



# Building the Financial Capability of New Zealanders Experiencing Hardship

An overview



MINISTRY OF SOCIAL  
DEVELOPMENT  
TE MANATŪ WHAKAHIATO ORA

# From Budgeting Services to Building Financial Capability

Starting in 2015, the Ministry of Social Development (MSD) undertook a co-design process to explore how it could redesign budgeting services to better meet the needs of New Zealanders experiencing hardship.

Our co-design process involved talking with over 450 people – in group discussions, workshops, intensive interviews and design sessions, and feedback sessions. We were influenced by the NZ Productivity Commission, the Commission for Financial Capability, and Auckland City Mission's Family 100 Project.

Clients and providers told us that clients' needs have increased in complexity and diversity, and that financial capability is about more than just having a budget.

In response to this we are taking a new approach that puts the client at the centre and supports them to build their financial capability and resilience. It includes the insights we gathered directly from people experiencing hardship in New Zealand.

## What's changing?

From November 2016, the new Building Financial Capability services are replacing budgeting services.

The first steps to designing services that are responsive, adaptive and consistent include:

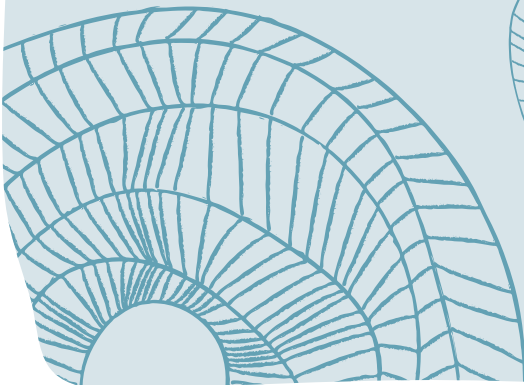
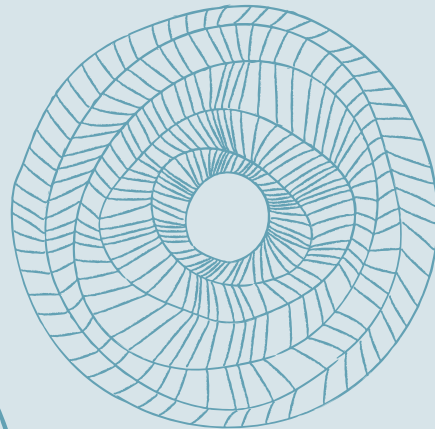
- reframing budget advisors as financial mentors
- new MoneyMates – peer-led support.

Services will be supported by:

- a Financial Plan of Action
- a consistent referral practice and communication with Work and Income.

## We are now working on further opportunities, including:

- provider capability and training
- money management
- financially inclusive products
- ways to generate income and resources
- mobile, online and after-hours service accessibility.



# Our vision of building financial capability

## What we want to achieve

By building the financial capability of people, their families and whānau experiencing hardship, they will have:

- reduced unproductive debt
- reduced stress caused by financial problems
- increased short- and long-term savings
- improved financial confidence and capability
- improved resilience to cope with financial shocks
- improved financial and material wellbeing.



**Our vision is to build the financial capability and resilience of people, families and whānau experiencing hardship.**

## Supporting the journey to financial resilience requires:

- financial and non-financial resources
- financial knowledge and behaviour
- inclusive financial products
- social capital.

## We will deliver a client experience that is:

- client-centric and embedded with learning
- integrated and connected
- culturally responsive and relevant
- accessible when needed
- whānau-centred
- strengths-based and aspirational.

## What is financial capability?

Financial capability is 'the ability to make informed judgements and effective decisions regarding the use and management of money'.

*(The Commission for Financial Capability)*

## What is financial resilience?

Financial resilience is 'the ability to access and draw on inherent capabilities and appropriate and accessible external resources and support in times of financial adversity'.

*(NAB and Centre for Social Impact, 2016)*

# Understanding hardship in New Zealand

At least twice in the last 12 months around 12% of New Zealand's population has:



not been able to pay rent or mortgage on time



been unable to pay utility bills on time



received help (food, clothes, money) from community organisations



borrowed money from friends or family to meet everyday living costs.

(MSD analysis of Statistics NZ 2015 Household Economic Survey)

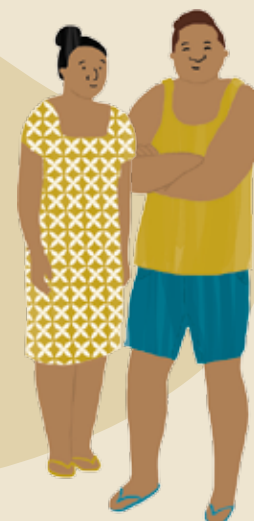
Ethnicity percentages experiencing material hardship in 2013/14:\*

**35% PACIFIC**

20% MĀORI

5% EUROPEAN / PĀKEHA

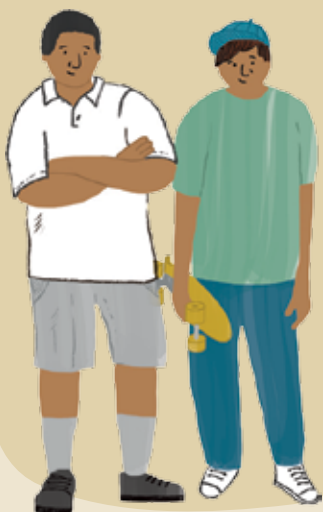
4% OTHER ETHNIC GROUPS



## Who is experiencing hardship?

Those affected are primarily Māori and Pacific peoples, sole parents (who are mostly women) children, and people living in rental housing.

Between 2012–2014, on average, the number of children living in households experiencing severe hardship were:§



**33% MĀORI**

28% PACIFIC  
5% PĀKEHA

ABOUT **12%**

of households report not having enough money to meet their everyday needs.

Statistics NZ, (2014) New Zealand General Social Survey.



**1 IN 4**

households report having only just enough money.

Statistics NZ, (2014) New Zealand General Social Survey.

Of the 272,257 people receiving hardship grants in 2015/16:†

**59% FEMALE**  
41% MALE



Women are more likely than men to head a sole-parent family, which is one of the high risk factors associated with persistent poverty.

In 2013 there were 201,804 sole-parent families in New Zealand. 84.2% were female-headed.\*



# How we worked through the co-design process

Our co-design process began with intensive interviews with 18 clients of budgeting services.

The interviews created the basis for understanding the experiences of people, families and whānau experiencing hardship. We gathered valuable insights into how we might better serve their needs.

We also conducted 14 interviews with budget advisors, Work and Income case managers, and financial capability experts so that we could learn from those working within the budgeting services system.

From these interviews, we captured client change stories and created journey maps that we refined in feedback sessions with over 350 people. The sessions generated over 300 ideas, which were narrowed down to 11 concepts across a continuum from improvement to transformational impact.

## Key insights from our co-design process

We gathered considerable insights from the people who participated in our co-design process. Here is a summary:

### What we learned about people experiencing financial hardship

- People have complex lives with a range of family, cultural, health, and financial needs.
- People often have entrenched behaviours, cultural obligations, and patterns of living that can mean they spend more than they have.



People often feel powerless, depressed, and out of control

### Budget advisors, Work and Income, and financial capability experts

- A balance is required between prevention and crisis intervention with a client.
- The system lacks flexibility and needs to recognise the complexity of a client's situation.



A strong relationship between Work and Income and budget advisors increases client engagement.

### What we learned about supporting people experiencing financial hardship

- Even a great budget can't make up for not having enough money to survive day-to-day.
- Strengths-based approaches empower people to manage their finances, set goals, and achieve long-term, sustainable change.



Accessing the right support, knowledge and tools at the right time can help people in hardship to get on the right path



Peer supports often influence behaviour and decision-making, particularly around money. People who have more social connections are more likely to receive help in order to cope with a crisis.

Arnold and Rhyne, 2016.

### Literature on building financial capability

- Becoming financially capable is hard. Feelings and fears influence financial judgements and decisions. People make trade-offs between the present and future.

*New Zealand Financial Markets Authority, 2016.*

- Reaching people at the right time is important. Effective financial capability interventions recognise that each contact with a client is a learning opportunity.

*Arnold and Rhyne, 2016.*

# The journey from past to future state

The combination of many simple solutions can be the answer to very complex change.

## Past state

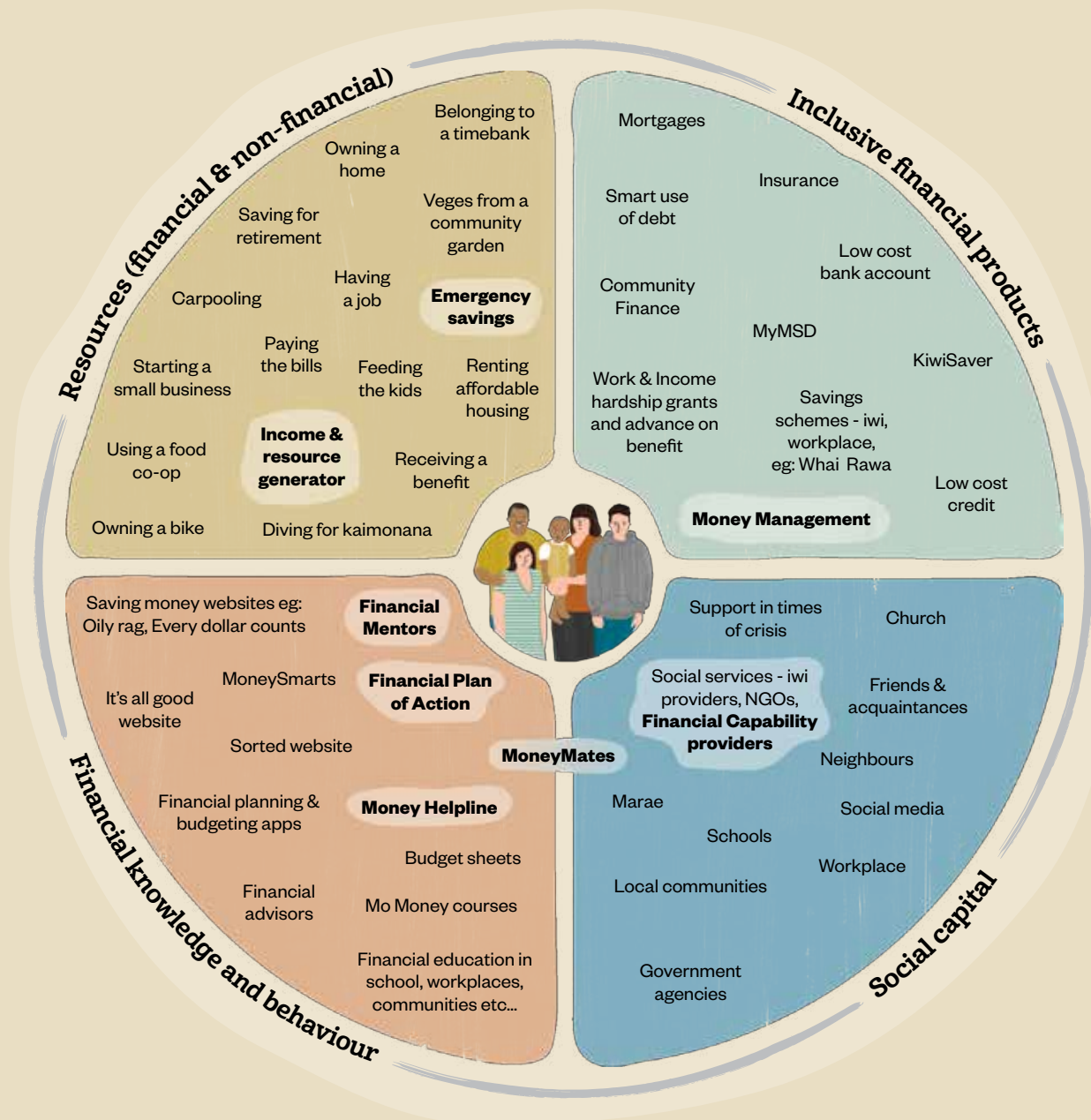
- Clients often have complex lives and are sometimes not in a position to deal with their finances
- Finances are hard to deal with and budgeting is a last-resort service for clients in crisis rather than a first step
- The budget sheet is a 'tick box' for clients to receive a hardship grant and the system lacks flexibility and accountability for them
- A focus on solving a client's problems can generate dependence, often over long periods of time
- Having a budget is meaningless if a client doesn't have enough money to survive
- A sense of powerlessness and whakamā can mean people don't want to or can't engage with services
- Services are not always culturally relevant to a client's cultural situation and dynamics
- Inconsistent training, resourcing and support for budget services.

## Future state

- Normalising helpful behaviours, talking about money, and reducing the stigma of debt and financial problems
- Services (including financial mentors, MoneyMates and others) respond to the complexity of clients' needs with a focus on ownership and client-driven solutions
- A range of interventions from prevention to crisis, so clients can access the right services and support
- A strengths-based Financial Plan of Action that supports clients to achieve sustainable change
- Client learning is enhanced through their peers and communities and the system supports them to do this
- Robust and supported provider sector with nationally consistent training and quality services
- Financial inclusion through accessible, affordable, easy-to-use products
- Government, community partners, businesses, and philanthropists work together to increase financial capability.

# The Building Financial Capability ecosystem

Building Financial Capability products and services sit within a wider ecosystem of support for New Zealanders experiencing hardship.



# The Financial Capability continuum

Understanding people's needs

## Growing

Actively working towards achieving bigger financial goals and / or growing their assets.

## Coping

Independent of the system, managing on their own.

**People, families and whānau experiencing hardship and their financial capability**

## Surviving circumstances

Straightforward needs and can coordinate support and services for themselves.

## Struggling circumstances

Complex needs but some capacity to coordinate support for themselves.

## At risk circumstances

Straightforward needs but may need help navigating services and support.

## Desperate circumstances

Complex and significant needs and can't navigate the system without support.

## Drowning

Overwhelming and severe crisis, not in a position for budgeting or capability.

## Outside

Outside the system, with different concepts of money and support.

To help us design services that respond to client's needs, we divided client experiences into four groups and mapped them on a continuum, based on their level of:

- complexity of need
- financial capability and resilience.

Each group faces a different situation in dealing with the system, and needs a different response from the system.

Where people are placed on the continuum helps us to understand individual needs and provide an appropriate system of support.

We identified two groups of people experiencing hardship (drowning and outside) that sat outside this spectrum.



# How we support people on the continuum

## Supporting people who are surviving



- Encourage planning for the future and having a financial 'safety net' in place.
- Promote a healthy attitude to money and prioritise savings.
- Take a whole whānau approach to understanding money and finances.

## Supporting people who are struggling



- Build trust by taking time to understand the person's story, circumstances, and financial literacy.
- Help to create a Financial Plan of Action and focus on alleviating the crisis situation.
- Focus on long-term growth and support the person to navigate the financial system themselves.

## Supporting people who are at risk



- Give consistent messages about building good money habits.
- Build understanding of wants versus needs.
- Reframe debt as undesirable and focus on saving.

## Supporting people who are desperate



- Focus on alleviating the crisis situation.
- Provide wrap-around whānau-centred support together with other agencies.
- Empower client to make decisions, set goals and build longer term capability.

