmes. First, there is an urgent need to increase awareness of the necessity of financial education. It needs to be clearly understood that financial education is not just for investors. It is just as important, if not more so, for the average family trying to balance its budget and save for the children's education and the parents' retirement. Second, objective measures need to be developed and put in place to identify successful financial education programmes, and more evaluations of programmes need to be conducted. For this generation of students in particular, having the appropriate financial knowledge and understanding is going to be crucial as their lives develop. If an individual does not have the skills they need for their circumstances they may face difficulties. Financially incapable individuals find it difficult to identify products and services that are appropriate to their needs; they are unsure about how best to access and evaluate independent advice; they make inappropriate financial decisions, and they fall victim to abusive practices and scams.

As has been demonstrated in this thesis, some financial education programmes produce increased knowledge and awareness. However, other research shows that such knowledge has no direct outcome in changed behaviours. In other

words, increased financial education does not automatically convert into competency in managing financial affairs. This suggests that financial education programmes need to be carefully constructed with clear goals and planned outcomes, which are measurable, where possible, over time.

Financial education is building up a powerful momentum for a place in the school curriculum. Given that financial illiteracy costs huge sums of money, let alone untold personal misery, a strong case can be made for ranking it up there with those other essential skills that young people should acquire before they leave formal education.

We, as a nation, pride ourselves on what we have achieved so far, but we are certainly being complacent about the urgent need for financial education. There is an imperative need to persuade the government and educationalists that financial education is part of their core business, and not some sideshow. The doctrine that financial education should be regarded as separate from what a mainstream modern education system is seeking to do is, frankly, unacceptable.

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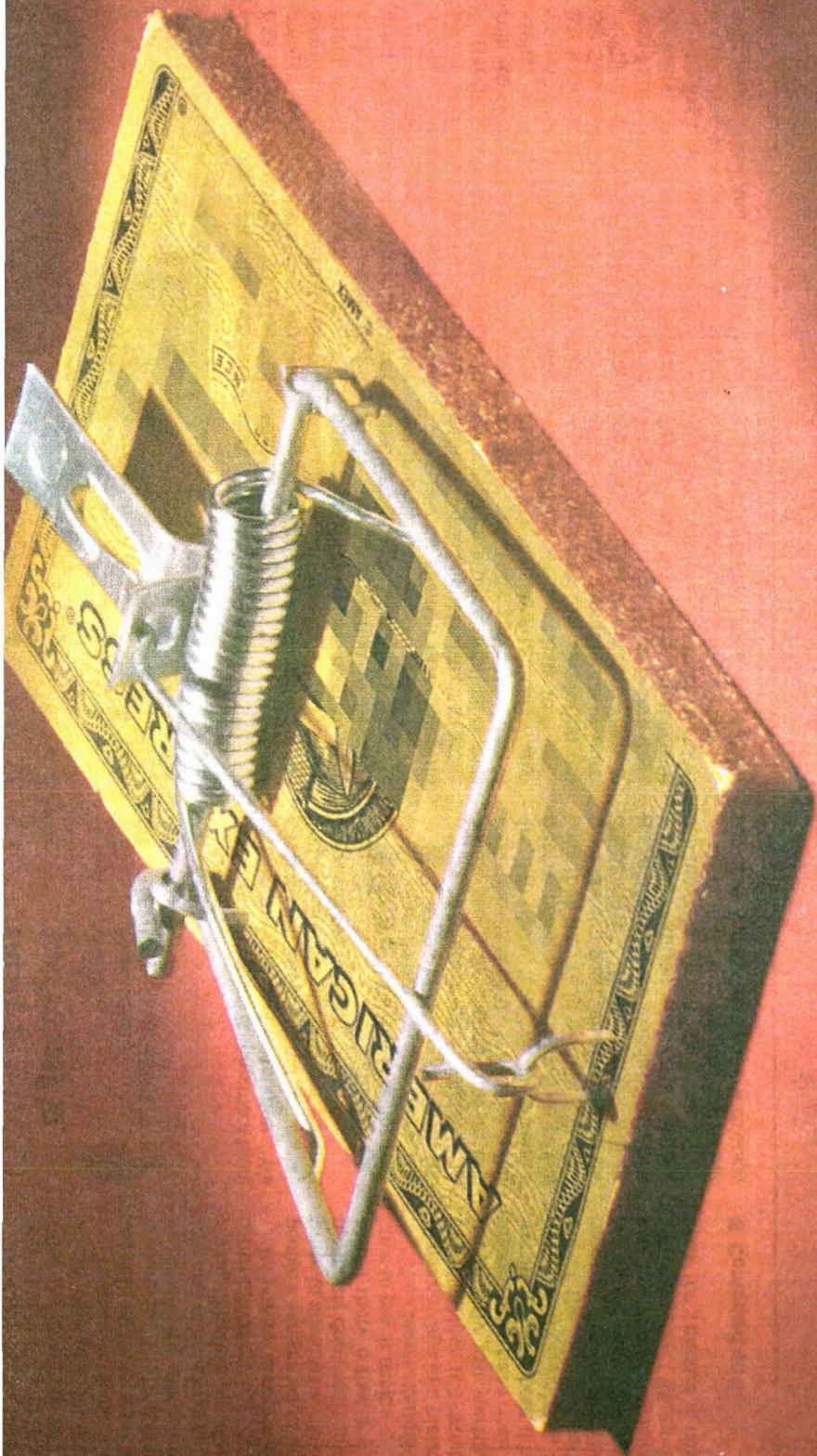
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# THE DEBT TRAP

# Money classes at school failing to gain ground

Sunday Star Times

By ROB STOCK 10/09/06

**CAMPAIGNERS VYING** to get financial literacy taught in schools meet tomorrow to thrash out a response to the new draft curriculum, which ranks financial literacy as less important than sustainability, citizenship and globalisation.

Enterprise New Zealand Trust wants to see financial literacy included in teachers' "achievement objectives" - bureaucratise for the things children must learn.

The trust's Lyn Morris said the inclusion of financial literacy as a "critical" competency in the new draft curriculum, released in July, was a step forward for financial

## FINANCIAL ILLITERACY

Group	Low financial literacy	Med/high financial literacy
All ages	33%	67%
18-24 year	57%	43%
All Europeans	24%	76%
Maori	67%	33%
Pacific Islanders	85%	15%

Source: ANZ/Retirement Commission

literacy, which is currently taught in only a quarter of secondary schools.

Morris said that meant tens of thousands of kids would continue to leave school with little or no idea of how money, budgeting, debt, saving and investment worked.

The trust holds out little hope of an upgrade for financial literacy given there are so many competing interests, including environmentalists, and Maori and Asia 2000, wanting subjects like Chinese, the Treaty of Waitangi and green issues included in the curriculum.

Enterprise New Zealand Trust business development director Caroline Steele said the financial

literacy programme the trust ran in 100 schools nationwide would soon be granted academic credits, which would mean it counted towards school certificates, giving it more credibility in the eyes of parents and schools.

Tomorrow's meeting includes PriceWaterhouseCoopers chairman John Shewin, Jane Diplock of the Securities Commission, as well as representatives from the Reserve Bank, ASB Bank, the Retirement Commission and American Express.

Public feedback on the draft curriculum closes in November, with the curriculum to be finalised in 2008.

The educational games on the

government-funded Retirement Commission's Kids & Money site at [www.sorted.org.nz](http://www.sorted.org.nz) were played by over 200,000 people last year.

Financial literacy has moved into the centre of the political debate, with Finance Minister Dr Michael Cullen saying he will use KiwiSaver, his plan for a nationwide superannuation scheme, to promote it.

A financial literacy survey by the Retirement Commission and ANZ Bank showed young people, particularly those from poorer areas, had the lowest levels of financial literacy in the country. Nearly 60% of those between 18 and 24 had low levels of financial literacy.



## Get financial help? We'd rather clean the loo

**BOTHERING ABOUT** personal finances is such a bore. One in 10 of us would prefer to clean the toilet, or visit the dentist. Or go on a diet, for goodness sake!

That is the finding of a survey which sets out to discover the financial DNA of New Zealanders.

The survey, for the Bank of New Zealand, was designed to find out how Kiwis feel about money, how they make big financial decisions, and where they get their financial advice from.

And there's a little bit of good news for everyone in the results, from Reserve Bank governor Alan Bollard all the way down the chain.

Bollard will surely be relieved to learn that 70% of us profess, hand on heart, that we never spend more than we can afford. That, surely, will take care of concerns about the indebtedness of our country.

Banks will be pleased most us throw our monthly bank statements in the bottom drawer with nary a glance. If we had a good look

at them, what horrors we might find about the fees we are charged. Banks will also be glad that one in four of us still turns to the bank manager for financial advice.

Of course, any modern bank manager will graciously pass you on to someone specially trained for that job - someone also wearing that bank's livery.

Notwithstanding the bank's continuing regard as a source of advice, advisers will glow at the news that when New Zealanders do seek financial help, professional advisers are their most likely source (36%).

That begs the question: how often do they seek advice? Here the news gets decidedly grim.

Most of us say we don't take advice on money matters; 71% of us prefer to make our own decisions on savings and investment. Is that what financial DNA is all about? Did Not Ask.

That's in contrast to the way we spend. Nearly 80% say they thoroughly research options to make sure they get

the best deal before making a big purchase.

What emerges is a picture of Kiwis as financially conservative, which pretty much fits the conservatism in many areas of our lives.

We might see money as a necessary evil, and do anything - but anything - rather than spend too much time planning personal finances.

At the same time, we don't like debt - or say we don't - and we don't like high-risk investments.

We are hesitant - and, you could argue, rightly so - to pay for financial advice.

And despite all the talk about the tall poppy syndrome, we respectfully tug at our forelocks when it comes to the rich and famous.

The survey found 61% of respondents respect wealthy people; only half that number were not at all impressed by wealth.

But within the broad ambit of financial conservatism, the survey by UMR Research, which spoke to 500 people by telephone, identifies four species of Kiwis when it

comes to financial affairs.

■ **Fun lovers**, who comprise a little less than a quarter of us. They are less likely to research before buying and see money as providing freedom and enjoyment. They are likely to be young professionals.

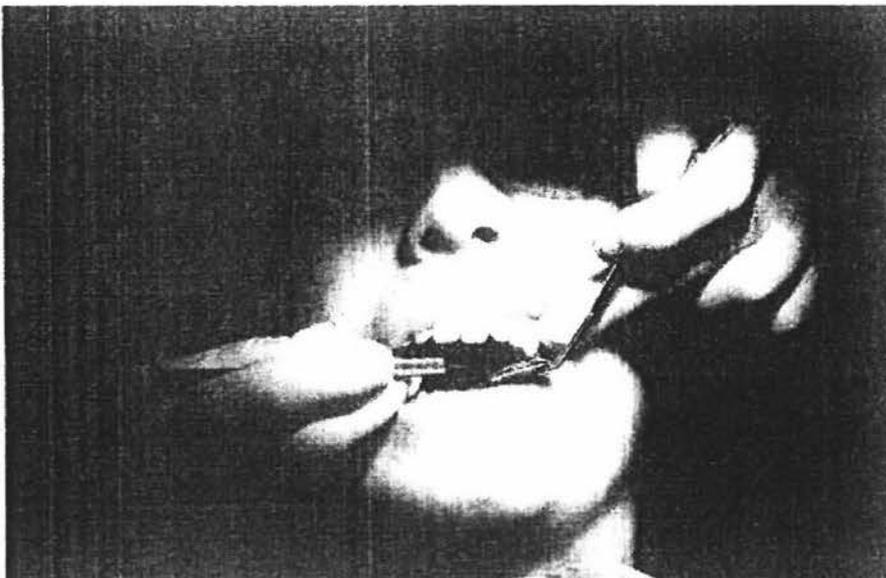
■ **Heartlanders** - 43% of the population - who are careful about investments, prefer not to be in debt, are more willing to seek financial advice, and are focused on families.

■ **Strategists** - a little less than 25% of the population - who thoroughly research their options, rarely spend more than they can afford, and are ambitious and forward-thinking.

■ **Go-getters** - 13% of the population - who see money as a way to get freedom and excitement but are also more likely to respect those with real dough, people who have great business ideas and get them off the ground, who love new gadgets and high-tech stuff.

No prizes for guessing where all the go-getters live.

- Garry Sheeran



One in 10 New Zealanders would rather visit the dentist than get financial advice. But when they do, one in four still ask their bank manager.

Photo: George Elington

About 70% of us say we never spend more than we can afford. That, surely, will take care of concerns about the indebtedness of our country.



## Back to school for financial illiterates

by Adam Bennett

New Zealanders lack financial literacy and that is a major factor driving them deeper into debt, finance industry figures say.

And they believe the only way forward is for better education.

Reserve Bank Governor Alan Bollard last week hammered banks for promoting loans to people who could ill afford them, saying that of about a third of households with mortgages, one in 10 were quite deeply in debt. They would be particularly vulnerable to interest rate rises, falling property prices or a softer job market. However, banks responded, saying they were merely meeting demand from borrowers.

John Erkkila, of mortgage company NZ Home Loans, said yesterday that the banks' recent price war on fixed-rate mortgages was just one part of the problem. More of an issue

ing towards a dramatic rise in debt, a stark reality comes into play that basically people are making decisions about where they spend their money in a total vacuum."

He said banks were accommodating in lending money but not forthcoming with advice on how to manage money and debt efficiently. They were, in effect, happy for most people to remain financially ignorant so as to maintain and grow profitability.

Erkkila said information about managing money was largely absent from the education system. "The schools never do it because teachers can't manage their money either and chances are the parents don't do it." Financial planners were of little use, largely just catering to those who had money, not those with debt problems. Budget advisory services, meanwhile, were largely "the ambulance at the the bottom of the cliff".

Financial Planners and Insurance Advisers Association chief executive George Elkington said he was concerned with rising debt levels and that people would "learn the hard way" in coming years of the risks associated with borrowing too much.

"I do have some fears that we might, I hope they are unfounded, but we are robustly over-indebted. We've had good times. It's been so easy to get it (debt), interest rates have been so low. Have we lulled ourselves into a false sense of security?"

"Financial literacy should be a more robust part of our schooling system. I think debt education would be on the top end of my list of priorities," he said.

Improved education was among the key proposals the Taskforce on the Regulation of Financial Intermediaries earlier this year proposed in a bid to boost consumers' confidence in financial product and service providers.



was "the education that has or hasn't gone on with people regarding their financial wellbeing".

"When the population is spending 112 per cent of its income and Bollard's saying all the figures are point-



Monday, 09 Apr 2007

## The credit trap - how \$4000 debt became \$47,000

**Twenty-five years old, nearly \$50,000 in debt and facing three more years of Weet-Bix for lunch. It's a numbers game for Waikato resident Sarah Brown, who clocked up \$4000 of holiday expenses on a credit card eight years ago and now owes almost what she earns in a year.**

The details of the \$47,000 debt are set out on a colour-coded spreadsheet written by her budget adviser.

"This is my little bible at the moment. I know exactly what I owe, I know exactly how much I pay, who to, and how much money I can't spend."

Brown is determined to clear her debt and has been sticking to her budget for more than a year. But despite a well-paid job in international freight forwarding and a second job in a cafe, there is no money for shopping, eating out or going out with friends. And it's noodles or Weet-Bix for lunch.

Her story is a warning to others as New Zealanders' consumer debt reaches a record of \$150 billion. Budget advisers want creditors to stop lending to people who are already struggling to manage their debts.

Brown didn't buy anything flash with the borrowed money and doesn't have anything to show for it.

Her message: "Just don't get a credit card and don't go to a loan shark - ever."

Brown was 18 when she put about \$4000 on a credit card for a business trip to the United States, where she spent time with her mother who lives overseas. Then she borrowed from a finance company to pay it off and then another company to pay the first company off.

Within two years, the debt had grown to about \$15,000. New loans or refinancing attracted a \$300 establishment fee which was added to the total and incurred interest -one company charged 28%. Penalty fees for missed payments and high interest rates meant the total snowballed over the next four years.

She often tried to pay hundreds of dollars to clear one debt, but would then fall behind on the minimum payments due on others. She did not understand then how penalty interest worked.

"I would have got behind on a payment or something came up and then it got in arrears and you think, 'They're being nasty, I better get another company involved to pay them off and shut them up.' I can't even remember in which order I would have gone to these companies."

Brown has not borrowed any money or had a credit card for more than two years. She owes most of the \$47,000 to three finance companies, two credit cards and two banks.

Federation of Family Budgeting Services boss Raewyn Fox said it was a familiar scenario. One loan with one company was manageable, but things got out of control when people borrowed to pay off other debts.

Interest rates on loans range from 12% to 35%, and when borrowers miss payments, penalty interest can climb to nearly 40%. Reminder and repossession letters can cost up to \$50. One

company charges \$450 to set up a \$5000 loan.

Fox wants more onus put on creditors to stop them lending to vulnerable people unable to repay their loans.

Brown agrees. She said it was incredibly easy to borrow money. Often all it took was a phone call.

"I might have been young, but when you go to a loan company you give them all your details of what you're doing. It's amazing that someone hasn't said, 'You really shouldn't be doing this.'

Brown has been to a budgeting service and advises anyone in financial trouble to get help. The reminder letters and phone calls have stopped, she has repayment agreements with all her creditors and can finally see an end to it all.

"In three years' time I won't have to worry about if my rego can get paid or where I'm going to eat. It won't be fixed, it won't be brilliant, but it will be well under control."

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Monday, 09 Apr 2007

## **\$150b consumer debt sparks warning to unscrupulous creditors**

**As our personal debt reaches record levels, budget advisers say lenders are partly to blame, reports Emma Page.**

Budget advisers are calling for more protection for vulnerable borrowers as Kiwi consumer debt tops \$150 billion for the first time.

Although mortgages make up the bulk of the figure, consumer debt alone is \$12b - almost \$3000 for every New Zealander.

Financial experts say Kiwis are managing credit card debt well, but budget advisers say the biggest problem is creditors lending to people already struggling with debt.

Federation of Family Budgeting Services chief executive Raewyn Fox wants to see more onus put on creditors to make sure customers can afford loans.

In Western Australia, the Consumer Credit Code regulations make it an offence to make contracts with consumers who would find it difficult to meet their repayments. Fox wants to see something similar in New Zealand.

The Ministry of Consumer Affairs says consumers are protected by several acts, including the Consumer Contracts and Credit Finance Act passed in 2005. It aims to make the loan process more transparent by ensuring creditors disclose their terms and conditions and set reasonable fees.

Responsibility for enforcing the act falls on the Commerce Commission, which has already carried out four prosecutions and had one conviction. This year, the commission has issued nine warnings and has 35 active investigations into alleged breaches.

A review into how well the act is working will be published by early next year.

Fox says although the Consumer Contracts and Credit Finance Act is good, the onus needs to be on the finance companies.

"They've got a responsibility to check that people can pay the loan back."

Most of the federation's clients owe money to multiple creditors and many borrow to service existing debts. High establishment rates and penalty fees of up to 39% ratchet up the amount owed, trapping people in a vicious debt cycle.

Some companies charge \$400 to set up a \$5000 loan and a reminder letter can cost the borrower up to \$20. Borrowers are often not told about the penalty fees until after they have applied for a loan.

Denise Smith, from the Papakura budget service, says the service used to see people coming in with two or three debts. Now the average is seven to 10. Some creditors lend to people who already have debts lodged with debt collectors Baycorp. Vehicle finance is still the biggest problem and most people end up paying the finance company double the vehicle's worth.

Bill Bevan, managing solicitor at Whitireia Community Law Centre in Porirua, Wellington, agrees creditors should lend responsibly.

"You just can't keep lending money to people who can't pay - all you're doing is making their life more miserable."

But he says companies can be held accountable under the Consumers Guarantee Act and Fair Trading Act.

Commerce Commission fair trading manger Graham Gill said overall creditors' compliance with the act was reasonable. Some companies were more responsible than others and fringe lenders were generally the worst.

Education was also an issue and, he said, there was a high level of financial illiteracy in New Zealand.

"That is certainly evidenced by people who are entering into loans that maybe they shouldn't."

Fox and Gill say people should get help as early as possible. Budget services are free and can give advice before or after people get into debt. People who feel they have been mistreated by a creditor should contact a budget service or the Commerce Commission.

A MoneyShop spokesman said every finance company should make sure it did not load up clients with debt. It was a fundamental criteria to check their clients' capacity to service a loan.

**- additional reporting by Rob Stock**

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# Moneylenders still preying on poor

New legislation designed to protect borrowers is not working well enough, says **Catriona MacLennan**

**N**EW credit laws designed to offer better protection to consumers have been in force for six months. Unfortunately, they are failing to stamp out many bad practices by finance companies and other lenders.

Borrowers are continuing to be ripped off and the Government needs to take further steps.

Debt is one of the key issues faced by beneficiaries and people on low incomes, and unscrupulous lenders are preying on their vulnerability.

The end result of high interest rates and excessive — and unjustifiable — loan fees is that poor people are left with insufficient money to feed their families and take their children to the doctor.

At Nga Ture Kaitiaki Ki Waikato Community Law Centre we see clients every week who have problems with debt. Some end up losing their homes while others buy faulty cars for excessive prices and the vehicles are then repossessed, leaving the debtor with no car and a debt of tens of thousands of dollars.

The Credit Contracts and Consumers Finance Act 2003 came into force on April 1. It bans "unreasonable" fees on loan contracts.

Fees must now be reasonable and related to the creditor's costs in preparing the contract.

Low-income people often have bad credit ratings and are unable to obtain loans from banks. This leaves them at the mercy of more unscrupulous lenders who commonly charge large fees when loans are taken out.

Under the old law, one woman was charged a total of \$7300 in loan fees and payment protection insurance, including a brokerage fee of

\$3200.

Other fees commonly charged include establishment, security inspection, document, and loan shortfall insurance policy fees.

Contrast that with the position of a wealthier person taking out a mortgage. The lending market has been so competitive in recent years that borrowers are not charged any loan fees and banks commonly pay around \$700 towards legal fees.

The position in respect of excessive loan fees does not appear to have improved under the new law. We regularly see contracts where people continue to be charged fees totalling several thousand dollars.

It is now possible to challenge these fees, but people must first be aware that the fees are illegal. Most people do not, in any case, know how to take action about them. They also fear retaliation by the finance company.

Another common rip-off is for beneficiaries to be signed up to payment-protection insurance, covering sickness, accident or loss of employment.

This is a complete waste of their money. As they are on a benefit, their income continues even if they become ill or have an accident and they have no job to lose. Accordingly, they will never receive a payout under the policy and should not be signed up in the first place.

People unable to get loans from banks generally face paying extremely high interest rates. It is normal for finance companies to charge 19 per cent interest, and an even higher penalty interest rate. In some cases, the interest rate can be 25 or 29 per cent, or even more.

Other problems continuing to occur under the new law concern people who are not given copies of loan documents and complicated paperwork, which almost no borrowers understand.

In my submissions on the law, I suggested that the front pages of loan contracts be left blank except for the total figure payable under the loan, which would be recorded in large, bold letters.

Few debtors realise the total amount they are required to pay under loans. The figure may be on the second or third page of the document, is normally the same size as all the other figures and does not stand out.

The people we act for are almost always shocked when we tell them the full amount they owe.

The Commerce Commission has new powers to enforce the law. I hope the commission will be proactive. It has 12 investigations under way into breaches and has checked 50 lenders in Auckland, Wellington and Christchurch to see whether they were complying with the law.

The industry was given a "mixed" report card after the checks. The commission said consumers were still not getting enough information, details were not clearly set out, fees appeared unreasonable and insurance policies were unjustified.

So what can be done to improve the position? Here are some suggestions.

■ The Government should make cheap loans available to low-income people through Kiwibank.

■ Interest rates should be capped at a



specified percentage above either the inflation rate or current bank lending rates.

■ Loan documents should be made simpler.

■ Ministers should monitor enforcement of the law by the Commerce

Commission.

■ The "hardship" provision covering people in financial difficulty should be amended to allow borrowers in default to use it.

■ The Commerce Commission should be given the job of applying

under section 108 for orders banning non-complying finance companies from continuing to lend.

■ **Catriona MacLennan is a South Auckland barrister.**



**POUND OF FLESH:**  
Waihoroi Shortland as moneylender Shylock (Hairoka) in the film *The Maori Merchant of Venice*.



# Slippery slope for big spenders

Young Kiwis are following worldwide debt dependency trends, writes **Keri Welham**.

**Y**OUNG New Zealanders are becoming the lost generation — crippled by spending, credit dependency, no savings and massive debt.

Eighteen to 40-year-olds' wild spending habits have been outlined in a British government study.

But New Zealand financial experts say Europe's generational crisis, fuelled by rampant consumerism, higher education costs and the frailty of government superannuation schemes, is a worldwide phenomenon and young Kiwis are hurtling down the same path.

Wellington's Agape Budgeting Services says it has seen a marked increase in clients in the 20 to 40 age group in the past three years — with many falling into financial strife over small consumer purchases rather than substantial assets.

One working Wellington couple, aged 30 to 40, had racked up \$134,000 in consumer debt, including \$50,000 on credit cards. They were in trouble before they had a baby — then things got worse. They were now on the domestic purposes benefit and struggling to see a way out.

Agape co-ordinator Brian McGettigan said this was a typical scenario among his younger clientele. Couples with no children and both working have up to five credit cards each with up to \$20,000 on them.

One couple, with no children, renting, and combined salaries of \$100,000, had built up \$21,000 of debt on credit cards and vehicles, he said. Another childless, working couple had credit card and bank loan debts of \$44,000, some of which were now with Baycorp.

Another Agape client had five Christian names and three surnames and had debts amounting to \$25,000 in every combination of those names.

Mr McGettigan said young Kiwis were trapped in an addictive spend, spend habit. You do it and get a kick out of doing it, and you spend again, he said.

The 15-year-old service's main clientele were traditionally beneficiaries but now more than 70 per cent of them were on salaries or wages and lived in affluent city suburbs, he said.

About 60 per cent of them are aged 20 to 40. Many have expensive consumer goods in their homes but they cannot pay bills.

The average debt for Agape clients in their 20 to 30s is \$17,000. The average debt for 30-40-year-olds is \$24,000.

Mr McGettigan said student loans reinforced New Zealand's changing societal attitude toward money — away from the frugality of previous generations, to a modern flippancy about debt.

New Zealanders dependent on the student loan scheme for an education were often 18 years old when they first took on a debt and from then on debt did not seem unattractive or daunting.

Figures issued by Statistics New Zealand showed that by March last year, just 16 per cent of student loan borrowers had paid off full loans incurred between 1997 and 2004. Not surprisingly, students under 25 made up 59 per cent of loan borrowers.

A joint study by Britain's Financial Services Authority and Bristol University, published late last month, showed 25 per cent of adults aged 20-39 had fallen into financial difficulties in the past five years, 24 per cent were currently overdrawn, and 70 per cent had no meaningful savings.

The authority is now preparing to lobby for personal finances education in school curriculum.

FSA chief executive John Tiner says there is an urgent and serious need to help the young.

"They are the first generation to be



leaving college with massive debts, and while housing has always been a challenge, it's become extremely difficult for young people in parts of the country. Yet at the same time, the young have become serious consumers."

In New Zealand, personal money management is not specifically taught in schools, but the Education Ministry says it could be worked into other topics, such as health, life skills or accounting. Many schools teach it through resources such as the financial literacy programme run by the Enterprise New Zealand Trust.

The ministry says all education curriculums are under review and a draft curriculum will be issued for public consultation in June. Submissions on teaching financial literacy and money management are welcome.

In addition, the Retirement Commission is developing a money matters curriculum to fit in with existing subjects to be taught at all levels of schooling. It is expected to be implemented nationwide by 2009.

A 2000-01 Otago University study on consumer lifestyle categorised the current crop of young New Zealanders as Young Pleasure Seekers. The report said the emergence of this young, fast-paced breed was in line with social trends overseas.

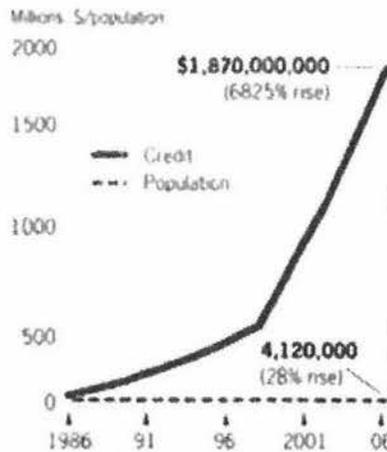
Members of this group were more likely to have bought something to make themselves feel better, spent any money left at the end of the pay period, made only minimum credit card payments and written cheques knowing there was not enough money to cover them, it said.

Reserve Bank of New Zealand data shows in January 2001, Kiwis collectively owed \$2772 million on their personal credit cards. By January this year, that figure had risen to \$4308 million — an increase of 55 per cent in five years.

Average spending for the month of February had grown from \$27 mil-

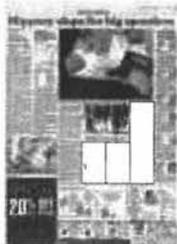
### ▶ OWE DEAR

The amount Kiwis spend on their credit cards each month has risen so dramatically in the past 25 years that the rise in population during the same period is shown on this graph as virtually a flat line.



#### What Kiwis collectively owed on their personal credit cards

2006	\$4,308,000,000
2005	\$4,002,000,000
2004	\$3,777,000,000
2003	\$3,581,000,000
2002	\$3,235,000,000
2001	\$2,772,000,000



lion in 1981 to \$1870 million this year — an increase of 6825 per cent in 25 years while the population rose by just 28 per cent.

Federation of Family Budgeting Services chief executive Raewyn Fox said the introduction of user-pays education and student loans in the late 1980s and early 1990s had a marked impact on New Zealanders' mentality toward debt, clearly evident when those first user-pays students entered the workforce.

**T**HE students learn that how to be successful in life is to go into debt. "We get a lot more comfortable with large levels of debt. I'm told it's a really healthy attitude but I would dispute that," Ms Fox said.

She heads a national organisation with 1000 budget advisers and up to 35,000 new client families each year.

Of those, 32 per cent are wage earners and the percentage of younger clients has grown in the past five years.

Though consumerism has trapped many young New Zealanders, it is the parallel trend of greater availability of credit that has really skittled them.

Ms Fox says the dream of comfortable home ownership is out of reach

for many New Zealanders. These days for someone to buy a house, they have to put themselves in so much debt that if any little thing goes wrong, it becomes a problem.

Retirement Commissioner Diana Crossan says some spending is smart, especially in areas such as education or business development that help establish a sound financial basis for the future. But spending that gets out of control is of concern.

Ms Crossan is giving a speech on financial management for the under-40s at a finance sector conference in Australia in July.

She says the younger half of the 18-40 demographic has grown up with credit and does not necessarily have the kid-in-candy-shop attitude of those who were suddenly given credit overnight.

In fact, she is not convinced that the younger generation has an irresponsible attitude to money.

"Is it not just a thing of youth? Are they any more irresponsible than we were? I don't know."

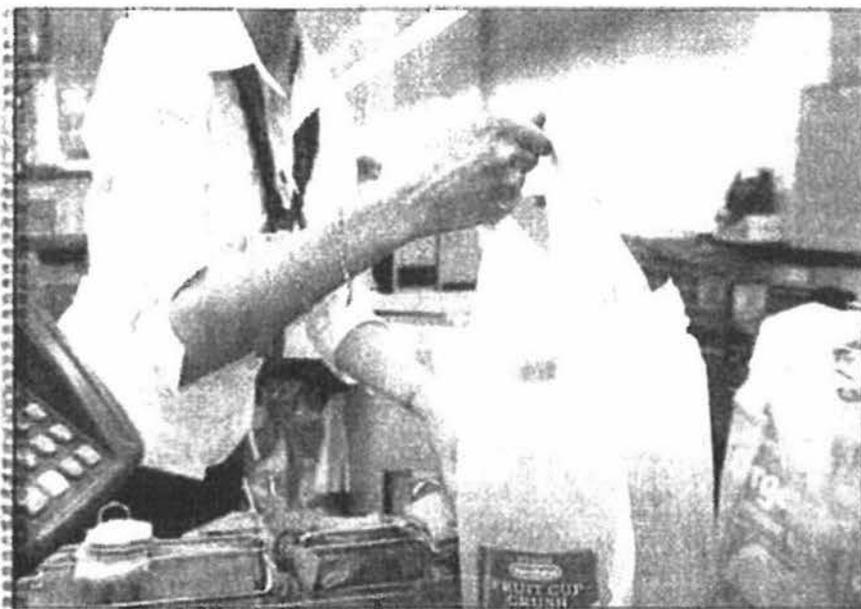
Last month, the commission released the findings of a financial knowledge survey of 856 New Zealand adults. It said New Zealanders wanting financial security faced three challenges: the early age many acquired sizeable personal debt through the student loan scheme; the

relatively deregulated market where a variety of loan and credit products were readily available; and a voluntary retirement savings programme.

The survey showed Kiwis had a poor understanding of compound interest and debt consolidation. Not surprisingly, those aged 18-24 had the lowest level of knowledge compared with other adult age groups, and, if they did have savings, they were less likely to have sought financial advice before investing.

The report said the poor level of knowledge among some young people could hinder them from managing their finances well in the future. Though young people could be expected to gain knowledge with age, the increased pressures on young adults, such as the necessity to borrow for further education and easy access to credit, could mean that they are not equipped to make the best choices at a vulnerable time in their lives.

Internationally, experts are concerned about a double burden that awaits this generation. In years to come, it is forecast they will be saddled with aging parents kept alive longer by the miracles of modern medicine, as well as adult children unable to leave home because of the cost of living and student debt.



**Money, money, money:** People keep on spending, unfazed by the threat of accumulating debts.



**Slipping through their fingers:** Student loans reinforce New Zealand's changing societal attitude toward money — away from the frugality of previous generations, to a modern flippancy about debt, says Brian McGettigan of Agape Budgeting Services.



**Today's young have become serious consumers and are the first generation to be leaving college with massive debts.**



## ▶ YOUTH VIEW

The Dominion Post asked these Wellingtonians in the 18-40 age group about their debt situation and spending habits.

**Shane Cooper, 30, policy accounting**

**Student loan:** \$7000

**Hire purchase:** \$1500

**Personal loan:** \$5000

Believes money is offered too freely to young people. In his early 20s, he struggled to manage his money in the face of constant credit limit increases and ended up with large credit card debt.

"The banks don't care whether someone's in debt or not. They just care about signing people up."

**Maria Bajalica, 19, psychology student**

**Student loan:** \$20,000

**Overdraft:** \$1000

**Credit card:** \$600

**Personal loan:** \$2000

Will use the course-related costs element of her student loan to pay off her credit card. She says among her friends her spending is "pretty average". She spends on clothes and alcohol.

**Adam Manfredi, 19, student teacher**

**Student loan:** \$14,000

**Overdraft:** \$400

Says when the weekly \$150 draw down on his student loan arrives in his bank account, he spends it without considering that he will one day have to pay it back.

**Rebecca Tennant, 19, chef**

**No debt**

Says she is debt-free because "I'm a good girl". She manages her money successfully, but says it is difficult. "I never have anything left at the end of the week, though." She has no savings and estimates she will not be able to afford a house till she is 40 or 50.

**Marc Adam, 24, baker**

**Debt-free with \$14,000 in savings**

Heading off on his OE so he cleaned up his credit card debts and sacrificed his social life for 18 months to save. Says he never knew how easy it was to save till he tried. Says there is a lot of pressure in his age-group to buy gadgets such as iPod and Xbox. He has friends with large HP debt. Most people his age do not realise the value of money, he says.

**Anna Newman, 22, BA student**

**Student loan:** \$10,000

**Credit card:** \$1000

**Overdraft:** \$2000

Has a spending problem. She spends mostly on clothes and cigarettes. "Everyone I know has got an overdraft, a loan and credit cards. Everyone's pretty heavily in debt."





# Sea of debt



Consumers are borrowing like there's no tomorrow and finance companies are booming.

**Adrian Bathgate** reports on the dangers for borrowers and for the 'mums and dads' who lend money to these companies.

**I**T has never been easier to get into debt. It's positively encouraged. Consumers are bombarded by reminders to spend, take on debt and be happy. Like many, Thomas was tempted to consolidate his debts in one loan. Thomas, who has a well-paid job, says consolidation loans allow people to focus on the immediate need and not the long-term consequence.

"Sometimes you've got emergencies happening and you're just looking for ways to cover things. It's more managing the 'now'. You're quite often not thinking of the long-term consequences, such as the interest rates."

Daryll Evans knows all too well about burgeoning debts. As manager of the Mangere Budgeting Service in Auckland, he says a lot of his clients desperately need the money and do not think about how to pay it back.

"They might need the money for a

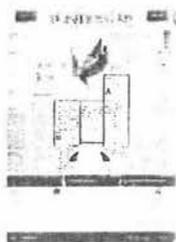
car or a trip to the islands. It's not until debt collectors knock on their door that they realise the situation they're in."

Mr Evans is concerned about debt being pushed at low socio-economic groups. Ninety per cent of the people who use his services owe money to loan providers.

"They target the most vulnerable people, who through a lack of English or lack of education . . . are not aware of anything beyond their immediate situation. Some people are prepared to sign anything to get the money on the given day."

Despite all the comments from the Government and others that we should be saving more, Kiwis cannot resist getting into debt.

The percentage of debt to disposable income has risen from about 50 per cent in 1990 to about 140 per cent.



While the bulk of this is through mortgages and traditional channels such as banks, much of it has been driven by consumer finance companies.

It is hard to avoid the advertisements — "Package your debts up into one easy-to-manage loan."

They offer quick cash advances for a new car, a boat or a holiday. Or you can take debt from credit cards, hire-purchase deals or car loans and package them "with one easy payment".

Interest rates vary widely, but are often similar to credit cards' 17 per cent to 20 per cent.

Where the finance companies appear to be benefiting is not from an increasing number of people getting into debt, but from individuals getting into more debt.

**R**AEWYN FOX, executive officer at the Federation of Family Budgeting Services, says the average overdue debt for people using the federation's services has risen 30 per cent a year for the past three years, from \$2500 to more than \$5000.

"We've pretty much reached saturation point numbers-wise, but there is a growing demand for our time because we're getting complex cases with large debt."

Mrs Fox says consolidated loans may work for some of the federation's clients but in many cases, such as those with debts to power com-

panies, the debt can be negotiated to be repaid without extra cost. If that was consolidated, people could find themselves paying interest when they might not have needed to.

Finance is often targeted at ethnic minority communities, which do not always fully understand what they are signing up to.

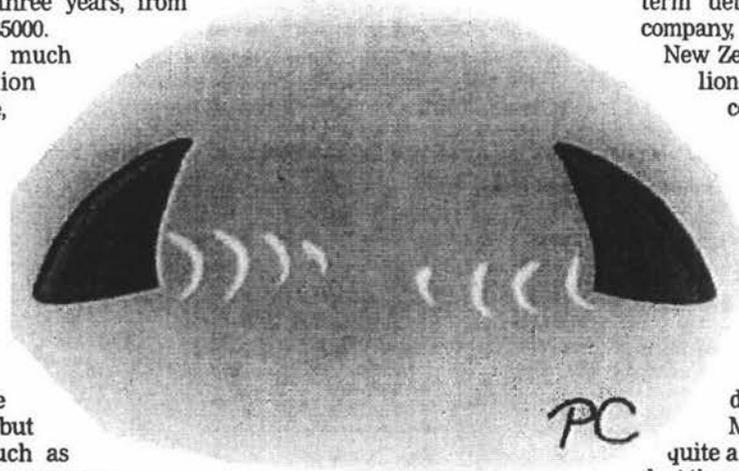
"We're really concerned about the aggressive marketing of debt, not just to low-income earners, but to everybody," Mrs Fox says. "Five years ago that just didn't happen, and that's a real worry for us."

The rise of personal finance companies has been stunning.

"It's been powerful growth," says David Chaston, a commentator with the market-watching service interest.co.nz. "They've done very well in muscling their way into a portion of this industry."

One of the oldest companies in the consumer finance market is Western-Bay Finance.

Founder Jim Smylie says the



growth of consumer finance has been helped by the reluctance of the banks to give short-term loans.

"It just left a gaping big hole for us to jump into. We were one of the first but now every man and his dog is in there."

**A**NOTHER big mover is Geneva Finance, established nearly three years ago. Managing director Glenn Walker says people are using finance more for day-to-day living, such as a car or household appliances.

This made it a more stable business because people would always want a little extra to pay for the essentials.

"It's a different part of the market to the dominant players, which is the banks and their mortgages. It's consumption lending. People have to have cars and appliances and the like."

Although customers usually come from lower socio-economic groups, the risk for finance companies is relatively low. The typical default rate is about 2 per cent.

The average loan is \$5000. Finance companies offer only secured loans. An item such as a car, furniture or television set must be offered as security.

One of the factors regulating how fast finance companies can grow is the number of people willing to invest in them. Finance companies borrow it from "mum and dad" investors in the form of debentures.

In simple terms, finance companies take money from an investor and lend it out. They make money through the interest charged, paying the investor roughly half the interest they charge the person making the loan.

Investors will take a fixed-term debenture from the finance company, normally up to 10 per cent.

New Zealanders have about \$10 billion invested with 180 finance companies.

Finance companies make up about 5 per cent of the lending market, but provide about half the credit for cars, boats and hire purchases.

Some have overseas investments, but most, especially the smaller companies, raise the money domestically.

Mr Chaston says: "There is quite a call to the market, as is evident throughout the pages of the news-





paper, with companies that are seeking to fund their lending and using their rate and their name to do it."

Investors, especially those with little experience, like the simplicity of investing in finance companies. Fixed returns over fixed periods mean investors know exactly what they will end up with over 12 or 24 months.

"The proposition finance companies make is a simple proposition: Invest with me and I'll pay you 8 per cent. Whereas it's a much more intricate fund for, say, the mutual funds business," Mr Chaston says.

**W**ESTERNBAY Finance's Mr Smylie says the money coming from the public is huge. "We have no difficulty getting money in, but I think that's our name that's out there."

Anecdotal evidence suggests some companies are having difficulty attracting investors, he says, as they become "jittery" about prospects.

The simple way to tell loan sharks from reputable operators is that sharks will not go to the public for money.

Having been around a while, WesternBay Finance has a good idea

about who can repay loans and who cannot.

Mr Chaston says there are still plenty of lending opportunities, as the market shows no sign of cooling.

Perhaps the main cloud on the horizon is an impending economic slowdown. A recent Reserve Bank report indicates the finance sector as a whole will have little to worry about, but individual companies that operate in "higher-risk" markets are potentially exposed.

"The companies we're talking about here are reasonably well protected in the foreseeable future from a hard landing," Mr Chaston says. "That doesn't mean to say some of them won't find some difficulty, but I think it will affect profitability rather than activity."

Thomas says his consolidation-loan experience went well, though he knows from past experience that things can quickly sour if payments are not met.

"If you're organised and stick to the plan you're okay. If you lose track and things escalate and you're facing penalties, it can be very expensive."

**WIDER IMPACT C3**

**but calculate it based on the amount borrowed, the length of time and the risk posed by the borrower.**

		%
<b>Ashburton Finance</b>	Personal loan secured	15.00
<b>Credit Express</b>	Personal loan	13.95
<b>Dorchester</b>	Personal loan secured \$1000-4999	18.00
	\$5000-9999	16.00
	\$10,000 and over	13.95-15.95
<b>FAI</b>	Personal loan secured \$10,000-20,000	from 15.95
	Personal loan unsecured \$10,000-20,000	from 22.95
<b>GE Credit</b>	Fixed loan standard \$3000-5000	17.40
	\$5000-10,000	16.40
	\$10,000-20,000	15.40
	\$20,000-30,000	14.40
<b>Mutual Finance</b>	Personal loan secured	from 17.00
<b>Online Finance</b>	Wage advance	520.00
<b>Pacific Retail Finance</b>	Hire purchase secured	23.90
<b>Southern Finance</b>	Personal loan	21.00

Source: interest.co.nz



**MONEY TALKS:** Clare Mataira, left, Hamilton manager of the Budget Advisory Trust, helps clients deal with their financial difficulties.

# We want more, more, more

Kate Monahan looks into why we continue to spend more than we have, and at the ways some people are trying to get out of the red and into the black.

LMOST a month ago, we were eagerly ripping off wrapping paper, opening gifts from under the Christmas tree.

The "presents" arriving in many mailboxes now do not elicit the same exuberant openings.

For many, January and February is arrival time for credit card bills reflecting the excesses of Christmas generosity — shopping, eating and drinking, or expensive summer get-aways. Folk who felt like happy Santas in December can feel more like grumpy Scrooges as the post-Christmas bah-humbug of debt sinks in.

According to CardWatch, a credit card researcher, New Zealanders are estimated to owe about \$4.4 billion

on their plastic, up by almost \$300 million from \$4.1 billion this time last year.

Not only are there Christmas shopping sprees to deal with, but for many people, financial pressures at this time of year include kids uniforms and school fees on top of regular bills — mortgage or rent, loans and hire purchase payment for cars and home appliances.

Reserve Bank governor Alan Bollard has sounded the alarm bell about debt, warning Kiwis that mortgage and credit card debt are spiralling out of control, and we need to put a lid on spending.

It's not easy to find the door to Hamilton's Budget Advisory Trust in Victoria St. You have to be looking



hard to notice the discreet glass door and stairs leading up to their offices beside Credit Union Waikato. It's hidden for a reason. People are generally embarrassed that their finances are a mess, says manager Clare Mataira. There can be a lot of social stigma against those with debt, despite the fact that so many of us spend more than we can afford.

It's a cheerful office, bright and sunny, and the handful of women who work there are a compassionate and friendly bunch. Mataira makes clients feel at ease with her empathy and enthusiasm for the job. "I'm very passionate about what we do."

People from all walks of life, from single mothers to families, use the service, but often it's beneficiaries who are down on their luck and struggling to pay bills. Sickness or job loss can make repaying debt even more stressful. The advisers say anyone can fall into debt if they don't prioritise or plan for emergencies.

"If you miss one week's rent, then the next week you have two weeks due. Before you know it, it can be overwhelming," Mataira says.

"Getting help early, before it comes to a crisis, is important. There is no point making an appointment because your power is being turned off tomorrow."

She says many people take an "ostrich" view to debt. "They want it

to go away. They don't open their bills. Invariably, they are pretty far down by the time they contact us."

We consumers do like our stuff. Compared to other generations, we want more and we spend more, and most of us don't mind going into debt to get what we want now.

Ratios of debt to disposable income are at an unprecedented level, according to the Reserve Bank. Its November 2005 Financial Stability Report showed that among the one-third of New Zealand households with a mortgage, one in 10 is devoting 50 per cent or more of its disposable income to debt servicing.

Without careful planning, and restraint, many New Zealanders begin to feel out of control, helpless and on that slippery slope of missing payments, and facing high interest payments. Many hit rock bottom and don't know how to escape creditors and bills, sometimes moving house to avoid reality.

ONE Hamilton client of the budget advice service, who did not want to be named, spoke about the stress of piling debt on her family, after her husband was made redundant. Despite hunting for a new job, work was patchy. "We were getting further and further behind with rent and bills," she says.

They found themselves moving around the country, in part to avoid annoyed landlords, and looking for



**OUT OF POCKET:** We are a nation of spenders, with credit card bills of \$4.4 billion and counting, in December 2005.

PICTURE: Dominion Post



opportunities. Even after her husband found a permanent job back in Hamilton, the couple, who have four children, were over their head in debt. His \$500 a week did not cover the \$220 rent, living costs and the bills. They got desperate. "I was gambling, trying to make money," she says. "It was getting worse and worse."

Gamblers Anonymous referred her to the Budget Advisory Trust last year.

Like so many clients, Clare Mataira sat them down and made them take a hard look at their spending.

When someone comes into the trust for help, or are referred by Winz or an employer, they have to lay their finances bare, bringing in all bank account statements, bills, insurances, hire purchase loans, credit cards and information on any regular costs. Initial consultation is one hour. Staff at the trust work with clients to draft out a six-month plan.

"People have to be prepared to come back, and prepared to make changes," says Mataira. "We don't have a magic wand, unfortunately. We like to empower and advise on what they can do to help themselves."

Priorities are the "essentials of life" — rent, power and food. Reducing debt, making arrangements with creditors and paying off the bills comes next. They also plan for car WOF and registration, petrol and emergencies — like doctor visits —

before spending money is allocated.

In some cases, as with this couple, balancing the books is taken out of their hands.

"We needed someone to handle things," says the client, who admits she could not trust herself with her own money.

Her husband's pay was put into a new Credit Union account, which the trust had control of and the couple could not access. Bill payments come out automatically, with the remaining money available for the family to spend freely, without concern they were going to bounce their rent check.

"We know what we have got to spend. We are much happier now," the client says.

They moved to a slightly cheaper rental property (\$190 a week) and use any extra money for special trips to see grandchildren in other parts of the country.

The couple is trying to improve their credit rating by paying off money to debt collection agencies, such as Baycorp, on schedule. Years of burying their heads in the sand means their credit history is shot. They are now trying to get back on track.

"It's helping. Now we are using Mr Rentals Home Appliances because we can't do hire purchase. Hopefully in the future, we can buy our own fridge and furniture," she says.

**Continues next page**



# We want more, more, more

From previous page

AS A generation, we deal with money differently than the way others did in the past.

"We are the 'have it now' generation," Clare Mataira says. "We want things now, but wants are not always the same thing as needs. Being able to discern the difference is a real skill."

Waikato Times columnist and financial commentator Mary Holm agrees. "If you go back to our grandparents' generation, they were terrified of debt so they wanted to pay everything off as soon as possible." The children of those who went through war rationing were also taught the value of frugality and saving, but for the generation of today, people in their 20s and 30s, "that is all long gone. It's all been watered down".

Banks and lending institutions don't help. "It's too easy to get too much," says Nigel Tate, a Hamilton financial planner, who believes there should be more financial training in secondary schools. He says you only need to go online to see hundreds of offerings from companies willing to lend money. "It puts a lot of pressure on younger people."

Tate sees kids using prepaid cellphones, which end up costing twice as much than if they went on a plan (and they'd probably get a free phone). "They want the latest things now and are not working out the current value calculation."

Expectations have changed even in one generation. "When I first moved out flatting, we were lucky if we had a TV, let alone a

colour TV," says Tate. "The expectations now of the 'basics' are DVDs, microwaves, stereos."

The temptation of hire purchase means the Budget Advisory Trust has seen some young men in debt because they have committed to cars they can't afford to make payments on after losing jobs, or owe money on because of an uninsured accident. "Protecting your current position is first and foremost," Tate advises.

Young people the Times spoke to seemed to be making sensible efforts to manage spending. One 27-year-old Hamilton man, who did not want to be named, says he has more than \$3000 in credit card debt from an overseas trip, but is adamant he will pay it off soon. "I can't go out on weekends and I'm cutting down on eating out until I get things in order." He had a low-key New Year's Eve with friends instead of partying up large. "Friends call up and want to get together. I say, 'mate, I can't afford to be your friend at the moment'. I've got to draw the line. It's a sacrifice now but I'll be able to enjoy myself later."

Knowing when to bite the bullet and curtail spending is something Mary Holm applauds. She says with credit card interest rates at such high levels (around 18-20 per cent) paying off debt should be high priority. She recommends putting the credit card "on ice" for a while.

Banks tend to prefer customers who will earn them money from interest payments. A staff member from the trust, who reli-



**PAYING DOWN DEBT:** The Soo Choon family of Hamilton are back on track, paying off debt and managing money better, thanks to help from Budget Advisory Trust and Habitat for Humanity.

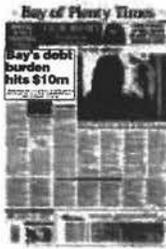
PICTURE:  
Times file

giously pays off her credit card debt in full each month, was refused a second card from her bank. However, the young man with the existing debt was welcomed with open arms. "I went into the bank yesterday and they told me I was the ideal customer for a gold card," he says with a chuckle. "The limit is \$7500." He took the offer.

Reducing debt is not just a change in behaviour, it's a change in mindset.

Donna and Dale Soo Choon have been through the Budget Advisory Trust programme and come out a success story. Two years ago they were struggling.

"We used to live in arrears. Some weeks we were close to running out of money," says Donna Soo Choon. The trust taught them how to negotiate debt and pay off bills before they became a problem. With a new home from Habitat for Humanity, with four young children, they are finally financially on their feet. "The pressure is off. Before our mindset was 'that bill is too much,' so we didn't pay. (That) has changed."



# Bay's debt burden hits \$10m

Money makes the world go round. In the first part of a week-long series, feature writer **Julia Holmes** looks at debt and how we are coping.



THE total personal debt of Tauranga's most financially desperate people has snowballed to more than \$10 million.

Latest debt figures revealed by the Tauranga Budget Advisory Service show that 720 new clients who used their service in the 2004/05 financial year collectively owed \$10,352,250.

Of that, nearly \$3.8 million is in overdue repayments — 20 times what it was nine years ago when it was \$18,643. Arrears today average out at about \$5250 per person.

Debt arrears are indicative of the level of financial difficulty people are in as they show how far

they have fallen behind on their repayments, as opposed to the total amount borrowed.

The figures emerged as part of research into a special *Bay of Plenty Times* Your Money series, launched today.

The top five areas of debt are money owed to banking and financial institutions (20.7 per cent), government departments (17.8 per cent), education including student loans (10.2 per cent), credit cards (9.1 per cent) and household retail goods (8.5 per cent).

The figures give a snapshot of what is happening in the wider Western Bay, and only account for

those who have used the budgeting advice service.

Other Bay budget advisory services affiliated to the New Zealand Federation of Family Budgeting Services show similar trends.

Clients registered with the Papamoa Community Support Centre have fallen \$91,782 behind in debt repayments compared to \$9000 nine years ago, although this has been steadily reducing since 1990/2000 when debt arrears peaked at \$875,739.

Figures from Te Puke Community Care Trust were only available



from 2001/2002 when their clients were \$155,824 in the red compared to \$204,793 last financial year.

Budget advisory services provided by Ngaiterangi iwi and Ngai Tamawahariua hapu have respective debt arrears of \$200,000 and \$96,249 on their books.

The *Bay of Plenty Times* Your Money series follows a stern warning from Reserve Bank Governor Alan Bollard a week ago about unsustainable levels of borrowing and spending.

Dr Bollard pointed out that New Zealanders do not save any of their income and instead "dis-save" around 12 per cent — the worst savings record in the OECD.

The Bay's burgeoning debt problem has been attributed to a combination of greater credit availability and the erosion of the stigma attached to borrowing money.

Marjorie Spicer, office manager at the Tauranga Budget Advisory Service, said that over the past few years she had seen an increase in multiple credit card debt and multiple personal loans.

"When I started, it was multiple

hire-purchase debt. Now people are going into debt to pay debt. We had one instance where the person had three credit cards and they were using one to pay the other . . . they were using them in a cycle. Taking loans to pay loans gets them nowhere because it's costing them interest to pay interest."

The number of people using the service had not increased in recent years but people were coming with higher debt and more complex situations, Mrs Spicer said.

"It's not only multi-debt but also multi-families. For instance you have someone who has \$30,000 debt, is on the DPB and then you find out the mother-in-law's house is at risk because it's been used as security . . . or a relationship breaks up and they leave the partner with debt."

And, while there were genuine bankruptcy cases, a growing ambivalence towards debt meant there were more people looking for an easy way out.

"We had a girl who wanted to go bankrupt because she had a student loan. The whole attitude of people is changing. It's too 'easy

come, easy go.' A lot of it is lack of education. We are getting second and third generations of bad money management."

Ministry of Economic development figures show there were 104 personal bankruptcies in the Western Bay last year.

The numbers have fluctuated little over the past five years but the profile seems to be changing.

"Most of them are young. There are kids in their early 20s going bankrupt," Mrs Spicer said.

She believed the solution lay with retailers and loan companies who should carry out more stringent credit checks.

Ian Cooper, group marketing manager at Baycorp Advantage, agreed it was easier to obtain credit and that people were more comfortable doing so.

"The social stigma is not as strong as it used to be," he added, referring to bankruptcy.

Those who were declared bankrupt however would have it flagged on their credit file where it would remain for five years.

■ Continued Page 2

6 There are kids in their early 20s going bankrupt. 9

— MARJORIE SPICER



**WHAT YOU NEED TO KNOW**

**PERSONAL LOANS**

■ **Interest rates:** 11 to 18 per cent per annum for secured lending; up to 21 per cent for unsecured; car loans 11.5 to 18 per cent per annum.

■ **Fees:** Anywhere from \$10 to \$250 in application fees.

■ **Advantages:** Often cheaper than hire purchase or credit cards. Car loans command a lower rate than an unsecured personal loan because they're secured against the vehicle.

■ **Drawbacks:** If you want more credit, you'll have to re-apply - likely to cost you more in fees. If the loan is secured, you may be up for valuation and legal fees.

■ **Worth considering:** If you're buying an expensive household item, car or consolidating more expensive loans.

**HIRE PURCHASE**

■ **Interest rates:** If it's not interest-free, expect to pay 16 to 27 per cent per annum.

■ **Fees:** Generally a booking/establishment fee applies, of between \$20 and \$50. Add another \$20 to \$40 if you want delivery.

■ **Advantages:** Available pretty much everywhere and you don't need security to get it. Special interest-free promotions are worth hunting out.

■ **Drawbacks:** Can be outrageously expensive. You can easily end up paying more in interest and fees than the original cost of the item. Watch for the length of the interest-free period.

■ **Worth considering:** If you're buying household items.

**OVERDRAFTS**

■ **Interest rates:** Around 12 to 15

per cent per annum if authorised. Unauthorised overdrafts attract interest rates up to 22 per cent per annum.

■ **Fees:** Vary from bank to bank. Unauthorised overdrafts can have hefty fees and normally higher interest rates.

■ **Advantages:** Overdrafts are a handy tool if you don't know how much you want to borrow or for how long you want the loan. You can simply borrow money when you need it, with the term of the loan open-ended so you can repay it when you want. Once you repay an overdraft, you can borrow the money again without re-applying.

■ **Drawbacks:** They can be more expensive than a personal loan, and if you go over your limit, rates will be even higher.

■ **Worth considering:** For short-term borrowing. But use only a pre-arranged overdraft.

**CREDIT CARDS**

■ **Interest rates:** Close to 20 per cent per annum for most cards, but down towards 11 per cent for some.

■ **Fees:** If you're paying a low-interest rate, expect to pay a higher annual fee - up to \$70. For standard credit cards, the annual fee is often around \$15 to \$25.

■ **Advantages:** Flexible, accepted worldwide and some cards offer good loyalty reward schemes.

■ **Drawbacks:** Expensive for long-term borrowing as interest rates are high.

■ **Worth considering:** As a way of paying monthly bills and for purchases. You'll save on bank charges. If you use your credit card for bills and purchases, you can be charged no interest and will

receive up to 55 days' worth of free credit. All you have to do is pay off the outstanding balance in full.

**MORTGAGE TOP-UP**

■ **Interest rates:** Banks' floating rates are currently around 7 per cent per annum.

■ **Fees:** Ranges up to \$500 for establishment.

■ **Advantages:** Interest rates are a lot lower than other forms of finance because the loan is secured against your house.

■ **Drawbacks:** If you default on payments, you risk losing your house.

■ **Worth considering:** For renovations and home improvements.

**MORTGAGE AS A LINE OF CREDIT**

Another option is where your mortgage gives you access to ongoing credit to a set limit. It's like an overdraft, but because it's secured against your house, interest rates are lower.

■ **Interest rates:** 6.50 per cent to 7.75 per cent per annum.

■ **Fees:** A loan establishment fee can cost up to \$300.

■ **Advantages:** Access to credit at reasonable interest rates. Choose your own repayment period for the personal finance component of the mortgage.

■ **Drawbacks:** The large amounts of money on offer could be so tempting, you'll stay up to your ears in debt.

■ **Worth considering:** For renovations and home improvements or buying an expensive household item.

— *Consumers Institute of New Zealand*



# Bay debt hits \$10m on back of new views on borrowing

## ■ from page 1

Baycorp held credit files on 2.2 million people and he urged individuals to obtain a copy ([www.mycreditfile.co.nz](http://www.mycreditfile.co.nz)).

"People need to be aware of what's on their credit file."

Tauranga debt collector Delwyn Weatherly said creditors were not to blame.

"There are people who will run up debt all over the place and they use two, three, four names. They have ways of getting round systems ... they even produce evidence."

Creditors were often made to feel guilty for asking for money that was rightfully theirs, she said.

"I get annoyed with debtors' attitudes towards bigger companies. It affects everyone. Unpaid debt is no different to theft. It's no better than burglary."

While the majority of debtors she dealt with were beneficiaries, there were also those at the other end of the scale.

"You are dealing with a low socio-economic group but there are also wealthy people as well."

The type of debt incurred varied from spending on household goods to unpaid utility bills.

"Video hire is a huge problem. Videos and playstations are quite often not returned. That's a real common one, even though most [video stores] have taken huge precautions ... they take photos and copies of their driver's licence."

With car purchases, Mike Farmer, managing director of the Farmer Motor Group, had noticed a trend towards finance, rather than people extending their mortgages.

"When properties were heading skywards ... a lot of people increased their mortgages over that period. Now they are trying to keep that funding separate. We're certainly noticing that. We are loaning considerably more amounts of money."

Nice cars had become accessible to more people as the motor industry streamlined how vehicles were financed, he added.

"People have become more comfortable ... it has become more accepted."

Stuart Locke, associate professor at the University of Waikato's finance department, points out that credit cards only became mainstream in New Zealand in the 1980s.

"We are talking about a generation that has had credit card availability. Prior to that everything was cash or cheques. There was not the same level of consumer borrowing," he said.

"People used to borrow to buy a house and they saw themselves as going into debt. They wanted to get out of debt and pay it off."

"Young people don't talk about debt, they talk about leverage. The whole idea of debt being a bad thing, something to avoid, has changed over the last generation. Now it's acceptable to be in debt and to actually borrow more in order to acquire more assets."



# Conquering the debt mountain

*12 steps to getting the family cash back under control*

**The size of Kiwi consumer debt is shown by nearly \$4.2 billion outstanding on credit cards. Total debts on households were \$122.83b last year.**

By **ROB STOCK**

**DEBT IS** becoming a big problem for New Zealanders and about 15 in 100 are finding it unmanageable.

But the biggest cause is not useful mortgage debt.

Consumer debt, for things such as TVs, stereos and cars, is often driving families into a payments crisis, says the Federation of Family Budgeting Services.

Last year, it gave 33,000 people crisis debt-management help. That figure is down from more than 40,000 five years ago, but the decline is because of a lack of volunteers, rather than a drop in people running into arrears, says Jarrod Rendle, the federation's information and development co-ordinator.

Rendle says a clear trend has been the steady increase in the amount of debt people can easily incur.

Now, when a person contacts the service they are likely to be \$2700 in arrears. The total debt of people helped by the federation is about \$346 million.

But the true size of Kiwi consumer debt is shown by the nearly \$4.2 billion outstanding on credit cards.

Reserve Bank figures also show \$1.57b in outstanding consumer and personal loans from banks and \$5.77b from non-bank lenders at the end of last year.

There is also \$6.16b in student loans, taking the total debts on households to \$122.83b including mortgages at the end of last year.

The interest bill on credit cards alone will be about \$836m this year.

Although debt enables people to buy things without saving for them, it also introduces risks into their lives, says the federation's chief executive Raewyn Neilsen.

Debt means families are closer to bust if a breadwinner loses their job, falls sick, or faces a sudden large expense.

When deeply indebted families find their cash has dried up for any of those reasons, penalty fees and interest on their debts increase the speed with which they head towards financial

oblivion.

Here's the *Sunday Star-Times* 12-step guide for those hoping to get out of debt.

**Step 1: Admit you have a problem:** Most people wait until crisis point before taking action. If you will be in arrears six weeks after losing your job, you have too much debt and not enough emergency cash.

**Step 2: Understand the enemy** Try this simple exercise. Take out a \$10 note. Dedicate it to your TV/stereo/new car, then burn it. You would not dream of doing something so ridiculous... but that is what bad debt is. For good debt, used to buy an appreciating asset such as a house, paying interest is a reasonable cost of ownership. To buy a luxury item or holiday it is unjustifiable.

**Step 3: Do the "loved ones" test:** Look into the eyes of those you love (for single people a mirror can help), and think about the risk you



—taking with their future. Debt has been re-branded under the more palatable word “credit” (credit record, credit card, credit checking, etc), but that should not hide its true nature. It gives commercial interests power over you and your dependants. That is a risk worth taking to buy a home if sensible precautions are taken – do not overstretch yourself, have loan insurance and a two-month emergency fund – but not a car or TV.

**Step 4: Get a positive vision**  
Your debt is making others rich, and you poorer. Your aim has to be to invest your hard-earned dollars and let some other mug pay interest on it to you. That is a vision worth chasing. Work out what you are paying in interest each week, then multiply it by 52. That is the cash you should be laying down as future wealth. If you owe \$3000 on your 19.45% credit card, you are probably paying \$585 each year. If that cash was saved, in 10 years you would be \$6630 richer.

**Step 5: Get a plan:** If you are in a debt trap, you need an escape plan. Write down the size of your debt, how much you can pay off weekly, and work out how long it will take to pay off. Then, work out how much more quickly you could pay it off and go for it. Throw pay rises and windfalls at it. Make a repayments schedule and celebrate milestones. First you will enjoy your “half-out-of-debt-day” then your “no-more-debt-day”.

**Step 6: Get a better deal:** If you want to pay less interest, swap that credit card for a low interest rate card. Kiwibank’s card, for example, has a rate of just 12.9%. Perhaps you could switch your balance to a new card offering a 0% six-month deal.

Some people refinance their expensive debt into their mortgage. Great idea, except you could end up paying it off over 25 years, which will cost you even more. If you do that, increase your mortgage payments.

**Step 7: Sidestep the bad guys**  
The aim of debt consolidation is not to get one easy payment each month. It is to pay less and get out of debt quicker. Be wise to the clever tricks, and never incur a new, more expensive debt to pay off an old debt.

**Step 8: Go snowballing:**  
That’s a hip American term for concentrating your fire on expensive debt first. If you have debts at 19% and 11%, pay off the 19% debt faster, and pay only the minimum amount on the other until the first is cleared.

**Step 9: Negotiate:** If you are really in a debt hole, start negotiating and do not let yourself be browbeaten. The new Credit Contracts and Consumer Finance Act forces lenders to consider “reasonable” changes to repayment schedules without increasing interest payments. If you are heading to a crisis, make a proposal to your lenders based on your ability to pay.

Put everything in writing and offer to review the position monthly or quarterly. In really bad cases, ask them to freeze the interest charges to let you get back on top.

**Step 10: Get help:** Feeling overawed or outgunned? Seek allies. Find your local Family Budgeting Centre (Yellow Pages or [www.familybudgeting.org.nz](http://www.familybudgeting.org.nz)) or Citizens Advice Bureau. If you are being threatened legally or being strong-armed by lenders, you should visit your community law office.

**Step 11: Make money, save money:** Some people sell unwanted goods on TradeMe to pay their debts. Others hold garage sales. Consider taking a second job at weekends or taking in a lodger. Stop unnecessary spending on things such as coffees which add little to your lifestyle.

**Step 12: Foolproof yourself:** If you have serious trouble avoiding temptation, leave the credit card at home, or simply get a new hobby and stop shopping. Some people find it helpful to schedule their bill payments for the day after they get paid, so they do not feel rich and go on spending sprees.



If you have a game plan, you can beat debt. Photo: Ianis Stewart



# Credit card frenzy costing too much

Kiwis could save millions on interest charges if they shop around for the right credit card.  
**Ruth Hill reports.**

**T**IS the season for a frenzy of consumerism, when carefully calibrated budgets are discarded like last year's Christmas wrapping paper.

As a country, we are spending more than we earn — the current account deficit gobbles up 8 per cent of gross domestic product.

New Zealanders have the distinction of being the worst savers in the Organisation for Economic Cooperation and Development, spending around \$1.13 for



**Trap for the unwary:** Meeting repayments on credit card spending can push households that are already under financial strain to breaking point, Family Budgeting Services says.



It has never been easier to borrow money. In September, New Zealanders owed more than \$4 billion on credit cards, up \$217 million on last year.

This profligate consumer spending has kept the economy humming, but some belt-tightening is in order, economists warn.

The director of Massey University's department of finance, banking and property, David Tripe, says New Zealand is experiencing "a real splurge" of borrowing.

This is mainly due to New Zealand's over-heated property market.

Despite much finger-wagging by Reserve Bank governor Alan Bollard — widely regarded as the Christmas Grinch for raising the official cash interest rate to 7.25 per cent this month — homeowners have continued to borrow against the increased capital value of their properties.

But when property prices stop increasing exponentially, people may find themselves over-extended, Mr Tripe says.

"Or it may be retailers who end up suffering, because they have been selling on the backs of people borrowing."

Banks encourage credit card usage because they get a better "revenue stream" from retailers' fees and hefty interest charges from debtors — people who can't, or forget, to pay their bills on time.

In the year to June 20, 2004, New Zealanders used their credit cards to purchase goods and services worth \$20 billion. Around a quarter of cardholders paid monthly interest charges, with an average outstanding monthly balance of \$1600.

Yet 65 per cent of those surveyed by Massey researchers had no idea what their interest rate was, and 59 per cent did not know what fees they were charged.

Mr Tripe says though spending has gone up, the increasing proportion of "non-interest bearing debt" suggests

that New Zealanders are becoming more strategic about their credit card use.

With a plethora of features to assess, such as rewards programmes, annual fees, interest rates, interest-free periods, currency conversion fees, it can be confusing working out which card is best.

CardWatch, an online rating system run by investment management consultants FundSource, assesses all the cards in New Zealand from one to five stars based on whether you are a "transactor" or a "debtor".

CardWatch spokeswoman Laura Somers-Edgar says many people are realising there are real benefits to using credit cards for every-day expenses.

"These 'transactors' don't incur transaction fees," she says.

"They accrue rewards points and get the benefit of interest-free days, which are hugely valuable if you're earning interest on that money."

However, the convenience of using a credit card is costing cardholders tens of millions of dollars more each year than it has to, Ms Somers-Edgar says.

"New Zealanders pay \$500 million on interest payments alone each year . . . . If they had shopped around, last year alone they could have saved more than a third of that."

While there is "the odd case" of cred-



**Retailers may end up suffering because they have been selling on the backs of people borrowing, says David Tripe.**



it card debts getting out of control, New Zealand banks are generally more cautious about raising people's credit limits, she says.

"We don't have the problems like they do in the States with pre-approved credit card offers."

However, there are signs that credit cards are being marketed more aggressively here.

This month, the Bank of New Zealand has come under fire for being "socially irresponsible" in offering credit cards with pre-approved limits of up to \$5000 to thousands of non-bank customers on the Fly Buys database, which turned out to include bankrupts, unemployed people and people with intellectual handicaps.

The banks insist there are adequate safeguards in place.

But banking ombudsman Liz Brown says there have been several cases in which banks have issued cards to people incapable of repaying the debt.

In one case, a beneficiary with a gambling addiction and bipolar disorder was initially given a \$3000 credit limit, which was upgraded to a gold card with a \$9500 limit.

"I would like to see a change in the code so that when banks are offering credit increases, the customer has to take some action to receive that extra credit," Ms Brown says.

Consumers Institute head David Russell says such offers are "ethically reprehensible".

But the mailout underscores the lesson that people should be careful about putting their signature to any document, he says.

The president of the Federation of Family Budgeting Services, Raewyn Fox, says that if households are already under financial pressure, the strain of Christmas spending can push them to breaking point.

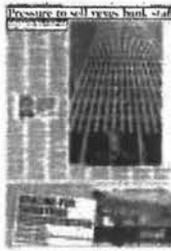
Many people used credit of all kinds — for hire-purchase and loans, as well as credit cards — to pay for items such as fridges, washing machines, and beds, and then to pay for weekly expenses such as petrol and groceries after all the money has gone to pay the power bill, she says.

"It's very easy to get credit — but obviously not so easy to pay it back later if you didn't have the money in the first place." — NZPA

## ► CREDIT WATCH

**Tips on how to use your credit card (courtesy of CardWatch).**

- If you have outstanding debt each month, consider transferring the balance to a low-interest card, which could save hundreds in interest and reduce debt faster.
- If you have a large balance to pay off but you still want to use your card for day-to-day spending, consider splitting your usage between two cards: choose a debtor card for the outstanding balance and transactor card for the new spending you will pay off each month.
- Choose cards that will allow balance transfers, so that if you are occasionally unable to pay the balance on the transactor card, you can transfer it to the debtor card and avoid high interest charges.
- If you are being charged interest, don't wait till the due date to make your payment but do it as soon as you have the money. This reduces the interest you are charged.
- If you have a problem with impulse shopping, try putting the card in a glass of water and freezing it. In the time it takes to thaw out, you will have ample time to think seriously about whether it is a necessary purchase.
- If you can't afford the card, chop it up.



# Pressure to sell vexes bank staff

**Bank staff are speaking out against a culture that forces them to push debt on customers. ROELAND**

**VAN DEN BERGH reports**

**T**here was a time when the bank manager was a source of sound, reliable financial advice. A man of high standing in the community to whom customers went on bent knee for a loan.

How times have changed.

Today the bank manager has been replaced with fresh-faced "consultants" who have a mountain of money to throw around like confetti.

The more debt they can load on to their customers, the higher their income and the bigger the bank's profits.

As a result customers can no longer accept at face value a bank's financial advice, or that it necessarily has their interests at heart when applying for a home loan, or accepting the offer of a credit card.

In recent years New Zealanders have grabbed the loot on offer with both hands on the back of booming property values.

Total household debt in the year to October is up 15.3 per cent to \$128 billion — of which about \$117 billion is in mortgages, up 16% on the last year.

Credit card debt to September stood at nearly \$4.1 billion, up 8.4% on a year ago. Nearly two-thirds of that credit card debt is not being paid off each month, earning banks an average of 18.7 per cent in interest.

Reserve Bank Governor Alan Bollard has increased interest rates in a bid to curb spending, so far with little effect, and has called on banks to moderate their lending behaviour.

Shareholders' interests will not be achieved "if they promote loans to people who cannot afford them", he said.

"Banks need to focus on their long-term interests, not just their one-year profit growth or market share targets."

Westpac chief executive Ann Sherry rejected the call at the time of announcing the bank's \$611 million profit, saying banks were simply catering to customer demand in a competitive market.

"The reality is, you do have a market where people are insatiable in terms of demand for housing as a primary form of investment saving," she said.

The full labour market, higher wages and more two-income households had also lowered the risk of increased borrowing, she said.

But bank staff are beginning to speak out against a culture that they say requires them to push debt to meet sales targets.

A Bank of New Zealand employee labelled the bank "socially irresponsible" after it sent an offer of pre-approved credit cards with limits of between \$3000 and \$5000 to thousands of non-customers.

The recipients qualified for the offer — made just in time for Christmas — because they had made regular purchases

linked to the Fly Buys loyalty scheme for a long time "which indicates an ability to service debt and, most likely, employment".

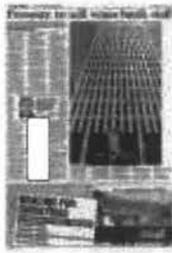
Under the banking code, banks can provide credit to customers only when information held on the customer indicates an ability to repay the debt.

The Fair Trading Act requires advice to be given with "reasonable skill and care" and for the product being sold to be fit for the purpose.

Some Westpac staff are also crying enough, and using their collective employment agreement bargaining round to highlight excessive pressure to sell ever-increasing debt to customers in the pursuit of higher profits and bigger market share.

They claim that having sales targets linked to their salary compromises their ability to give objective advice to customers, and instead encourages them to sell products that are most profitable for the bank, but not necessarily in the customer's best interest.

This week, Westpac staff refused to sell to their targets for a day, and provide only loans that customers asked for or needed. A Westpac customer service worker is set a target of up to 8575 points a year. They earn 10 points for opening an



account, but 25 points for selling a credit card.

For consultants the target is up to 13,305 points, earning 5 points for every \$10,000 of home lending or \$1000 of personal lending.

Staff also accrue points for selling insurance and wealth management products, as well as for customer service and the number of contacts with customers. But these carry a much lower score.

Westpac staff must achieve at least half their targets to be considered for a pay increase.

BNZ has a similar points system and tells its staff that "customers who have more products and services with us, consider themselves more loyal and satisfied".

The sales targets are set to maximise cross-selling and up-selling to customers, to presumably ensure their happiness.

Banks also have ways of massaging the numbers to suit customers' needs.

National Bank, for one, allows potential borrowers to use a pro-forma budget to assess their ability to repay the loan.

The budget, sourced from Statistics New Zealand, is several years out of date and assesses the grocery bill for a family of four at \$134 a week

when about \$200 is more realistic.

The figures are used "to make the numbers fit" when a customer's actual spending exceeds the lending requirements, according to one consultant.

On Thursday, financial services union Finsec increased the pressure by presenting the Reserve Bank with a submission claiming that rewarding staff for meeting lending and debt targets could be inflationary.

"Cross-selling and up-selling is creating undue lending," Finsec general secretary Andrew Cassidy says.

A mortgage is the one product that is bought for life and also has the biggest impact on the economy, he says.

Bank computer models are programmed to provide the greatest amount a customer can borrow. A customer applying for \$10,000 personal loan might be told they can borrow \$15,000, based on their income. It is then up to them to turn down the offer.

"You are probably going to say, 'I can get a better car'," Cassidy says. "The industry issue is about saying, 'You sell to need and (the) capability to service (the debt)', not just (the) capability to service."

ANZ National and ASB Bank do not link sales performance

to salaries, but Finsec is concerned they could do so.

State-owned Kiwibank and Taranaki-based TSB Bank take a less intensive approach to performance targets, largely due to their relatively small size and less-sophisticated computer systems.

Westpac's head of consumer banking, Henry Ford, says the target system encourages a proactive relationship with customers, and a good understanding of all products.

"We train our people to have a proper needs-analysis conversation (with customers). That eventually leads to sales, but the bank is not all that fussy about which product it is".

Ford disputes that the targets have a bias to lending, saying that only 45% of the sales points are for debt products.

"We have no vested interest in having our customers taking on more debt than they can cope with."

The bank is preparing to send information to customers to get them thinking about the future of interest rates as a massive bubble of fixed-term mortgages come up for review next year.

"At the end of the day we put options in front of the customer and say, 'This is our reading of where it is', no-one has got perfect vision of what the future is going to be," he says.

Banking ombudsman Liz Brown has concerns about pressure on staff to sell particular products which have led to customers being disadvantaged in the past.



**"The reality is, you do have a market where people are insatiable in terms of demand for housing as a primary form of investment saving."**

**Ann Sherry**  
Westpac chief executive



In the late 1990s, banks pushed customers to buy into managed funds rather than putting their money on much lower-risk term deposit.

Customers who took the advice began losing money almost from day one, she says

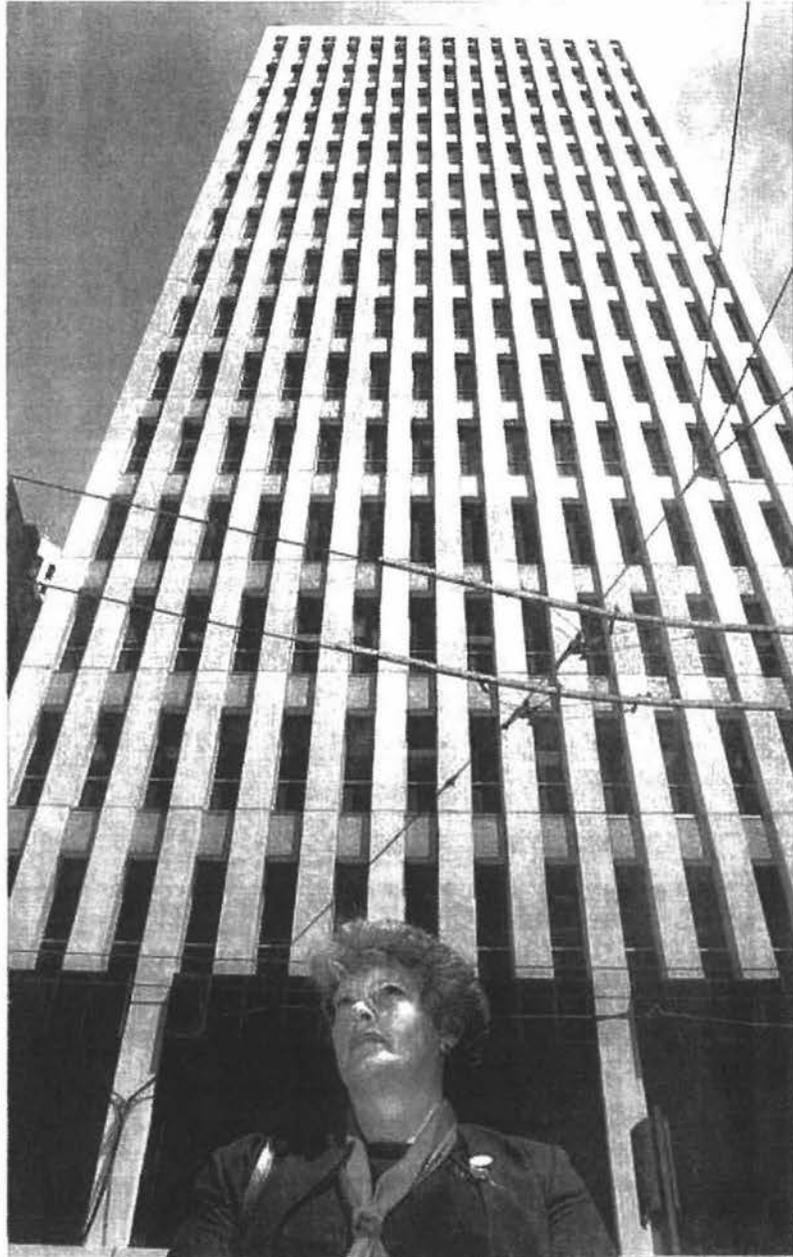
Pressure selling for lending could lead to a similar situation, she adds. "My concern is . . . that if there is pressure on staff to sell and this is resulting in some poor selling practices,

then when we have a change (such as movements in interest rates), that will show up any deficiencies there may have been, and will result in problems for people."

Consumers' Institute chief executive David Russell says banks and their staff are in a position of trust and any benefits that staff might receive from making a sale "should be made absolutely clear and up-front to the consumer".

"Once you start on-selling products, particularly without full disclosure, that trust is being breached. The benefit of putting you further in hock is not for your benefit or lifestyle, but simply for the return to the bank."

Consumers should remember bank staff "are sophisticated, polished corporate money lenders".



Too much pressure: Maxine Mullins from Westpac in Levin, is concerned about unrealistic sales targets set by the bank.

Photo: Derek van Post

# First-home buyers pack on the debt

**MATTHEW TORBIT**

**GREATER** numbers of first-time homebuyers are struggling to make ends meet as they take on mortgages that stretch their incomes to the limit.

Family welfare and financial support groups say first-home buyers are loading themselves up with debt and are needing outside help to pay bills.

Studies indicate home affordability has sharply deteriorated since 2003, with 75 per cent of the average income now needed to finance the cost of the national average home.

In 2003, the average cost to finance a home was 43.5 per cent of the average Kiwi's take-home pay.

Citizens Advice Bureau social policy manager Louise May said utility bills and food budgets would be the first to feel the pinch when loan re-

payments became too much. There had been a surge in those seeking help to pay bills in recent years, but she was unable say how much was related to mortgage debt.

Banking ombudsman Liz Brown said banks had a legal obligation to lend responsibly, and most home-loan-related complaints her office received were from people who had been refused loans.

However, she said many of the people turned down by banks went on to seek finance from secondary lenders, such as finance companies.

"And I am sometimes horrified at the administration costs and interest rates these companies sign people up for."

She said finance companies were operating unchecked, but the Economic Development Ministry was looking into ways to regulate the industry.

Ms Brown said the days of putting on your best suit and begging your bank manager for a loan were long gone.

Governments before 1987 set conservative lending caps on banks, but the establishment of the Reserve Bank Act gradually allowed banks to lend as much as they wanted, she said.

The Federation of Family Budgeting Services chief executive, Raewyn Fox, said secondary lenders were creating a "culture of debt" and were encouraging people to overspend on superfluous goods.

"A few years ago, there was nothing. Now you're getting bombarded with ads on television and pamphlets through your letterbox encouraging you to get into debt with these people."

## Banks push the spending addiction

Dominion Post  
03/12/05

**I**F MONEY is a drug, banks are pushers, par excellence. It is time they put away the golden needle and started helping customers go cold turkey for Christmas.

This week, Bank of New Zealand was pinged by one of its own staff for sending credit card offers of \$3000 to \$5000 to thousands of people. Some were unemployed, some mentally impaired, and some even bankrupt, according to the worker.

These people were not already BNZ customers, but were chosen from a Fly Buys database. A nifty idea to target big spenders.

The bank says it excluded bankrupts and would not deliberately give credit to people who could not pay it back. (Though it admits to a 2 per cent repayment failure rate.) But if someone, sent you \$5000 cash three weeks before Christmas, would you turn it down? Fat chance.

A bank's best customer is the fool who runs up the credit card to the \$5000 maximum, pays the minimum amount, and forks out 20 per cent interest on the debt. Great business for the banks, not wise for the customer.

And notice how the banks lift your credit card limits without you asking? This is drip-feeding temptation. Would you like to extend the mortgage for a holiday or buy an investment property? No problem, even if property prices are overheated. And it's silly to borrow \$5000 for a holiday and pay it off over 15 years.

Credit card offers are the tip of the iceberg, but they show the pervasive bank culture of loading up customers with debt. Total household debt is now about \$128 billion — up a staggering \$32 billion in just two years. Rising debt and rampant spending are part of the reason that official interest rates will rise again next week.

Bank staff have to push loans to achieve bank profit targets. Unions say it is not just "customer demand".

To get pay rises, and keep their jobs, Westpac bank branch consultants have to lend between \$2 million and \$5.2 million a year, get personal lending of \$660,000 and pull in \$26,000 a year in fees from customers.

It should be a wake-up call to BNZ and other banks when staff put their jobs on the line and speak out against their employer. Expect the debt targets to lead to industrial action soon.

More importantly, banks should be helping customers with the best financial advice, not just another loan. Some have plenty to do to win the hearts and wallets of customers.