Frameworks and approaches for building the financial capability of New Zealanders experiencing hardship

A high-level literature review

July 2017 | Rae Torrie and Robyn Bailey

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

evaluationworks

Acknowledgements

The authors would like to acknowledge the initial high-level literature scan undertaken by Insights MSD to support the development of MSD's Building Financial Capability services, titled What Helps People Experiencing Hardship to Increase Their Financial Capability? (Liston-Lloyd, 2016). This literature review incorporates and builds on the initial iMSD literature scan. It is incorporated particularly in sections 2.3, 2.5 and 3.4.

July 2017
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ISBN: 978-0-947513-97-9 (print)
ISBN: 978-0-947513-98-6 (online)

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

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Executive summary

The Ministry of Social Development (MSD) contributes to the National Strategy for Financial Capability by focusing on building the financial capability of New Zealanders experiencing hardship. This literature review focuses on people, families and whānau in hardship, and identifies key frameworks and approaches that have informed the development of MSD's new Building Financial Capability services (which replace the previous Budgeting Services).

The key research question addressed in the literature review is: What frameworks and approaches work to build the financial capability of people, families and whānau experiencing financial hardship in New Zealand? The authors reviewed a broad range of national and international literature focused on three broad areas: financial hardship and poverty; financial education, literacy, inclusion, capability and resilience; and 'what works' for Māori and Pacific peoples.

Section One defines financial hardship and explores the experience of New Zealanders in hardship in 2017. Financial hardship is defined inclusively, to embrace the usual definition of financial hardship (insufficient income for current circumstances), and also material hardship (resources insufficient to meet basic needs such that people are excluded from a minimum acceptable way of life).

Statistics show us that certain sectors of New Zealand society experience more financial hardship; specifically, children, sole-parent families, Māori, Pacific peoples and people with disabilities.

The experience of financial hardship is often humiliating, time-consuming and stressful, with families facing a daily struggle to meet basic needs for food, housing, clothing, power and phone bills, transport, healthcare and education costs. With inadequate income, families tend to have low or no savings, often turn to expensive credit, and then become trapped in a downward spiral of debt.

Financial hardship can become inter-generational and impact on family members' participation in society. Some households slip into and out of hardship, but others face complex social challenges that can result in financial instability and intergenerational patterns of crisis and indebtedness.

Children who live in financial hardship experience poorer life outcomes. Children from persistently poor families suffer more, and are more likely to be poor themselves in the future.

The reasons for financial hardship can be grouped into broader societal influences and individual or family influences. Broader influences include inadequate income, high cost of rental housing, unsuitable banking products, third tier lenders and mobile traders, and a social services sector that performs less well for clients with complex needs. Individual or family influences include a lack of good financial decision-making skills; low educational attainment limiting employment prospects; different cultural understandings of money; problem debt; and difficult life circumstances.

Section Two reviews the frameworks and approaches that have been found to be useful in building the financial capability of people in financial hardship.

Recent research supports the need for more comprehensive, holistic and integrated approaches to alleviate people's financial hardship that better address the complexities and challenges of living just on or below the breadline. There are economic and social policy and delivery responses that governments can adopt, and there are also more specific 'financial' approaches, products and services. These include financial education, financial guidance, financial literacy, financial capability, financial inclusion and financial resilience.

The literature review is organised around a typology of the various approaches, and how they are located in relation to each other, around four quadrants. The quadrants have the following themes:

- Quadrant One: Building knowledge and skills
- Quadrant Two: Supporting attributes and behaviour
- Quadrant Three: Providing access to and protection of financial services and products
- Quadrant Four: Improving economic resources and social capital.

Quadrants One and Two are concerned with individual capabilities and qualities. Quadrants Three and Four are concerned with external structural and contextual opportunities and conditions.

Quadrant One: Building knowledge and skills. While using education and guidance to improve financial literacy is common to many interventions designed to increase financial capability, there is mixed evidence regarding the effectiveness of these approaches. However, a recent meta-analysis found that 75% of 188 studies found financial education to be helpful in improving financial outcomes.

Criticisms of financial literacy approaches include that the individual focus may emphasise deficit-based perspectives and disregard environmental considerations such as poverty as a contributing factor to hardship, and that they promote the idea that education can create perfectly rational financial decision-makers. This fails to recognise the stress and complexities that vulnerable people face, meaning financial decisions are focused on what they 'need' in their immediate circumstance.

Quadrant Two: Supporting attributes and behaviour. The relationship between early childhood experiences and financial behaviour in later life is well established. Nearly all experts agree that developmentally appropriate interventions should start early in children's lives so that children can begin to learn financial skills, and develop positive financial attitudes and behaviours, in order to combat the intergenerational transmission of negative financial behaviours and hardship.

Behavioural economics and science theories, which provide understanding of people's decision-making processes and what's needed to support behaviour change, are increasingly being used in developing financial capability strategies, activities, products and services. Different forms of bias, which can affect how we make decisions, enable or disable us to/from acting in our own best interests. Three main components have been identified as needing to be present for a behaviour to occur: capability, opportunity, and motivation.

Quadrant Three: Providing access to and protection of financial services and products. The current New Zealand marketplace is not an enabling or inclusive environment for many vulnerable families. A lack of income and assets, and/or high levels of problem debt, can make it difficult to access mainstream sources of credit. We need to find ways to improve access for families in hardship to quality financial products and services, and financial institutions need to review how they include or exclude those suffering hardship. Increased or better-enforced regulation of the finance industry to protect vulnerable consumers is desirable.

Quadrant Four: Improving economic resources and social capital. Economic and social capital resources are key to the development of social resilience. Both macro- and micro-level responses from the perspective of the household can address hardship. Some researchers argue that increasing household income is key to enabling people to both live within their means day-to-day and to plan for future needs. Social capital refers to our networks and relationships. Three aspects of social capital important to building financial resilience are social networks, social support in times of crisis, and the need for and access to community or government support.

Section Three summarises the characteristics of interventions that are likely to be effective in building the financial capability of people and families and whānau in financial hardship, and specifically focuses on 'what works' for Māori, Pacific and hard-to-reach groups.

The literature suggests that an effective system of support for those experiencing financial hardship is multi-faceted, and would address both internal and external factors across the aspects discussed above: financial knowledge and skills; people's attributes and behaviour; access to and protection in the use of financial services and products; and people's economic and social capital resources.

Positive, engaged relationships, understanding the local environment, a strengths-based approach, and working in partnership with the client all contribute to better service outcomes. Early intervention in the provision of financial capability services was highlighted as an important principle to reduce negative impacts on family members.

For both Māori and Pacific families, support is most effective when it is an integral part of whānau, family and community. Whānau-centred approaches are important for engaging with Māori, characteristics of which are being culturally grounded, holistic, and focused on improving the wellbeing of whānau as a group, as well as the individuals within the whānau. This requires placing whānau at the centre of service design and delivery, and designing services tailored to Māori in accordance with Te Ao Māori and tikanga Māori.

Services tailored to Pacific peoples would include using natural networks (Pacific leaders, church ministers and heads of families), using Pacific media to disseminate financial advice in English and Pacific languages, having financial education relevant to Pacific peoples' life experiences in their own languages, reviewing access to easy credit and finance, and increasing awareness of what financial support is available, including access to KiwiSaver funds.

Refugee families stressed the need for organisations to have cultural competency when working with former refugees, noting that community organisations like the Citizen's Advice Bureau had staff who were more knowledgeable about refugee-specific issues and were more culturally responsive.

Section Four links the literature to the four new Building Financial Capability services launched by MSD on 1 November 2016: financial mentors, MoneyMates, a Financial Plan of Action, and new referral and communication practice with Work and Income. The range of MSD's interventions indicates a broad interpretation of financial capability.

Introduction

The aim of this literature review is to identify frameworks and approaches that are effective in building the financial capability of people and their family or whānau experiencing financial hardship in New Zealand.

Background

Building the financial capability of New Zealanders is a government priority to help improve the wellbeing of families and communities, reduce hardship, increase investment, and grow the economy (Commission for Financial Capability, 2015a, p. 1). The goal of the National Strategy for Financial Capability is to equip all New Zealanders to get ahead financially (Commission for Financial Capability, 2015b) and to make informed judgments and effective decisions regarding the use and management of money.

The Ministry of Social Development (MSD) contributes to this strategy by focusing on building the financial capability of New Zealanders experiencing hardship[1]

Having insufficient economic resources limits people's ability to participate in and belong to their community and wider society, and otherwise restricts their quality of life. Furthermore, long-lasting low family income in childhood is associated with negative outcomes, such as lower educational attainment and poorer health. (MSD, 2016d, p. 135)

MSD is changing how it funds and supports budget services that are delivered to the public. MSD's new Building Financial Capability services intend to do this by:

- taking into account the diverse and complex needs of people, families and whānau experiencing hardship
- recognising the importance of engaging families, whānau and communities
- delivering a seamless and empowering experience for clients.

The new services are in line with MSD's Community Investment Strategy,[2] which aims to better target funding to those with the highest needs, through programmes and providers who demonstrate they are meeting these needs, with evidence about what works.

This literature review

The purpose of the literature review is to document current research on frameworks and approaches that 'work' in building the financial capability of those living in financial hardship. The review is descriptive rather than analytical; it describes what the literature says in relation to each research question, rather than evaluates, argues for a particular approach, or draws conclusions.

The literature review is intended to support:

- MSD to further develop the service design and implementation
- providers' understanding and implementation of MSD's Building Financial Capability services
- government agencies and other partners interested in working with MSD in this area.

The key research question addressed in the literature review is:

What frameworks and approaches work to build the financial capability of people, families and whānau experiencing financial hardship in New Zealand?

The subsidiary questions are:

- Who experiences financial hardship in New Zealand?
- What approaches are being used to build the financial capability of people in financial hardship?
- Which interventions are effective in building the financial capability of people in financial hardship?

The authors reviewed a broad range of financial capability literature collated by the Community Investment 'Safe Communities' team, and sourced additional documents where gaps were identified. The documents reviewed included a meta-analysis, literature reviews, qualitative research, government reports, reports of working parties, international reports (e.g. World Bank), and web pages and discussion documents based on research. Literature on interventions not necessarily suitable for those experiencing hardship was excluded.

The literature focuses on three broad areas:

- financial hardship and poverty
- financial education, literacy, inclusion and exclusion, capability and resilience, including fields such as behavioural economics and science that are informing current developments
- 'what works' for Māori and Pacific peoples.

Limitations

The high-level nature of the literature review gives rise to three limitations:

1. There is an extensive (and at times contested) literature in the first two of the three broad areas of review (above). The resources and time available necessarily limited the amount of literature it was possible to review.
2. It was beyond the scope of this review to assess and comment on the quality, credibility or evidence 'warrants' in the reviewed literature. To mitigate such concerns, the authors prioritised well-known and referenced financial capability commentators and researchers, literature reviews, a meta-analysis, and publications from official sources. Where views are contested, these are noted.
3. Only limited comment is made on policy settings that deal with economic and social capital resources.

The literature review was completed in October 2016, so new literature that has emerged since then is not included.

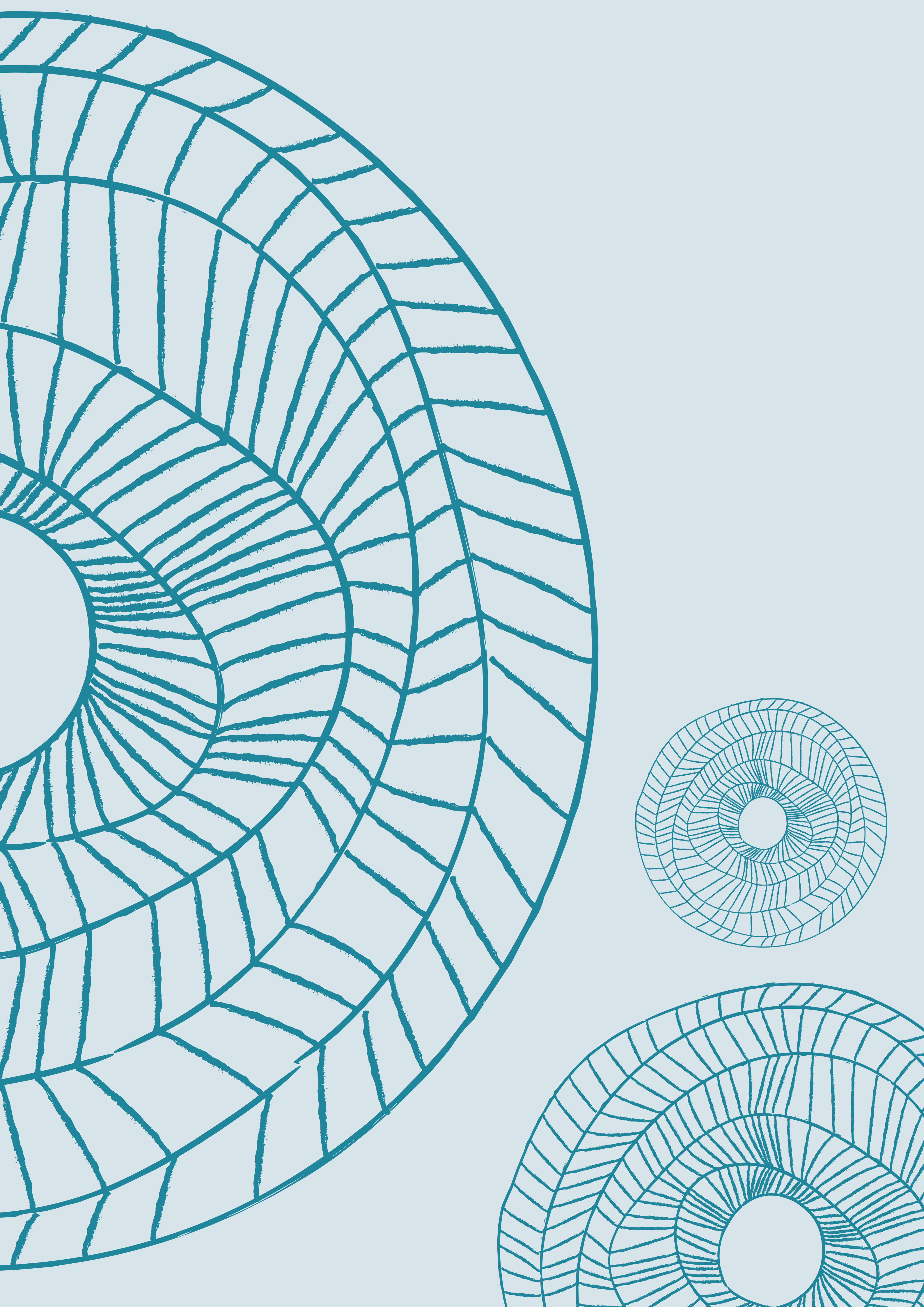
The literature review is divided into four sections.

Section One describes the people, families and whānau experiencing financial hardship in New Zealand.

Section Two explores different frameworks and approaches to building 'financial capability' for those experiencing hardship.

Section Three describes the characteristics of interventions likely to be effective at building financial capability for people and families/whānau in hardship.

Section Four briefly discusses literature relevant to MSD's new Building Financial Capability services.



Section One: Who are the people, families and whānau experiencing financial hardship in New Zealand?

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1.1 Introduction

The focus of this section is to better understand the people, families and whānau who are experiencing hardship, and some of the reasons they do. Literature presented in the following sections suggests that:

- many New Zealand families experience financial hardship and problem debt
- the needs of those in financial hardship are increasingly diverse and complex
- the current approaches to alleviating hardship require a more comprehensive response.[3]

But how many people, families or whānau are we talking about? Who are these people, families and whānau? And what does it mean to live in financial hardship? Does this equate to poverty? And is this the same as material hardship? Where does problem debt fit into this picture?

To answer these questions, this section begins by considering definitional issues; specifically, what we mean by the terms 'family' and 'whānau', and 'financial hardship'. This is followed by a description of the people, families and whānau who live in financial hardship, the numbers who experience financial hardship, and their needs and issues. The section concludes with a summary of the main reasons that people, families and whānau experience financial hardship.

1.2 Family and whānau have varied definitions in the literature

In a policy context in New Zealand, family and whānau are commonly used terms. However, in the literature, the lack of a standardised definition for family makes measurement of financial hardship by family grouping difficult. In addition, most official sources use the concept of 'household' to capture the key financial interdependencies in families. Most official datasets focus on households rather than families.

We did not restrict the review to a single definition that might have excluded important literature; rather, we refer to the definition of 'family' or 'whānau' used in different documents where relevant. For the purpose of this introduction we draw on a small number of existing definitions of 'family'.

Family takes very many forms. The Families Commission Act 2003 describes family as "a group of people related by marriage, civil union, blood, or adoption, an extended family, 2 or more persons living together as a family, and a whānau or other culturally recognised family group" (section 10(2)).

Whānau is often loosely translated as 'family', but its meaning is much more complex, encompassing physical, emotional and spiritual dimensions and based in whakapapa.[4] Whānau is conceptualised in terms of whakapapa by virtually all Māori (99%), although the breadth of these whānau relationships vary (Superu, 2016, p. 10). In recent research[5] 40% of Māori respondents described whānau as including only immediate family members, while a further 40% included extended family, including grandparents/grandchildren, aunts, uncles, cousins, and nephews/nieces (Superu, 2016, p. 59).

While the concept of household is also used in this paper, Statistics New Zealand (n.d.) states that it is important to distinguish between the concepts of family and household. In their definition, 'family' is:

> *defined as a couple, with or without child(ren), or one parent and their child(ren), all of whom have usual residence together in the same household. The children do not have partners or children of their own living in the household. A household is defined as one or more people usually resident in the same dwelling, who share living facilities. A household can contain one or more families, or can contain no families at all. (para. 4)*

We note that this definition focuses on the 'nuclear' family and omits consideration of wider family and whānau connections that are important sources of both financial and non-financial support.

1.3 We define financial hardship in a broader sense to incorporate material hardship

The second definitional issue associated with describing and estimating the numbers of people, families and whānau who live in financial hardship relates to the term 'financial hardship' itself. Other related definitions and measurement approaches used in the literature but not considered here include the terms poverty, poverty line, material deprivation and low income.[6]

Financial hardship is an insufficiency of income for current circumstances. This may be ongoing, in which case it equates to material hardship, or it may be a short-term event. In this paper, financial hardship is used in its widest sense to incorporate material hardship.

In this paper, financial hardship is used in its widest sense to incorporate material hardship. Financial hardship is thus insufficient income for current circumstances, and resources insufficient to meet basic needs such that people are excluded from a minimum acceptable way of life

Perry (2016a, p. 5) defines **material hardship** (and poverty) as resources being insufficient to meet basic needs, and thus being excluded from a minimum acceptable way of life in one's own society. He notes household incomes have traditionally been used to measure resources, with low incomes used as a measure of income poverty, though income is not the only factor contributing to material wellbeing.

> *In the international literature there are two common approaches to poverty measurement. One relies on specific measures of disposable household income; the other uses measures of material deprivation. Both approaches are important and capture different aspects of poverty (UNICEF, 2012). (Children's Commissioner's Expert Advisory Group on Solutions to Child Poverty (CCEAGSCP), 2012, p. 3)*

Material wellbeing covers the full range from material hardship through to very high living standards. It involves looking at two aspects of consumption for households:

- being able to purchase all essential items or necessities for daily living
- the ability to purchase and consume non-essentials.[7]

Both aspects of this definition are necessary, firstly that people are not forced to choose between essentials, thereby being in a position of 'lacking' for necessities, and secondly that they experience choice and freedom in relation to consuming non-essentials (Perry, 2016b, p. 39).

1.4 Certain sectors of New Zealand society experience more financial hardship

In New Zealand, evidence indicates that children, sole-parent families, Māori, Pacific peoples and people with disabilities are more likely to live in households that experience financial hardship.

Identifying who is in hardship varies by survey and depends on measures used

Results from the New Zealand General Social Survey show that 1 in 8 households (12%) report not having enough money to meet their everyday needs, and 1 in 4 (25%) households report having only just enough (Statistics New Zealand, 2015).

The Statistics New Zealand 2015 Household Economic Survey includes measures reflecting financial strain. Table 1 looks at low-income households (those in the bottom 20% once housing costs have been deducted from incomes). The table shows firstly, the percentage of people who had the experience *more than once* in the last 12 months, and secondly, the percentage of children in households where adult respondents reported this experience.

Table 1: Household Economic Survey numbers of New Zealanders experiencing financial strain more than once in the last 12 months

New Zealanders with the following experience more than once in the last 12 months					
Households comprising:	Could not pay rent or mortgage on time	Received help (food, clothes, money) from community organisations	Could not pay car insurance or registration	Could not pay utility bills on time	Borrowed from family or friends to meet everyday living costs
General New Zealand population	10%	14%	16%	22%	23%
With children 0–17 years	14%	21%	22%	30%	30%

Source: MSD analysis of Statistics New Zealand's 2015 Household Economic Survey (email correspondence with Bryan Perry dated 25 May 2016)

MSD uses two indices for monitoring material hardship: the Material Wellbeing Index, which ranks households across the whole population, and the DEP-17 deprivation index, which focuses only on the hardship end of the spectrum. Each one uses two hardship categories, representing less and more severe hardship. Eight percent of the population lives in less severe material hardship, which includes 5% of the population in more severe material hardship.

MSD data on payments made in the form of hardship grants[8] provide another insight into financial hardship. MSD data for the 2015/16 financial year show that 272,257 people received 855,599 hardship grants. Of those who received the hardship grant, 70% received hardship grants for food. Overall, 44% of all hardship grants were for food.

The majority of people receiving hardship grants (87%) were receiving a benefit. Of these, 36% of all grants were Job Seeker related, 25% Sole Parent Support related, and 15% Supported Living Payment. Non-beneficiaries received 16% of all hardship grants (MSD, 2016a, tab 5).

A greater percentage of children are living in hardship compared to other age groups

Material hardship and financial stress is a recognised risk factor for healthy child development (MSD, 2013, pp. 17–18). Perry notes that the longer that households have low income, the greater is their risk of (higher) material deprivation (Perry, 2015, p. 31). Table 2 shows the hardship rates for children and the population as a whole using the two thresholds, one for 'less severe' and one for 'more severe' hardship. In both cases, the hardship rates for children are higher than for the population as a whole: 14% vs. 8% for the less severe measure and 8% vs. 5% for the more severe measure (Perry, 2016b, p. 5). On these measures this means that 150,000 children experience hardship, 80,000 of whom experience severe hardship.

Table 2: New Zealanders in material hardship 2014 and 2015

New Zealanders experiencing material hardship				
	Less severe hardship		More severe hardship	
	%	No.	%	No.
New Zealand population	8%	380,000	5%	200,000
0–17 years	14%	150,000	8%	80,000

Source: Drawn from Perry, 2016a, p. 5 using Statistics New Zealand's Household Economic Survey data 2014 and 2015, plus email exchange with author 26 September 2016

Children and younger people are the most likely of all age groups to be living in material hardship, as outlined in Table 3.

Table 3: New Zealanders in material hardship by age

Age	% living in material hardship in 2013/2014
0–17 years*	15%
18–24 years	10%
25–44 years	8%
45–64 years	6%
65+ years	2%

Source: MSD (2016d, p. 141)
* Note that the rate of children in material hardship dropped in 2014, hence the percentages differ from those presented in Tables 1 and 2

Children in families with scores of 7+ on the DEP-17 material deprivation index have a significantly higher chance of missing out on four or more child-specific items that most would consider essentials for all school-aged children (e.g. school uniform, waterproof coat) and which the vast majority of children have or do (Perry, 2015, p. 18).

Around 12% of children were considered to live in persistent poverty (defined as at least three years over the seven year period 2002–2009 covered by Survey of Family Income and Expenditure (SoFIE) data), while around 6% of children were persistently poor for the entire seven years. The SoFIE data suggest that those with a higher risk of persistent poverty include younger children, Māori and Pacific children, those living in sole-parent families and those living in more socio-economically deprived neighbourhoods (Children's Commissioner's Expert Advisory Group on Solutions to Child Poverty, 2012, p. 10).

An international comparison is available using a European Union deprivation index (EU-13). Based on the less severe threshold, 18% of New Zealand children are living in material hardship according to the EU-13 material deprivation measure. The EU median is 16%, and New Zealand is ranked at the lower end of the richer Western European countries (Perry, 2015, p. 11).

Sole-parent families (mostly women) are the household type most commonly in hardship

A third of all sole parents with dependent children are living in material hardship (Table 4). Sole-parent households are nearly four times as likely to be living in material hardship as two-parent households. Children from sole-parent families are also more likely than those in two-parent families to be in more severe hardship.

Table 4: New Zealanders in material hardship by household type

Household types	% living in material hardship in 2013/2014
Sole parents with dependent children	31%
Two-parent households with dependent children	8%
Couple-only households aged under 65 years	3%
Households with people aged 65 and older	2%

Source: MSD (2016d, p. 141)

Women are far more likely than men to head a sole-parent family. Sole parenthood is one of the socio-demographic factors strongly associated with persistent poverty. In 2013 there were 201,804 sole-parent families in New Zealand – 84.2% were female-headed, 6 in 10 with a youngest child aged under 15 – compared with around 469,290 two-parent families (Statistics New Zealand, 2014).

Given the relatively high proportion of women on a benefit, it is not surprising that in 2015 women made up 59% of the 272,257 people receiving hardship grants. They also received 62% of the 855,599 hardship grants made (MSD, 2016a).

Māori and Pacific peoples are more consistently in hardship than other ethnic groups

Using the less severe hardship threshold averaged over 2013 and 2014, the proportion of people facing material hardship was over a third of Pacific peoples, and a fifth of Māori (Table 5).

Table 5: New Zealanders in material hardship by ethnicity

Ethnicity	% living in material hardship in 2013/14
Pacific peoples	35%
Māori	20%
Europeans/Pākehā	5%
Other ethnic groups	4%

Source: MSD (2016d, p. 141)

The percentages of Māori and Pacific peoples in low-income categories are consistently higher than European/Pākehā (Perry, 2016a, p. 7). The median personal income in 2013 was $28,500 nationally, with $19,700 for Pacific peoples, $22,500 for Māori, and $30,900 for European/Pākehā (MSD, 2016b, p. 8).

Madden (2016) notes that Māori make up about 13% of the New Zealand population, but 19% of those with persistently low incomes. MSD data on hardship grants for the 2015/16 financial year show that 40% of recipients were Māori, 37% European/Pākehā, 10% Pacific, and 13% 'Other' and 'Unspecified'. Māori and Pacific peoples have consistently lower income levels than European/Pākehā (MSD, 2016a).

Consistent with these figures, the work of the Children's Commissioner's Expert Advisory Group on Solutions to Child Poverty (2012) highlighted that child poverty rates (after housing costs) for Māori and Pacific children are around double those of Pākehā children. Further, Māori and Pacific children are approximately twice as likely as Pākehā children to be living in severe poverty and are also at a higher risk of persistent poverty. The higher rate of poverty for Māori children reflects, among other things, the number of such children who live with an unemployed sole parent (p. 12). Such levels of poverty are significant, given that 55% of Pacific peoples are under 25 years old, and 36% are aged 14 years or under (MSD, 2016b).

A report by the Financial Literacy and Savings Partner Working Group (FLSPWG) (2014) noted that Māori have lower rates of home ownership, assets and savings than non-Māori households. In 2013 28% of Māori owned or partially owned their own home compared with 50% of the total New Zealand population.

Long-term disabilities also contribute to higher levels of hardship

People with long-term physical, mental, intellectual or sensory impairments face a number of barriers to participation in society that contribute to their disablement. This plays out in a number of ways in terms of social and economic outcomes and contributes to higher levels of poverty when compared with the general population. For example, in 2013, 64% of disabled adults aged 15 years and over received an annual income of $30,000 or less, compared with 45% of non-disabled adults. Disabled adults are also much less likely to be employed (45% compared with 72%) (Statistics New Zealand, 2014, p. 5).

1.5 There are different contributing factors and experiences of financial hardship for different sectors of society

Māori

The Children's Commissioner's Expert Advisory Group on Solutions to Child Poverty (2012) points out that Māori poverty needs to be considered against the backdrop of colonisation. Recent research documenting the experiences of Māori whānau living in financial hardship notes that any analysis of the financial and material deprivation of whānau is incomplete without understanding Māori economic development before colonisation, and the impact of land confiscation and war (Baker, Williams, & Tuuta, 2012, as cited in CCEAGSCP, 2012). The alienation of land and resources saw the loss of a cultural, spiritual and economic base (Cram, 2011, as cited in CCEAGSCP, 2012). It has had a long-reaching impact that continues to shape attitudes towards Māori in New Zealand.

A small study of the experiences of eight Māori whānau living in poverty and hardship (Houkamau, 2016) addressed five key areas: defining poverty, material hardship, impact on children, relationships, and resilience. All participants received some form of government benefit to supplement income. The key findings were that whānau rarely defined themselves as poor even when they struggled to cover their basic needs for food, clothing, and housing. Because their budgets were small and inflexible, they feared unexpected costs. They also acknowledged that they would only go to the doctor in an emergency, and that children sometimes missed school because they had no money for petrol or sports. On the plus side, they recognised the importance of providing children with a stable home, love, guidance and support, and managed their situation by good parenting, living off the land, sewing their own clothes, being frugal with food, buying cheap furniture, and embracing tikanga Māori.

A Families Commission publication, *One Step at a Time* (2012a, p. 15), made a similar point, with some Tūhoe whānau on limited incomes not seeing themselves as being in hardship. Through their Tūhoetanga, they were able to draw on a wide range of cultural resources, which protected them when they were on a limited income. In that report, both Māori and Pacific participants had a sense of being part of a 'collective', which influenced their belief systems around money. Māori and Pacific participants contributed to family funds and also carried debt on behalf of their families.

In the South Auckland case study in *One Step at a Time* (2012a, p. 48), whānau were the first 'port of call' for support. These whānau also drew on the concepts, practices and processes of tikanga Māori through which to engage with the wider world. However, as the majority of the whānau were more removed from their traditional tribal structures, they were more vulnerable in times of hardship. Consequently, they formed strong bonds with friends and neighbours, and gained support from churches and sports clubs. These whānau faced financial pressures such as food insecurity; unexpected events; job loss; healthcare costs; financial stress; loan shops; getting into debt; budgeting for bill payments; sudden changes to income support owing to changing whānau circumstances; housing costs; and power costs.

For these whānau, any one of these factors could become a tipping point into financial hardship. For example, after losing their job, a person could be unable to pay their bills, and this could lead to them losing their rental accommodation. In this case study, whānau sought support from the Kaitoko Whānau worker (family support worker), budgeting services, food banks, loan shops and the food and clothing trucks. However, the loan shops and clothing and food trucks bring higher credit and interest payments, often leading to greater debt.

Pacific peoples

A number of factors contribute to financial strain in Pacific families. These include:

- cultural influences and expectations – priorities, collective responsibility, supporting extended families, donations to churches, contributing to community events. The nature and extent of these differ between different Pacific ethnicities
- personal characteristics – for example, language comprehension and understanding of financial contract terms and conditions
- easy access to finance with high interest rates in their communities – including finance companies, car companies and mobile shops
- inability to meet repayments on credit purchases – high interest rates and easy access to money or goods
- accumulated debts – electricity, gas, telephone, rental arrears, and district court costs

- intergenerational debt and debts incurred by others – for example, being a guarantor for others' loans
- low income – changes in income, including job loss, ill health or disability, and the rising cost of necessary items (Families Commission, 2012b).

Quigley and Watts (2015, p. 38) noted that some interviewees and many Pacific focus group participants said they could not afford but had cultural obligations to give (i.e. tithing and contributing to funerals and weddings). There was wide agreement that they needed to get themselves financially sorted before sending money back to family, especially when life in New Zealand is cash-based whereas life in the islands is more trade-based. Many said that having to tithe was making it difficult for them to 'get ahead' and was keeping them poor.

Pacific families interviewed tended to have a high trust in finance companies, which gives some insight as to why they used some companies despite being aware they were a more expensive form of credit. Some participants indicated that they liked to borrow from people they had borrowed from before, appreciated friendly service from people they knew, and found these services easy and convenient to use, with 'no fuss' (Families Commission, 2009).

Grandparents caring for children

Older New Zealanders (aged 65+) are much less likely to be in material hardship than all other age groups (see Table 3). This reflects the mix of universal public provision of national superannuation, and the high percentage of mortgage-free home ownership.

However, Gordon (2016) has reported on the growing number of grandparents caring for grandchildren – 9,543 in the 2013 Census – of whom approximately 1,100 completed a survey. The main reasons for grandchildren coming to live with their grandparents were generally because the parent was unable or unsuitable to care for their child.

Financial stress was a common theme. While most grandparents received the Unsupported Child Benefit plus a variety of child-related costs to supplement other income, many turned to their local communities for help, including foodbanks and community grants. Families also used their retirement savings or borrowed money to meet the children's costs. For some, housing was a particular problem.

For those owning their own homes, the need to add on rooms, move, or meet additional costs meant high costs. For those in rental accommodation, getting a house of adequate size and quality proved difficult. Some grandparents ended up sleeping on a couch in the lounge, and other forms of household crowding were evident. In total, 178 families said they needed a larger house. Others (121) had significant problems with their current house: cold, damp, under-heated, needed decorating, inability to maintain property and many other problems. Another group of 110 said their housing was unaffordable. Yet another group moved house due to stress, safety concerns, a better situation for the children, climate and other factors (Gordon, 2016, pp 1–2).

1.6 The experience of financial hardship

Being poor is often humiliating, time-consuming and stressful

New Zealand literature (including New Zealand Council of Christian Social Services, 2009; Quigley and Watts, 2015; Thinkplace & Auckland City Mission, 2014) shows that families who experience financial hardship face a daily struggle to meet their basic needs – for food, housing, power and phone bills, clothing, household furniture, transport, health care and education costs.

These reports note that lack of money for food can mean a trip to a foodbank and having to explain to a stranger why they need food, or another approach and another explanation to Work and Income. It may involve asking for help from neighbours, friends, churches or marae, buying poor quality food or simply going without. Families in hardship typically put off seeking health care. Many do without adequate heating or warm clothing. Others withdraw from social and recreational activities, partly for financial reasons but also because they have no access to reliable transport. Families with few resources, and few, if any, educational qualifications, are not well placed to look for work or hold down a job. They may keep their children home from school because they have no food for school lunches, stationery, school uniform or school fees.

With inadequate income, families are likely to have low or no savings, and often have to turn to expensive credit to make up shortfalls or to deal with a crisis situation. The Auckland City Mission (2014) noted that asking for help can be challenging and humiliating, and some families find it easier to borrow from high-interest lenders such as commercial lending companies and clothing trucks, than deal with government organisations and non-profit agencies. Reductions in income due to benefit sanctions from Work and Income can make things more difficult. This can lead to low-income families becoming:

> *trapped in a downward spiral of debt when they borrow from third-tier or fringe lenders at uncapped interest rates. Income for necessities like food, rent and electricity is squeezed by debt servicing and repayments … The problems of child poverty and family stress are intensified. (Dale, 2014, p. 4)*

Unmanageable levels of debt can exacerbate financial hardship

The Families Commission has looked at the impacts of problem debt, which is defined as "unmanageable debt leading to financial strain". The Families Commission (2009) study puts problem debt into three categories:

1. A family lacks sufficient income to cover their expenses, and does not have access to, or has already exceeded/exhausted, financial options such as overdraft or credit cards.
2. A family is experiencing financial strain despite having access to debt or formal lines of credit – that is, they are currently exhausting the financial debt options available.
3. A family not only has high debt levels, but is in a negative equity position (liabilities are greater than assets) (Families Commission, 2009, pp 7–8).

The study noted the most commonly reported factors that contributed to debt for participants were:

- having children (particularly time spent out of work to have a child)
- getting a mortgage
- changes to employment or income
- their own poor health or disability and/or that of a member of their family creating additional costs for the family (Families Commission, 2009, p. 38).

Other factors included:

- a very low main source of household income as they were on a benefit
- behaviour of self or others (for example, desire to meet 'wants' rather than needs)
- rising prices for necessities eroding how far income goes
- addiction to alcohol, drugs, gambling by them or family members (Families Commission, 2009, p. 38).

The levels of debt had a negative influence on participants' ability to pay power and telephone bills; buy food and clothing; pay for transport, housing and health care; and take part in family activities, events and celebrations. The pressure also had an effect on adult wellbeing and relationships as well as affecting children. Child Poverty Action Group is concerned about the impact of high levels of debt on the children in these families.

> *Their wellbeing is compromised by reduced access to nutritious food, healthcare, and educational resources. Low disposable income compels families to accept sub-standard and crowded housing conditions which compromise children's health. High mobility arising from unaffordable rents disrupts the children's education. (Dale, 2014, p. 4)*

Children who live in financial hardship experience poorer life outcomes

New Zealand children living in poverty, especially Māori and Pacific children, have poorer health and education outcomes than those living in households with average and higher incomes. For instance, compared with non-poor children, those living in poverty are:

- at a 1.4 times higher risk of dying during childhood
- more likely to die of sudden unexpected death in infancy
- three times more likely to be sick
- over two times more likely to be admitted to hospital for acute infectious diseases
- at least 1.5 times more likely to be hospitalised
- less likely to have fruit and vegetables
- more likely to skip breakfast and to consume fast food regularly
- hospitalised at a 5.6 times higher rate for injuries from assault, neglect or maltreatment
- less likely to participate in early childhood education
- less likely to leave school with NCEA level 2 – the entry-level qualification to skilled employment (Children's Commissioner's Expert Advisory Group on Solutions to Child Poverty, 2012, p. 15).

New Zealand children living in poverty, especially Māori and Pacific children, have poorer health and education outcomes than those living in households with average and higher incomes.

(Children's Commissioner's Expert Advisory Group on Child Poverty, 2012, p. 15)

- Child poverty can negatively affect child development in numerous ways, including impacts on the child's stress-sensitive biological systems; namely, the nervous, immune and endocrine or metabolic systems. Without intervention, this group of children may be less able to successfully participate in society.

  For individual children, the short-term impacts [of child poverty] include having insufficient nutritious food, going to school hungry and living in a cold, damp house. It often means missing out on important childhood opportunities like school outings and sports activities. The impacts also include lower educational achievement, worse health outcomes and social exclusion. These differential outcomes, as well as the neurological responses to growing up in poverty, mean that childhood poverty can leave life-time scars, with reduced employment prospects, lower earnings, poorer health, and higher rates of criminal offending in adulthood. (Children's Commissioner's Expert Advisory Group on Solutions to Child Poverty, 2012, p. vi)

Financial hardship can become inter-generational and impact on participation in society

Families can experience times of having both 'enough' and 'not enough' income, with trigger events including relationship separation, illness, job loss, or unexpected bills; for example, for cars or medical events (Quigley and Watts, 2015; Madden, 2016). While some households slip into and out of hardship, others face complex social challenges that can result in financial instability and inter-generational patterns of crisis and indebtedness.

The longer a family experiences poverty, the more likely it is that they will endure greater levels of hardship and more severe poverty, and less likely they will escape. This cumulative impact that tends to scar deeply is why our greatest concern should lie with families trapped in persistent poverty. Around 16% of New Zealanders experience persistent poverty at any one time. (Madden, 2016, p. 1.)

The Children's Commissioner's Expert Advisory Group on Solutions to Child Poverty (2012) points out that the cumulative impact of persistent poverty can scar deeply even into the next generation, particularly when a family experiences persistent poverty when their children are young. Children from persistently poor families suffer more, and are more likely to be poor themselves in the future.

1.7 The reasons for financial hardship are multi-layered

Some reasons have already been traversed previously in this document. This section lists and summarises some of the discrete elements that have been identified as contributing to people's experience of hardship. They are organised into two groups: broader societal influences and individual or family influences.

Broader societal influences

Inadequate income. Insufficient income results in being unable to balance the limited budget and stay out of debt. Low-income households are especially vulnerable to the negative impacts of unexpected expenses or even small drops in income (Perry, 2016a, p. 4). Madden (2016, p. 1) argues that key factors driving hardship are 'worklessness' and low earnings.

Increases in the cost of living. The increased cost of essential items, including food, rent, utility and schooling costs such as uniforms and stationery, means that many low-income households find they "may be unable to purchase essentials" (Perry, 2016b, p. 4). The Families 100 report notes that despite many people on low incomes being able to budget effectively, "most people have no option but to incur increasing levels of personal debt to cover their day-to-day expenses" (Auckland City Mission, 2014, p. 5). The majority of people receiving hardship grants in the 2015/16 year (87%) were receiving a benefit (that is, on a low income).

High cost of rental housing. Housing costs are now taking a much greater proportion of household income, especially for low-income households. Almost all renters receiving the accommodation supplement spend more than 30% of their income on housing costs, with three in four spending more than 40%, and half spending more than 50% (MSD, 2016c).

The financial market does not cater for a significant part of the low-income population. Basic and beneficial products and services (e.g. a safe place to deposit money, a means of generating savings, access to credit) are out of reach for many households.[9] "There are many reasons why people are unbanked, such as poor credit history, past account management problems, cultural and language barriers, geographic location, and lack of knowledge and familiarity" (Sherraden, 2013, pp. 15–16).

There is a general 'lack of fit' between mainstream banking services and Māori – for example, banks do not allow the use of a collective fund for the wider whānau as security for a mortgage to an individual, nor appear to recognise that Māori have children at a younger age than non-Māori – which means that standardised mortgage approval criteria have the unintended consequence of making mortgages harder for Māori to obtain. There is also a lack of fit between whānau demand for savings schemes and the rigid design features of KiwiSaver (FLSPWG, 2015, pp. 2, 18).

Third tier lenders and mobile traders. People access money lenders in the absence of banking products or services that can provide what they need. For families desperate for food, pawning or selling goods and/or getting cash loans from third-tier lenders become viable options, even though this means having to pay fees and a high rate of interest. Mobile traders, who sell a wide range of goods on credit, appear to intentionally target families from low-income groups. Once engaged there is ongoing dependency and increased debt. "Although alternatives often provide greater access, they lack consumer protections, can be expensive and time consuming, and may lead to problem debt" (Sherraden, 2013, p. 17).

Services to people in hardship. The New Zealand Productivity Commission (2015) identified that the social services system performs relatively well for clients who have straightforward needs, but less so for clients who have complex needs. The report also noted that accessing services can be frustrating and opportunities for intervention missed through a lack of integration. This finding was supported by the Auckland City Mission, which found that "the complex support service landscape is not meeting the needs of many people. It's time-consuming and dehumanising to engage with, and it reinforces a lack of self-esteem and self-worth in those who are forced to navigate it", or more simply, "Dealing with support services is complicated and confusing" (2014, p. 36). Similarly, Madden concluded that "our social security system serves most New Zealanders well, but is deeply failing to help those suffering persistent and intergenerational poverty, who face a number of challenges and have complex needs" (2016, p. 1).

Individual or family influences

Good financial decision-making skills are sometimes lacking. The reasons include general lack of literacy and numeracy, and lack of money management skills and financial literacy. In 2013, a national survey found that 43% of Māori participants and 22% of Pākehā fell into the low financial knowledge group (FLSPWG, 2014, pp. 9–10). For families on a limited budget, this can have significant consequences.

Education and employment. Low educational attainment during childhood limits a child's potential to gain and maintain a well-paid and stable job in the future. This is one of the primary contributors to persistent and intergenerational poverty, with the causal link clear and well established. Many argue that the strength of this association has increased over time as globalisation and technological advances have reduced the demand for unskilled labour (a particular concern for those from disadvantaged backgrounds) and increased the return on education and credentials in the marketplace (Madden, 2016, p. 2).

A cycle of problem debt. Many families quite simply don't have enough income to meet their needs, which is a simple equation for falling into debt. Other families may have more income, but level of income on its own does not preclude getting into unmanageable debt and fines. This is often a combination of factors of low levels of income, poor health or disability, rising prices for necessities, and their own behaviour or that of others, whether personal spending or addictive patterns (Families Commission, 2009, p. 7). In the Auckland City Mission research, families highlighted the fact that they paid a 'poverty premium' for expensive credit offered by second tier and 'fringe lenders' in the absence of access to affordable credit in the forms of microfinance schemes or low-interest bank loans. These factors, and the absence of a cap on interest rates charged by all lenders, were keeping them poor (Auckland City Mission, 2014, p. 44).

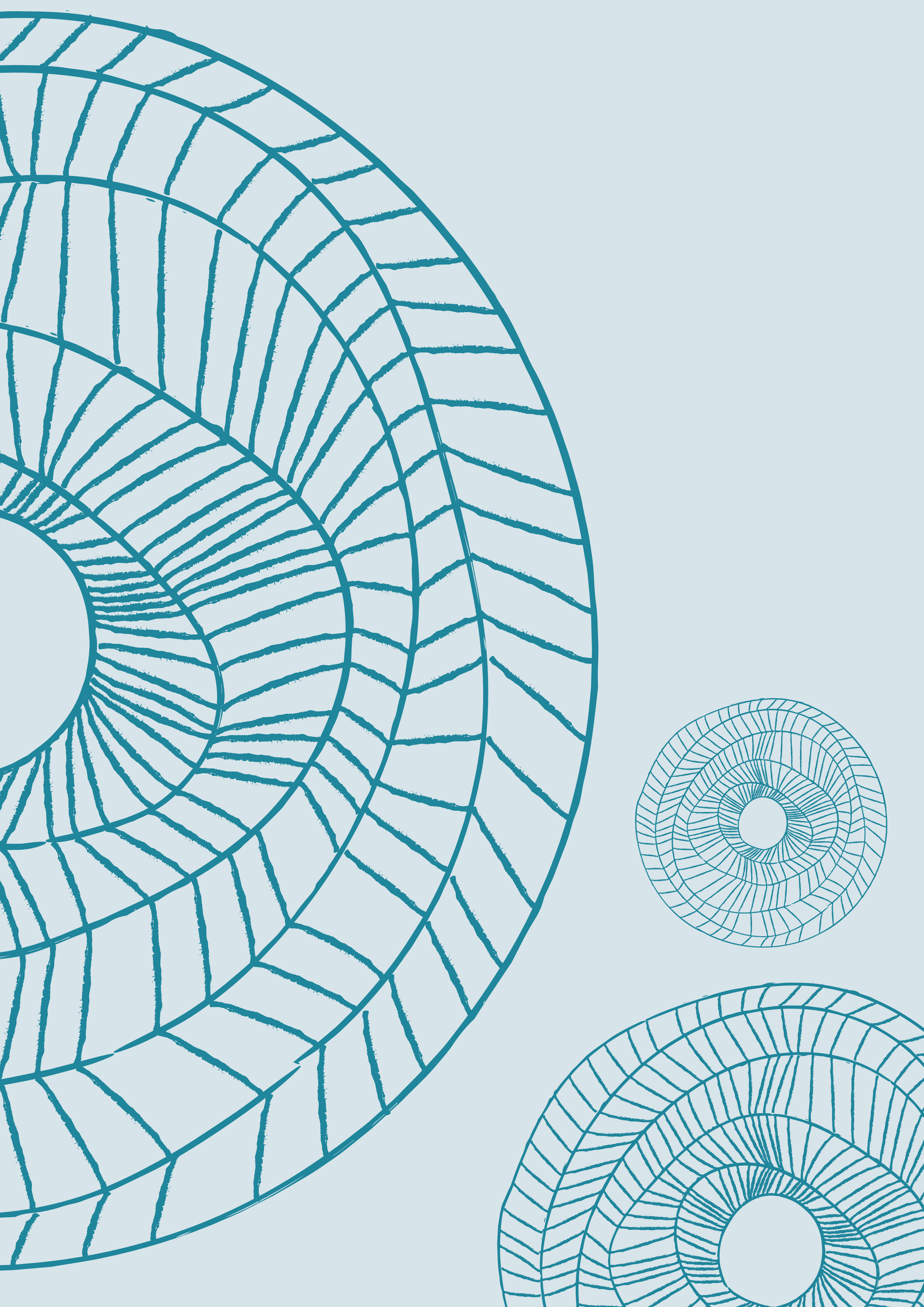
Some migrant groups have a **different cultural understanding of money and responsibilities in relation to it** that can place them at risk. They are also more isolated, and may lack the type of social networks to support understanding money in a New Zealand context. As noted earlier in the paper, cultural influences and expectations can place financial strain on families (Families Commission, 2012b). Such obligations both provide support as well as potentially exacerbate financial hardship.

Some families face ongoing **challenges** that contribute to difficult life circumstances; for example, addictions (drug, alcohol, gambling), mental health challenges, family violence, long-term unemployment, and ill-health/disability (Families Commission, 2009). In other instances an unexpected change in circumstances such as a relationship breakdown or job loss can generate a financial 'shock'.

People in financial difficulties are often under considerable **stress**. The accumulation of hardship-associated problems may result in family breakdown. "Financial pressure, including multiple debts, takes its toll on family and social relationships, and particularly so between partners. The need to borrow from family and friends causes extra strain affecting family support systems. A lack of income contributes to social isolation with participants explaining that they avoid social, family and cultural events" (Auckland City Mission, 2014, p. 5).

Some families do not seek help for financial problems because of the **stigma**. The Families Commission (2012b, p. 8) noted that people often feel alone and embarrassed about their financial situation, and there is social stigma associated with discussing such issues. The impact of this can be that people do not seek help early, which can contribute to an escalation of financial problems.

Recent New Zealand research, seeking to better understand what keeps people locked in a cycle of hardship, identified eight key drivers that interact together to keep people trapped in poverty: debt, justice, housing, employment, health, food insecurity, services, and education (Auckland City Mission, 2014, p. 2).



Section Two: What approaches and frameworks have been used to build the financial capability of people in financial hardship?

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2.1 Introduction

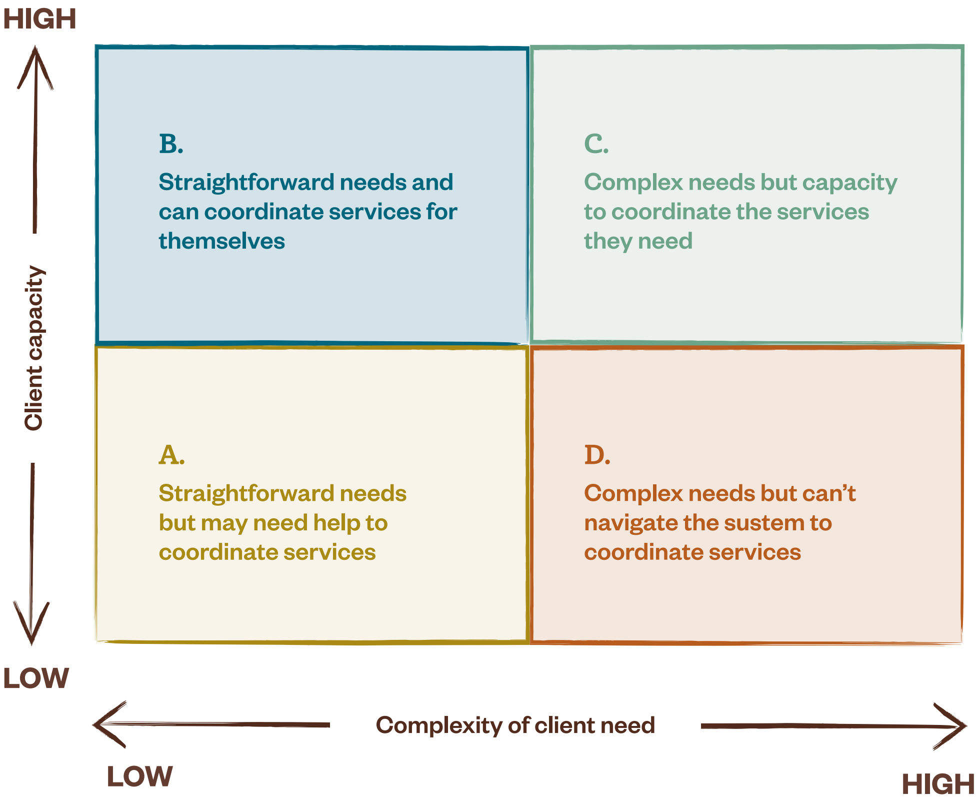
This section provides a framework for understanding the different approaches to addressing financial hardship, and the evidence and arguments supporting (or otherwise) each approach. There is a range of economic and social policy and delivery responses that governments can adopt to address financial/material hardship. There is also a range of more specific 'financial' approaches, products and services available to assist people, such as financial education, guidance, literacy, inclusion, capability and resilience.

2.2 Support for more comprehensive, integrated approaches to alleviating financial hardship

Recent international literature and New Zealand research emphasise that more comprehensive and considered approaches are needed to alleviate financial hardship.

Research by the Families Commission (2009) into the experience of New Zealand families accessing budgeting services found that a singular focus on improving clients' budgeting skills has had limited success. Research by the Auckland City Mission (2014) has identified that the needs of people in financial hardship are increasingly diverse and complex. Recently, the New Zealand Productivity Commission (2015, p. 2) has described a framework for better recognising client need using two axes: client capacity and complexity of need.

Figure 1: Characteristics of clients in the social services system



Content sourced from: New Zealand Productivity Commission (2015, p. 2)

The Children's Commissioner's Expert Advisory Group on Solutions to Child Poverty (2012) recommended that a "range of mutually reinforcing actions" rather than a "simple solution" is needed to address the "causes and consequences of child poverty" (p. vi). The Families Commission notes "in its opinions on such issues as benefit levels and welfare reform, that minimising the harm that can come from living just on, or below, the breadline is more complex than simply improving family incomes" (2012a, p. 6).

Muir, Salignac and Reeve (2016) recommend "a more holistic approach is needed: one that puts the individual at the centre and understands and addresses people's personal, economic and social contexts" (para. 16). They identify a complex interplay of factors that all play an important role in addressing financial resilience. These include the financial literacy and capacity of consumers; the supply of accessible, affordable and appropriate financial products; regulators and regulation; people's economic circumstances; and people's social capital.

A complex interplay of factors all play an important role in achieving financial resilience. These include the financial literacy and capacity of consumers, the supply of accessible, affordable and appropriate financial products, regulators and regulation, people's economic circumstances, and people's social capital.

Muir, Salignac, & Reeve (2016)

Families Commission research recommends focusing on supporting the strengthening of families' and whānau's own strengths, resources and connections (non-monetary resources and assets), as well as improving their income and financial circumstances. "Family wellbeing and whānau rangatiratanga is about much, much more, than having enough money. Family and whānau wealth cannot be measured in money terms alone" (2012a, p. 6).

2.3 Navigating the territory: the approaches, their definitions and dimensions

This section briefly summarises approaches aimed at reducing financial hardship through 'building financial capability'. There is a wide range of definitions and uses of the various terms (Aynsley, 2011), so the terminology and definitions provided might not concur with all uses in the literature. The range of MSD's interventions in the strategy for Building Financial Capability services indicates a broad interpretation of financial capability more akin to financial resilience.

Financial education

Financial education approaches seek to build an individual's understanding of financial products and services, and their rights and obligations in relation to such (Families Commission, 2009). Financial education seeks to improve people's ability to navigate through the complexity of the "quickly expanding array of products and services, [including] mainstream and alternative financial products as well as emerging technologies in financial services" in order to access appropriate services (Sherraden & Grinstein-Weiss, 2015, p. 2).

Financial guidance

Guidance provides vulnerable families with advice and budgeting services. One common method of providing guidance and advice is through the delivery of budgeting or financial planning services. These services "involve the provision of budgeting related information, mentoring and support to those clients or families who are either self-referred or referred by other providers" (Families Commission, 2009, p. 16).

Financial literacy

Financial education and guidance are used to improve financial literacy. While financial literacy is defined in various ways, a common feature is the resulting ability for people to make sound financial decisions (FLSPWG, 2014; Worthington, 2013).

Financial capability

Malatest International (2016) defines financial capability as:

> *the ability to make informed judgements and effective decisions regarding the use and management of money. It is about having financial knowledge and the understanding, confidence and motivation to make and implement financial judgements and decisions.*

Kempson (2015) and the Financial Markets Authority (FMA) (2016) outline four key dimensions of financial capability:

- day-today money management
- planning for future needs
- choosing and using appropriate products
- being informed/getting help.[10]

Other writers extend the above definitions. Arnold and Rhyne (2013) describe financial capability as incorporating financial literacy and financial education (both of which are concerned with knowledge, skills, and information), *and* encompassing attitudes and behaviour, *and* the opportunity to apply those behaviours to financial decisions. "Skills, attitudes, and behaviors count for little if opportunity is missing ... Often capability interventions can – and should – go hand-in-hand with product delivery" (Arnold & Rhyne, 2013, p. 2).

Similarly, Sherraden (2013) contends that as well as a person's *ability to act,* a person requires the *opportunity to act* to achieve financial capability. She describes financial literacy as different from financial capability in that financial literacy approaches seek to improve individuals' money management practices and financial decision-making behaviour, and therefore relate primarily to individual ability and behaviour. This contrasts with a broader understanding of financial capability as also relating to external conditions and context.

Financial inclusion

Financial inclusion and capability have been used interchangeably, but "broadly and historically speaking, inclusion refers to access to financial products and capability refers to successfully managing those products and making informed choices about personal finances" (Aynsley, 2011, p. 3). This is contrasted in the literature with financial exclusion, which describes people having limited access to mainstream financial services. Both concepts are often used in discussions about poverty or those living on a low income.

Financial resilience

National Australia Bank (NAB) and the Centre for Social Impact (2016b) describe financial resilience as the ability to access and draw on internal capabilities and appropriate, acceptable and accessible external resources and supports in times of financial adversity.

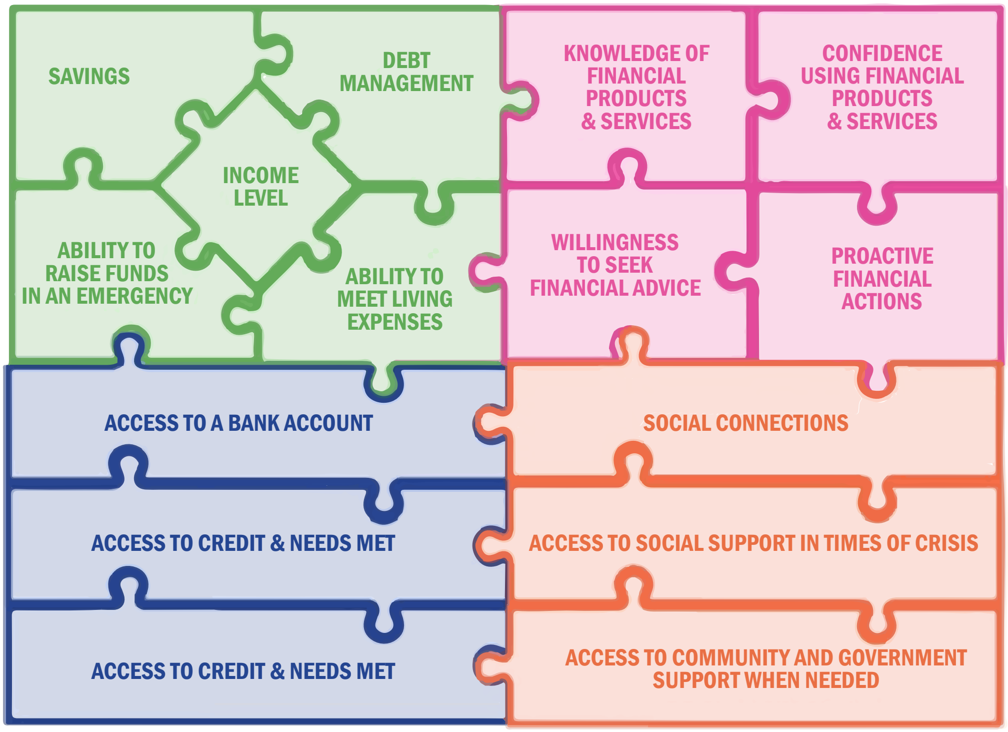
> *The concept of 'resilience' has been developed and incorporated into many fields including health, natural disasters, education and community infrastructure. It is a dynamic process that enables individuals to bounce back after adverse events and experiences, adapt to changing circumstances, and deal with environmental stress. As such, it is best characterised by adaptability rather than stability. (p. 1)*

Financial resilience can be measured by someone's ability to draw on the skills and know-how they already possess, and to access appropriate support in times of financial difficulty. How people bounce back from a financial shock is seen to determine their level of financial resilience.

Their research identified four factors (referred to as financial resilience components) that produce financial resilience when they work together, as outlined in Figure 2 on the next page:

- Economic resources (green).
- Suitable financial products and services (pink).
- Financial knowledge and behaviour (blue).
- Social capital (orange).

Figure 2: The jigsaw of financial resilience



Sourced: Muir & Reeve (2016).

NAB and the Centre for Social Impact note that their research builds on earlier research they did into financial exclusion, describing the difference as follows:

> *The main difference between financial exclusion and financial resilience is that financial exclusion measures access to financial products and services only, whereas financial resilience combines and measures four components for coping with financial adversity and achieving financial security (2016b, p. 3).*

Salignac, Muir and Wong (2016) also critique financial exclusion and see financial resilience as a way forward. Financial resilience enables "developed countries to take broader contextual settings and a more holistic approach into account" (2016, p. 269).

2.4 The focus of different approaches

Figure 3 (developed by Evaluation Works Ltd, the authors) offers a typology of the various approaches used in the literature to build financial capability (described in section 2.3 above), and how they are located in relation to each other. Each quadrant groups the approaches that are most 'like' each other and identifies their main activities and areas of focus.

Broadly speaking, the quadrants have the following themes:

- Quadrant One: Building knowledge and skills
- Quadrant Two: Supporting attributes and behaviour
- Quadrant Three: Providing access to and protection of financial services and products
- Quadrant Four: Improving economic resources and social capital.

These four aspects have in turn been located according to Sherraden's (2013) distinction between a person's 'ability to act', and their 'opportunity to act'. Quadrants One and Two are concerned with individual capabilities and qualities (the 'ability to act'), and Quadrants Three and Four with external structural and contextual opportunities and conditions (the 'opportunity to act').

Figure 3: Primary focus of different approaches to addressing financial hardship[11, 12, 13]

1 Building knowledge and skills
Financial education, financial guidance, financial literacy

- Budgeting and managing money skills
- Prudent use of debt
- Knowledge and understanding of financial products and services
- Knowledge and understanding of rights and obligations

2 Supporting attributes and behaviour
Financial socialisation, behavioural economics and science

- Attitudes
- Motivation
- Confidence
- Behaviour

3 Providing access to and protection of financial products and services
Financial inclusion

Financial products and services
- Access to safe and appropriate financial products, services and institutions (bank account, credit, insurance)

Safety net
- Access to government support

Protection
- Policies, laws and regulation

4 Improving economic resources and social capital
Wealth creation

Economic
- Income
- Savings
- Ability to meet cost-of-living expenses and raise funds in an emergency

Social capital
- Familial, social and community networks
- Support in times of crisis

↓ ↓ ↓

Financial capability, financial resilience

2.5 Evidence regarding the effectiveness of the approaches within each quadrant

The following section describes each of the quadrants in Figure 3 and outlines the evidence and arguments supporting (or otherwise) the effectiveness of the various approaches.

Quadrant One: Building knowledge and skills

Financial education and guidance are commonly used to build financial capability

Sherraden (2013) names financial literacy as the first of two building blocks to develop financial capability, the other being financial inclusion. The use of education and guidance to improve financial literacy is common to many interventions designed to increase financial capability.

Improving financial literacy is important for a number of reasons, primarily related to avoiding hardship and problem debt

Improved financial literacy is seen as a means of building resilience to financial crisis and avoiding problem debt. As vulnerable families tend to lack savings or other liquid assets, their ability to respond to crisis situations is undermined. A specific event can 'tip the balance' and worsen their circumstances (Families Commission, 2009, p. 7), which in turn can be exacerbated further by families turning to costly alternative financial services, resulting in problem debt and "transforming a minor emergency into a major financial setback" (Sherraden & Grinstein-Weiss, 2015, p. 3).

The provision of financial education services is also a response to the increasing complexity and demands of everyday financial life. As Sherraden and Grinstein-Weiss (2015, p. 2) explain, "People are often unprepared to use the quickly expanding array of available financial products and services. These include mainstream and alternative financial products, as well as emerging technologies in financial services." Financial education seeks to improve an individual's ability to navigate through this complexity, in order to access appropriate services.

There is mixed evidence regarding the effectiveness of financial literacy approaches

Budgeting or financial planning and mentoring and support services are generally viewed in a positive way by service users, with New Zealand research in 2009 revealing that "most families believed that using budgeting services had made, or was making, a positive difference to their financial situation" (Families Commission, 2009, p. 8).

However, the effectiveness of these approaches is often undermined by a failure to access these services at an optimal time. Research by the Families Commission (2009) suggested that the effectiveness of these services is enhanced by early engagement, such as at the moment when a family first receives a benefit. However, there is a consensus within the literature that these services are commonly accessed only when a family has reached a crisis point and is already in significant financial hardship (Families Commission, 2009, 2012a).

There is no consensus within the literature regarding the effectiveness of financial education and guidance approaches. Some research suggests that the impact of financial education is positive, and that a majority of service users will undertake some action or behaviour change (Crossan, 2010; Sherraden, 2013). Conversely, other research states that "the causal chain of financial education improving financial literacy, and improved financial literacy improving financial wellbeing, has not been proved … what works best and why is not yet clear" (Families Commission, 2012a, p. 24; Lundberg & Mulaj, 2014). Or more boldly, as Price (2015, p. 44) asserts, "There is no evidence that financial education has any substantive long-term impact on financial outcomes."

Some scholars also challenge the behavioural change assumptions of education and guidance approaches as false.

> *The assumption that 'give them the skills and the behaviour will follow' has been shown to be dubious … knowledge and skills often would not have made much difference to their behaviour, so it is too simple to say budgeting services alone would have made a difference. (Families Commission, 2012a, p. 104)*

Often, the provision of these services simply follows a pattern of crisis intervention, rather than meaningfully shifting behaviour.

Sherraden suggests that a lack of consistent understanding relating to effectiveness stems, in part, from the diversity of "objects, audiences, activities, timing and design" evident within these approaches (2013, p. 10). As she explains, while many research studies have been undertaken, "outcomes are challenging to compare because of the diversity of programmes and approaches and the lack of quality data" (2013, p. 11). Expanding on this, Worthington (2013) highlights a lack of rigorous post-programme review and evaluation, limiting the establishment of a comprehensive understanding of best practice.

A more recent study reports more encouraging findings. A meta-analysis of 188 studies on financial education interventions designed to strengthen financial knowledge (financial literacy) or skills, attitudes and behaviours (financial capability) reported more than 140 of the 188 studies found that financial education can be helpful in improving financial outcomes, and approximately 40 identified no or only a modest impact (Miller, Reichelstein, Salas, & Zia, 2014).

However, they also struck the issue of diverse interventions, contexts and research approaches inhibiting the ability to compare and draw conclusions on effectiveness. They did find the following after controlling for observable differences across studies:

> *Importantly, we find that financial education can consistently improve outcomes such as savings and record keeping, but does less well in preventing outcomes such as loan default. These results suggest a role for financial education in improving behaviors where individuals have the ability or slack to exert greater control. Arguably, loan default is imposed by external agencies (banks or other financial providers) and hence can only be avoided secondarily or over the long term if financial education leads to more prudent borrowing decisions. Savings and record-keeping, in contrast, are immediate and primary decisions that can be acted upon by targeted consumers. (Miller et al., 2014, p. 4)*

Financial literacy approaches also tend to take an individual approach, which may emphasise deficit-based perspectives over environmental considerations

Inherent in the idea that financial literacy interventions can improve individuals' ability and knowledge is an underlying assumption of current deficiency; that is, financial capability can be improved from a position of *incapability.* This deficit-based, individualistic discourse is commonly observed, often at the expense of acknowledging structural or contextual considerations. As Price (2015, p. 45) argues:

> *Government discourse is highly individualised. The citizen consumer is blamed for failures to secure long-term financial welfare over the life course because he or she continually does 'the wrong thing'. Government's role is simply absent. The implicit solution is to become a 'better' consumer.*

This framing sees people in financial hardship as failed consumers and flawed decision-makers, who are impulsive and lack self-control (Families Commission & Retirement Commission, 2009; Price, 2015).

Financial literacy approaches are also seen to promote a false assumption that education can create perfectly rational consumers

The assumption that the provision of financial education and guidance will lead to improved decision-making behaviours is challenged by some researchers. "There is increasing evidence, notably from the fields of psychology and neuroscience, that decision-making is not as 'rational' as economists like to assume" (Families Commission & Retirement Commission, 2009, p. 10). For vulnerable families, this claim may have particular resonance.

> *It appears that for those who are vulnerable … rationality deteriorates and destructive relationships become common, including the relationship with money. Referring to this as poor 'decision-making' is overly simplistic and fails to acknowledge the complexities of the experiences of those living in a state of severe hardship, which is often paired with emotional instability, low self-worth and living with a high level of unpredictability.*

This results in feeling powerless to 'make decisions' any other way than what they 'need' in their immediate circumstances. (Families Commission, 2012a, p. 105)

Sherraden (2013) and Price (2015) note that even highly educated individuals have difficulty understanding aspects of modern financial life in a world of increasing complexity and rapid change.

A narrow focus on financial literacy may disregard the influence of poverty and inequality as a contributing factor to hardship

For families living in chronic poverty and focused on day-to-day survival, the Families Commission observes that an emphasis on building financial knowledge and skills will often take a back seat (2012a). They further comment that an individual cannot be empowered to improve their outcomes through education and guidance, so long as their opportunity to do so is simultaneously constrained by structural factors and lack of opportunity.

When a person or family lives in chronic poverty and is focused purely on survival, an emphasis on building financial knowledge and skills does not adequately reflect the complexity of their situation and will not necessarily be a priority for them.

Families Commission (2012a)

Price (2015) argues that in allowing for the individualisation of risk, the financial capability agenda effectively shifts the burden of responsibility for the welfare of citizens from the state to individuals.

By presenting the problem of accumulating sufficient income ... as one of a lack of education and advice, this enables government to say: 'if we give our citizens enough education and make them financially capable, then if they do not have enough money ... it is their fault and not ours'. (p. 44)

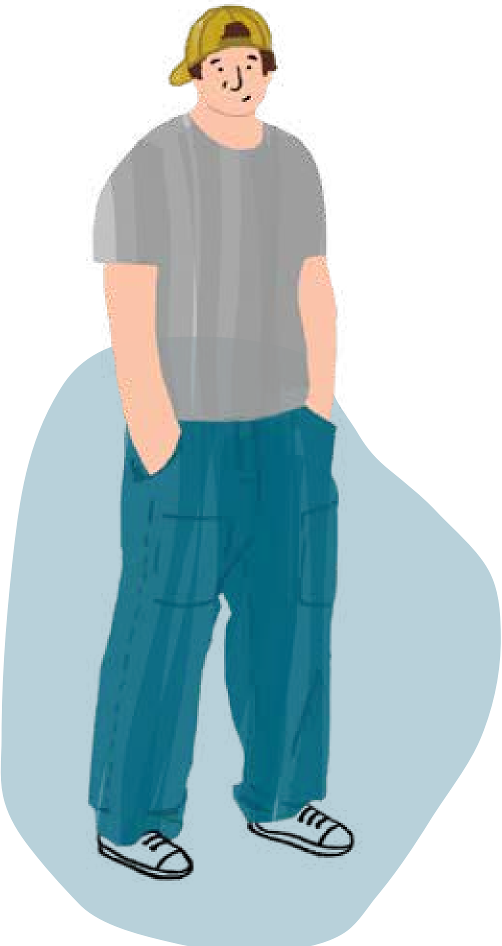
The identification of these limitations suggests that broader approaches are needed in attempts to increase the financial capability of vulnerable groups.

Quadrant Two: Supporting attributes and behaviour

Financial socialisation provides the foundation of a person's financial capability. Financial capability behaviours begin to develop from an early age and are often intergenerational.

The relationship between early childhood experiences and financial behaviour in later life is well established. Through observation of their environment, particularly the actions of parents, children begin to absorb and mirror a variety of financial behaviours (Sherraden, 2013). For vulnerable families, the early financial experiences of children are often negative, and this can shape financial socialisation in an adverse way. As Sherraden and Grinstein-Weiss (2015, p. 3) explain, children and young people growing up in low-income households "experience financial vulnerability at a time in their lives when they are forming ideas and attitudes about the financial world and their place within it".

Adult financial behaviour must therefore be understood as something that is socialised and normalised from an early age, with parents acting as key socialisation agents. As a result, the experience of financial hardship can be intergenerational. In a study by the Families Commission (2009), budget advisors often noted the intergenerational effects of low financial knowledge and capability, with many children not learning foundational financial skills from their parents.



Sherraden (2013, p. 9) cites a study that showed “a small but significant relationship between parent financial behaviour and orientation and their children’s financial behaviour in childhood and adulthood”.

In order to combat the intergenerational transmission of financial behaviours and hardship, “nearly all experts agree that [any] efforts should start early in children’s lives” (Sherraden & Grinstein-Weiss, 2015, p. 1). While the role of parents, and the influence of their modelling of behaviours, should not be understated, Sherraden and Grinstein-Weiss (2015, p. 4) argue that “very young children possess the ability to develop a foundation for learning about financial matters and to apply what they learn”. Through developmentally appropriate interventions, children can begin to understand financial concepts, learn financial skills, develop positive financial attitudes, and improve their financial wellbeing (Sherraden & Grinstein-Weiss, 2015).

At a service delivery level, efforts to improve the financial capability of young people often take a financial education approach. In New Zealand, financial education has been integrated into the school curriculum, and also features in some tertiary and trade training qualifications (Crossan, New2010). As the Families Commission explains, “The Ministry of Education and the Retirement Commission have provided guidance on how schools can support students to develop financial capability through cross-curricular teaching and learning programmes, targeting students in Years 1 to 10” (2009, p. 103).

Other examples from overseas, particularly Australia, reinforce the value of starting early approaches. Internationally, interventions promoting financial education for young people include the provision of professional learning resources for teachers, the integration of financial literacy skills within curriculum, and leveraging the teachable moment when a young person collects their first pay cheque (Sherraden & Grinstein-Weiss, 2015; Worthington, 2013). Features of success within these interventions include ensuring that youth programmes integrate parents as vitally important supports, and that any teaching resonates with children and is relevant to their daily lives (Sherraden & Grinstein-Weiss, 2015; Worthington, 2013).

The logic of these approaches is that if financial capability is developed early, children may avoid experiencing financial hardship in later life.

Behavioural economics and science provides understanding of what's needed to effect behaviour change

Using behavioural insights to better understand people's decision-making processes, and what supports behavioural changes, in order to improve financial capability strategies, activities, products and services is gaining increasing currency around the world and in New Zealand (Arnold & Rhyne, 2013; Burd & Hallsworth, 2016; FMA, 2016). In a review focused on middle and low-income countries, Lundberg and Mulaj (2014) state:

> *Simply providing individuals with financial education and access to instruments is insufficient, and additional or alternative behavioral treatment mechanisms might be necessary to improve outcomes. (p. 4)*

With reference to the general population, the FMA (2016, p. 10) states, "Understanding consumer behaviour and influencing factors are key to successful interventions." They note that

> *the reasons for low capability are complex and varied, [and] have more to do with behavioural bias than knowledge and skills. Traditional training and education is far less effective in improving these elements of capability. ' Correct' biases can't be taught. (p. 10)*

Lundberg and Mulaj (2014) describe understandings from the field of psychology regarding "psychological barriers that prevent people moving from knowledge to actions" and making "optimal [financial and economic] decisions even in the presence of information" (p. 3). For example, people:

- are loss averse
- have status quo preference
- discount the long-term in comparison to present
- are highly influenced by emotions and peers.

They further note "many of these behavioural biases are even more pronounced" in the context of poverty. "Poverty creates myopia, which refers to a focus on solving short-term problems without the ability of mental space to make decisions that take into account long-term implications. As a consequence, many decisions under poverty are detrimental for the future" (Lundberg & Mulaj, 2014, p. 4). In a similar vein, the FMA states that "hard decisions equal more behavioural bias" (2016, p. 10).

Becoming financially capable is hard. Feelings and fears influence financial judgments and decisions, and the decisions may not be frequent enough to learn to do them well. People make trade-offs between the present and the future.

FMA (2016)

The FMA says the attainment of financial capability is neither simple nor straightforward:

> *Our feelings and fears influence our financial decisions. Making financial judgements and decisions is hard. They:*
>
> - *are complex*
> - *require consumers to assess risk and uncertainty*
> - *require making trade-offs between the present and the future*
> - *can be emotional*
> - *are done infrequently so don't provide opportunities to learn to do them well. (2016, p. 7)*

The FMA outlines the following types of bias that affect "the way we make decisions [and] lead us to act (or fail to act) in our own best interests" (2016, p. 7):

- Preferences, which are influenced by our emotions and psychological experiences (e.g. present bias, reference dependence,[14] regret and other emotions, such as ambiguity and loss aversion[15]).
- Beliefs about the likelihood of events and our own abilities, which are often wrong (e.g. over-confidence, over-extrapolation, projection[16]).
- Decision-making rules or short cuts when assessing available information (e.g. mental accounting;[17] framing, salience and limited attention;[18] decision-making rules of thumb; and persuasion and social influence).

Burd and Hallsworth (2016) present an approach that draws together the main components that research has identified need to be present for a behaviour to occur. This is based on behavioural science theories in support of finding "new ways of enabling people and communities to take a more active role in managing their own health" (p. 2). In Figure 4, 'capability' is equated with knowledge and skills; however, the formula also brings into play 'opportunity' and 'emotional responses' that previous writers have highlighted as important considerations.

Figure 4: Understanding behaviour

Capability	+	**Opportunity**	+	**Motivation**	=	**Behaviour**
Knowledge and skills		All the factors that lie outside the individual that prompt the behaviour or make it possible		Conscious goals and decision-making as well as habits and emotional responses		These factors interact to produce behaviour

Source: Burd & Hallsworth (2016, p. 6)

The factors that make a behaviour "more or less likely to happen" are identified in Figure 5.

Figure 5: Factors that make a behaviour more or less likely to happen

1. Growth mindset, self-efficacy and 'grit'
2. Removing friction costs
3. Social connections
4. Intrinsic motivation
5. Goal-setting and feedback

Source: Burd & Hallsworth (2016, p. 6)

Quadrant Three: Providing access to and protection of financial products and services

Access and protection are important building blocks of financial capability

Whereas financial literacy addresses internal capabilities, the broader conceptualisation of financial capability acknowledges "certain external conditions must also exist in order for people to be capable" (Sherraden, 2013, p. 4). In order to expand financial capability, especially for vulnerable groups, simply providing financial education is insufficient; we must also find ways of improving access to quality financial products and services, along with changing the way financial institutions include or exclude those suffering hardship (Sherraden, 2013).

The provision of inclusive financial products and services is an essential, although often unacknowledged, aspect of increasing financial capability for vulnerable groups

Inclusive financial products and services are those that reflect the preferences of vulnerable families and are able to meet their needs. In order to create a context or environment for change, the provision of financial services needs to be tailored to support and service financially vulnerable households, particularly in ways that do not exacerbate their current situation (Families Commission, 2012b; Sherraden, 2013). However, as Sherraden (2013) explains, this is often not the case. Research suggests that financially vulnerable people often believe that mainstream products and services are not meant for them, suggesting a chasm between the financial worlds, and opportunities, of rich and poor (Sherraden, 2013).

Many vulnerable families in New Zealand are excluded from accessing mainstream financial products and services, forcing these people to turn to fringe providers

The New Zealand financial marketplace is not an enabling or inclusive environment for many vulnerable families, who, rather than being given the opportunity to act, are often marginalised and excluded from accessing mainstream services. As a characteristic of hardship, many of these families face high levels of problem debt, lack income and assets, and often have a poor credit rating (Families Commission & Retirement Commission, 2009; Families Commission, 2009). These factors can result in families being unable to access mainstream sources of credit (Families Commission & Retirement Commission, 2009).

As Sherraden (2013) explains, when people lack access to appropriate banking products and services, they often turn to alternative sources of credit. For vulnerable families, loans from fringe lenders are a common source of short-term finance, and may be one of the few sources of credit available (Families Commission, 2012b). These lending services are commonly located in low-income communities, such as South Auckland, and often outnumber banks and other mainstream providers (Families Commission, 2012b).

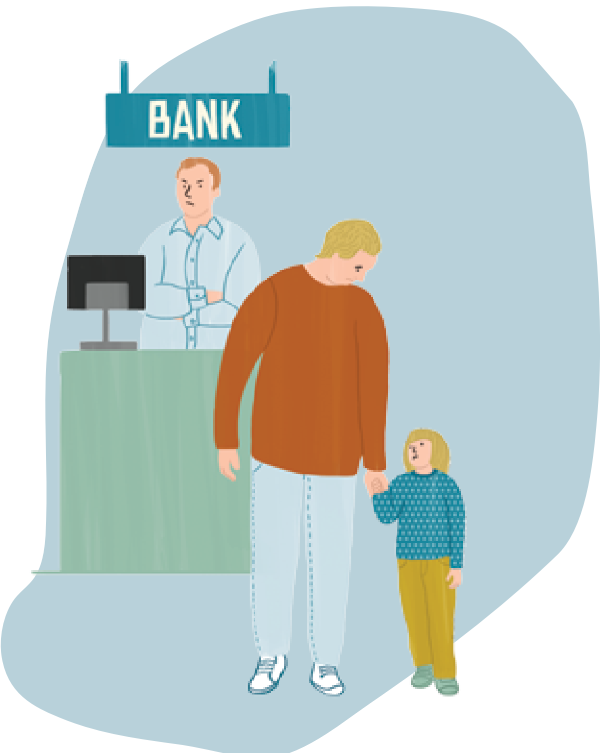
These alternative financial products and services are often exploitative, and can exacerbate hardships already being experienced by vulnerable groups

In rare cases, the use of these loans may provide a convenient and appropriate alternative to mainstream offerings (Sherraden, 2013). However, as the Families Commission (2009, p. 7) argues, in most instances, "loans from finance companies ... [are] particularly problematic forms of consumer credit". Many fringe providers can be "predatory and engage in unfair, deceptive, or fraudulent practices" (Sherraden, 2013, p. 13). Moreover, many of these services are seen to deliberately target vulnerable families (Families Commission, 2009, 2012b).

For many families, the use of these services contributes to an ongoing cycle of problem debt, which may create additional hardship. As the Families Commission explains, "The high cost of these forms of credit contributed to a cycle of debt for many families [and] difficulties in keeping up with debt repayments created additional interest and administration charges." While in some instances families may not have understood the terms of their contract, in many cases, families "felt their poor credit rating or inability to save up cash for a purchase gave them no alternative" (Families Commission, 2009, p. 7).

Approaches to increasing financial capability should also consider how to best protect vulnerable consumers

As a component of an opportunity-focused, supply-side approach, many researchers acknowledge the need to take active steps to protect vulnerable consumers. The need for protection was identified as especially relevant for low-income families, who access credit from fringe providers (Families Commission, 2009, 2012b). In research by the Families Commission, "budgeting advisers felt there needed to be increased (or better enforced) regulation of the finance industry, with finance companies and banks taking more responsibility for how they made credit available and ensuring that individuals understood what they signed" (2009, p. 96).



While efforts to improve financial literacy may go some way to mitigating the adverse effects of using these services, "No matter how much education was delivered to families in need, budgeting advisors felt that regulation was still needed to match the education of clients" (Families Commission, 2009, p. 96).

Quadrant Four: Improving economic resources and social capital

Whether or not economic and social capital resources are a core component of building financial capability is contested. They are key to the development of financial resilience (NAB, 2016). A very brief discussion follows.

Range of ways to address financial hardship

Perry (2016b) identifies four main ways of addressing poverty and hardship from the perspective of the household: two macro-level responses (increasing household income (per adult equivalent) and reducing demands on the household budget for basics) and two micro-level responses (getting better at using a given income to meet basic needs and increasing capacity to cope with 'shocks'). There is also a range of ways of addressing each of these four areas, as illustrated in the following list.

Macro-level responses

- Increasing household income (per adult equivalent):
  - more from earnings
  - higher transfers / government assistance
  - lower income tax
  - more assistance from wider family
  - economies of scale; for example, through families moving into a shared household.
- Reducing demands on the household budget for basics:
  - higher government subsidies and ('free'/low cost) services
  - reduced assistance for/to wider family outside the household

Micro-level responses

- Getting better at using a given income to meet basic needs:
  - healthy family functioning (tension and chaos reduce efficiency)
  - improved budgeting
  - improved life skills / dealing with addictions
  - better access to government and community services
- Increasing capacity to cope with 'shocks':
  - some savings
  - support networks (Perry, 2016b, and elaboration in PowerPoint presentation, in email to authors 25 May 2016).

Increasing household income key

As noted earlier, the four key dimensions of financial capability consistently identified in international research are:

- day-to-day money management
- planning for future needs
- choosing and using appropriate products
- being informed and getting help (FMA, 2016; Kempson, 2015).

Of the above four key dimensions, Kempson (2015) states that people with insufficient income are unable to do the first two of them: manage their money on a day-to-day basis to live within their means, and plan for future needs. She suggests that in addition to building financial capability, there is a need for two interventions: increase income and provide a safety net. The *Whānau and Low-Income Household Savings Report* states that "the most effective means to boost whānau and low-income household savings would be a lift in overall household income amongst lower socio-economic groups" (FLSPWG, 2015, p. 1).

Social capital needed, particularly networks and support

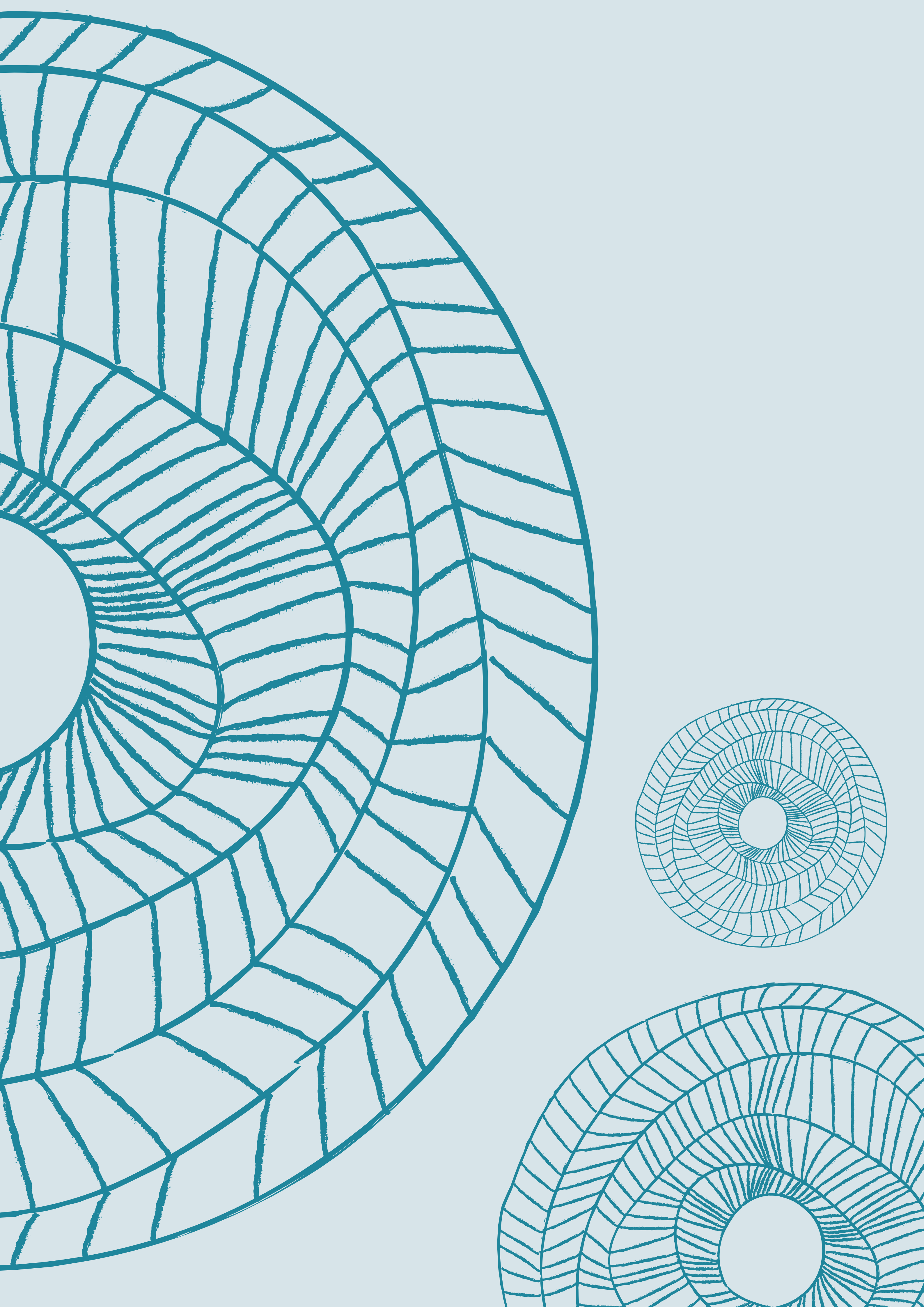
NAB (2016) identifies three aspects of social capital important to building financial resilience:

- Social networks
- Social support in times of crisis
- Need for and access to community or government support.

There are numerous definitions of social capital (Claridge, 2004). The Treasury highlights the World Bank definition of social capital as "the degree of trust in a society and the ability of people to work together for common purposes" (Gleisner, Llewellyn-Fowler, & McAlister, 2011, p. 24). They also note "other definitions [that] include community characteristics, networks, norms, and institutions such as the rule of law and transparency of political processes" (p. 24).

With regard to people achieving success in their personal and work lives, Baker (2000) focuses on the importance of networks. He says:

> *'Social capital' refers to the many resources available to us in and through our personal and business networks. These resources include information, ideas, leads, business opportunities, financial capital, power, emotional support, goodwill, trust and cooperation. The 'social' in social capital emphasizes that these resources are not personal assets; no single person owns them. The resources reside in networks of relationships. If you think of human capital as what you know (the sum of your own knowledge, skills, and experience), then access to social capital depends on who you know – the size, quality, and diversity of your personal and business networks. But beyond that, social capital also depends on who you don't know, if you are indirectly connected to them via your networks (p. 1).*



Section Three: What are the characteristics of interventions that are likely to be effective in building the financial capability of New Zealanders in financial hardship?

Section Three: What are the characteristics of interventions that are likely to be effective in building the financial capability of New Zealanders in financial hardship?

3.1 Introduction

This section provides an overview of what an effective 'system' of support might look like based on evidence. It then discusses what works for Māori and Pacific peoples, and 'hard-to-reach' groups, and provides other considerations for the development of effective products and services that will support behaviour change.

3.2 An effective system of support

The previous section highlighted increasing support for a multi-faceted approach to effectively address financial hardship. Different authors variously propose that the areas shown in Figure 6 need attention to create effective change for people experiencing financial hardship.

Figure 6: Key areas contributing to financial wellbeing[19]

Knowledge and skills

- Budgeting and managing money skills
- Skills in the use of debt
- Knowledge and understanding of financial products and services
- Knowledge and understanding of rights and obligations

Attributes and behaviour

- Attitudes
- Motivation
- Confidence
- Behaviour

Access and protection

Financial products and services

- Access to safe and appropriate financial products, services and institutions (bank account, credit, insurance)

Safety net

- Access to government support

Protection

- Policies, laws and regulation

Resource and social capital

Economic

- Income
- Savings
- Ability to meet cost-of-living expenses and raise funds in an emergency

Social capital

- Familial, social and community networks
- Support in times of crisis

This suggests that an effective system of support for people and families/whānau experiencing financial hardship would address both internal and external factors inhibiting their achievement of financial wellbeing, across *all* four areas in Figure 6 – financial knowledge and skills; people's attributes and financial behaviour; access to and protection in the use of financial products, services and institutions; and people's economic and social capital resources. While focusing on any one area appears to have some value if offered alone, the existence and persistence of hardship is a complex and entrenched social problem that is difficult to shift, as outlined in Section One.

Internationally, the achievement or enhancement of financial capability is seen as a "useful tool ... to alleviate the causes and consequences of financial hardship in the community" (Worthington, 2013, p. 12). In terms of what is effective at building financial capability for people and whānau in financial hardship, Worthington (2013, p. 10) explains, "There [is] not one but many possible paths to financially-literate behaviour and better financial outcomes".

Sherraden (2013) also argues that financial capability is enhanced or achieved through a combination of various approaches, and advocates for a building block method. "Each of the building blocks of financial capability – education, guidance, inclusion, and protection – contributes to people's ability and opportunity to act in their best financial interests" (Sherraden & Grinstein-Weiss, 2015, p. 9). They also argue that "the building blocks [of financial capability] may interact to further reinforce the effects of each if they are offered together".

They group various approaches into either 'starting early' or 'starting over' (Sherraden & Grinstein-Weiss, 2015); that is, taking either a prevention or intervention approach.

Prevention

- **Starting early** approaches, targeting financial **socialisation.** These interventions focus on providing education and other financial services to children and young people at the beginning of their financial or working journey.

Intervention

- **Starting over** approaches, targeting **ability**. These interventions take a demand-side perspective, using education and guidance to build an individual's knowledge, skills, and capabilities.
- **Starting over** approaches, targeting **opportunity**. These interventions take a supply-side perspective, using inclusion and protection to encourage access and shift the context in which individuals operate.

3.3 What works best with Māori and Pacific participants, and hard-to-reach groups

Sanders and Munford (2010) note that international research has established the significance of positive, engaged relationships in helping families change their behaviour, which increases client retention and contributes to better service outcomes (p. 36). The strengths-based approach that they advocate begins with the concept that clients are experts and the authors of change – sustainable change begins and ends with whānau/family members themselves and takes time.

Providers need to establish a collaborative, partnership style of relationship and set an agenda in consultation with clients. Together the provider and the client can reframe situations and look for alternative solutions. At the same time, providers need to appreciate the ways in which the political, social, economic, religious and cultural contexts impact on the families and affect the way the relationship will work.

A strengths-based approach values and views people as resourceful and resilient in the face of adversity, and as the experts of their own lives. A more holistic approach is needed: one that puts the individual at the centre and understands and addresses people's personal, economic and social contexts.

Sanders & Munford (2010)

According to Sanders and Munford (2010, pp. 47–48), a strengths-based approach to working with families would:

- acknowledge the 'multiple positions' a family/whānau can occupy – that is, they may be strong and competent in some areas of their lives but not in others
- recognise that families/whānau have hopes, dreams and aspirations for their families/whānau and want to do what is best for them
- take account of the conflicted feeling families/whānau may have when they come to agencies for support
- recognise that families are likely to feel embarrassed about their inability to deal with their concerns.

A recent Families Commission report (2012b) makes a similar point, noting that interventions need to understand the geographical and social environment in which families live, and recognise the pressures under which they operate, which may lead to exploitation, a high level of debt, health and relationship problems, and low self-worth. The report concluded that for both Māori and Pacific families, support is most effective when it is an integral part of community practice – that is, when it is developed and provided through existing relationship networks in a community. These networks may be based in an Urban Māori Authority, a sports club, a church, or a marae. What is important is that the relationships involve a high level of trust (Families Commission, 2012b).

The following draws on New Zealand research that has identified characteristics of successful interventions with Māori and Pacific, particularly reports by the Families Commission (2012b) and the FLSPWG (2014, 2015).

Māori whānau

The FLSPWG (2014 p. 4) identified 10 barriers to building Māori financial literacy. They are:

- lack of awareness among whānau of financial literacy services available
- lack of service provision in certain regions of New Zealand
- lack of awareness of the importance and benefits of financial literacy among whānau
- lack of financial literacy services targeted specifically to whānau
- lack of funding to deliver targeted financial literacy services
- lack of service provision in relevant areas of financial literacy
- lack of credibility of service effectiveness due to lack of programme evaluation and monitoring of participant outcomes
- lack of delivery of financial education in schools
- lack of leadership to drive change
- use of delivery mechanisms that do not appeal to Māori.

In order to address these barriers, the FLSPWG (2014) identifies seven key elements or principles that should underpin services tailored to Māori. These are:

- the importance of building relationships
- long-term orientation
- kanohi ki te kanohi – face-to-face interactions
- whānau focus
- te reo – language
- tikanga – customs
- Māori attitudes and beliefs around self-determination.

Whānau-centred approaches are seen as important for engaging with Māori. Te Puni Kōkiri (2015, p. 9) refers to this as a "culturally grounded, holistic approach focused on improving the wellbeing of whānau as a group, as well as the individuals within the whānau". This requires placing whānau at the centre of service design and delivery, and contributing to better outcomes for whānau through empowerment of whānau as a whole.

The Southern Initiative (Tangaere, 2016) presented the following framework for engaging with whānau to co-design services (Table 6).

Table 6: A framework for engaging with whānau to co-design services

Principle	Application for whānau-centric co-design
Manaakitanga	Hosting whānau in a way that empowers them, and removes any barriers to participation.
Whanaungatanga	Establishing meaningful relationships in culturally appropriate ways. Engaging whānau in a way which builds trust.
Tino Rangatiratanga	Whānau have the autonomy to decide how and when they will participate. Co-decide as well as co-design.
Mana	Whānau are the experts in their lives. Ensuring a balance of power.
Ako	Mutually reinforcing learning.

Source: Tangaere (2016)

What providers can do

A recent FLSPWG (2015) report on household savings notes that:

> *There is pressing demand to build a greater degree of tikanga Māori and Māori cultural values concerning wealth into financial literacy services offered in New Zealand, including the recognition of what 'wealth' means to different groups. (p. 5)*

To implement these principles, service providers need to ensure that trainers understand te reo and tikanga, establish feedback and evaluation loops, and seek out local iwi organisations or budgeting services to create a product that meets the needs of a particular community. They also need to invest in and build relationships with the participants and communities with whom they want to work.

The FLSPWG report concluded that the most effective delivery mechanisms for Māori are one-on-one mentoring, workshops and hui, with online/distance channels. Classroom settings and lectures are less effective. The report also notes that using social media channels such as Facebook or Twitter or creating financial education apps may help target young Māori and encourage them to think about financial wellbeing and money management. TV3, Māori Television, iwi radio stations, the Nui FM radio network and magazines such as *Mana* and *Tū Mai* could also be used to promote financial literacy.

What communities can do

Communities can also be active in encouraging whānau to consider and discuss financial literacy, promoting new initiatives or programmes, taking part in discussions and supporting and informing the feedback loop.

What government can do

The FLSPWG (2014) suggests four ways in which the government can support the improvement of Māori financial literacy.

- Make funding available for the delivery of targeted financial literacy services.
- Support research and evaluation and the application of results to ensure best practice and the achievement of desired outcomes in financial literacy.

- Support a variety of marketing campaigns to increase awareness of the importance of financial literacy as well as of the services available to Māori whānau. Māori should have a voice in the design of any campaign targeted at Māori.
- Consider the place, scope and efficacy of financial literacy education within the compulsory schooling sector.

Pacific families

The Families Commission (2012b) report on Pacific families and problem debt identified a number of strategies for improving financial literacy and numeracy, budgeting, and money management for Pacific families. These strategies include:

- using Pacific leaders, church ministers and heads of families as key role models – by enlisting the support of these Pacific leaders, the programmes can be taken to homes, schools and churches
- introducing budgeting and financial skills into primary and secondary schools
- using a range of Pacific media such as radio stations and magazines to enable financial advice in English and Pacific languages to be widely disseminated
- having user-friendly financial education designed to be relevant to Pacific peoples' life experiences, available in their languages and interactive
- revisiting cultural and church expectations in the New Zealand context
- saying 'no'
- raising awareness for recent immigrants and families in the Pacific nations
- reviewing access to easy credit and finance
- having interpreters, budgeters and a waiting period before a loan is approved as well as a cap on loan amounts
- intervening early
- increasing awareness of what financial support is available, including access to KiwiSaver funds.

An evaluation of a building financial capability pilot programme for Samoan families in Marton identified five critical success factors, which align with the strategies identified above. The five factors were:

- **Reach and engagement.** The programme used communication channels where people naturally congregate, primarily the church and work. This was important in reaching and engaging participants, and both the church and the workplace were supportive.
- **Course availability and access.** Trainers were very flexible to accommodate what worked for participants; for example, in terms of time and venues.
- **Programme content.** In addition to having financial capability knowledge and skills, trainers had in-depth knowledge of the migrant community and culture, and could speak, understand and communicate key concepts in Samoan.

- **Course delivery.** Course delivery was grounded in knowledge of financial capability, and adult learning theory and practice; for example, trainers used relevant scenarios, training skills that drew on a range of approaches, and exercises that met the differing needs of the group. The trainers were familiar with cultural processes that helped learning to occur, and participants trusted and accepted them.
- **Cultural appropriateness.** The course was run in a way that met and supported people's language and culture, and the centrality of talanoa, so that open sharing and discussion was possible (Torrie, 2015).

Refugee families

A report by the Labour and Immigration Research Centre of the Ministry of Business, Innovation and Employment (Searle, Prouse, L'Ami, Gray, & Gruner, 2012) looked at the long-term settlement of refugees in New Zealand. It found that two-thirds of former refugees said they did not have enough money to meet their everyday needs, and 8% said they had needed financial advice or budgeting help in the previous 12 months. While participants in the research did not specifically discuss the quality of the budgeting advice they received, they did stress the need for organisations to have cultural competency when working with former refugees. They also wanted help to learn about the support systems that are available to them. They were more positive about community organisations like the Citizen's Advice Bureau where staff were more knowledgeable about refugee-specific issues and more culturally responsive towards their clients.

3.4 Other considerations in developing effective products and services

Early intervention desirable but difficult to achieve

As noted earlier, the optimum time to receive budgeting and financial planning or mentoring services is as early as possible – such as when a family first receives a benefit. However, usually, the services are accessed only when a family is in a crisis situation and significant financial hardship (Families Commission, 2009, 2012a).

As the Families Commission (2009, p. 103) explains, "Providing support early reduces the negative impacts to family members and reduces the risk of escalating problem debt." However, many families are reluctant to access early support, and while opportunities are available, they are often not taken up (Families Commission, 2012a). The Families Commission (2012a) also challenges the assumption that a 'build up' of financial hardship eventually results in a moment of crisis, and that therefore, a prior 'window of opportunity' exists in which to intervene.

As this research states:

> *This approach does not fit for many, particularly those in chronic hardship or poverty, who are dealing with much more than financial hardship and have faced these struggles for as long as they can remember. It is hard to determine when exactly 'early' is for those in this situation. (p. 66)*

Features of inclusive financial products and services

Sherraden (2013) says:

- for low-income individuals and families, financial inclusion means, at a minimum:
- having access to a safe place to deposit money
- a place to store precautionary savings
- a means to generate savings and investment
- reasonably priced small dollar credit, and
- simple insurance products. (2013, p. 15)

Sherraden (2013, p. 20) outlines a number of features, which can "shape quality financial products and services, and build long-term financial stability and opportunities for development".
In contrast to an ability-focused approach, the provision of inclusive services encourages shared responsibility for the development of financial capability within vulnerable groups.

Inclusive products and services may consider the following characteristics:

- **Appropriate –** These products and services are designed to meet the diverse needs of vulnerable families, and may consider characteristics like age, education, cultural background, and financial situation.
- **Accessible –** This feature refers to the ability and right to approach, enter, use, and communicate with a financial institution. Barriers may not just be physical, and can also relate to psychological discomfort, language hurdles, and inconvenient hours.
- **Affordable –** Financial products and services are often expensive and have high income threshold requirements, which can exclude some users.
- **Financially attractive –** Incentives such as high returns, low fees, bonuses, and prizes are often offered to high-value customers, but are inaccessible to low-income users.
- **Easy to use (with automatic features) –** Products should be simple and transparent, and information should be understandable to all, including non-English speakers, and people with low literacy or disabilities.
- **Flexibility –** Vulnerable families often have irregular and unpredictable income streams, and low resilience to shocks, and many financial products are not set up to support this.
- **Secure and reliable –** A legacy of exploitation and discrimination has left many low-income families distrustful of financial institutions, and this relationship needs to be rebuilt (Sherraden, 2013).

Protection

Research by the Families Commission (2012b) identified a number of specific interventions designed to better protect vulnerable consumers:

- The setting of appropriate legislative and regulatory frameworks
- Revising access to easy credit and finance
- Capping interest rates
- Capping of loan fees
- Making low-interest loans available through Kiwibank
- The further simplification of loan documents
- The introduction of strict controls on insurance relating to loans.

3.5 Supporting behaviour change

The FMA (2016) highlights two frameworks for developing interventions to influence behaviour change, drawn from the UK-based Behavioural Insights Team, which has been at the forefront of international research in this area. The FMA paper notes that "helping people overcome behavioural biases is complex. Context matters – what works in one situation may not work in another" (p. 10).

The two frameworks are named TEST and EAST.

TEST – Target, explore, solution, and trial

1. Target – define the outcome
2. Explore – understand the context
3. Solution – build the intervention
4. Trial – test, learn and adapt (summary from FMA, 2016, pp. 10–11).

When building the intervention, the principles that have been shown to be effective and result in measurable behavioural change outcomes are:

EAST – Easy, attractive, social and timely

- Make it easy – to address the present bias and preference for status quo, for example:
  - harnessing the power of defaults
  - reducing the 'hassle factor' of taking up a service
  - simplifying messages.
- Make it attractive – people are more likely to act if something is framed the right way and grabs their attention.
- Make it social – addressing people's bias towards emotions and norms in social settings. The social factors should:
  - show what most people desire from a particular behaviour
  - use the power of networks
  - encourage commitment.

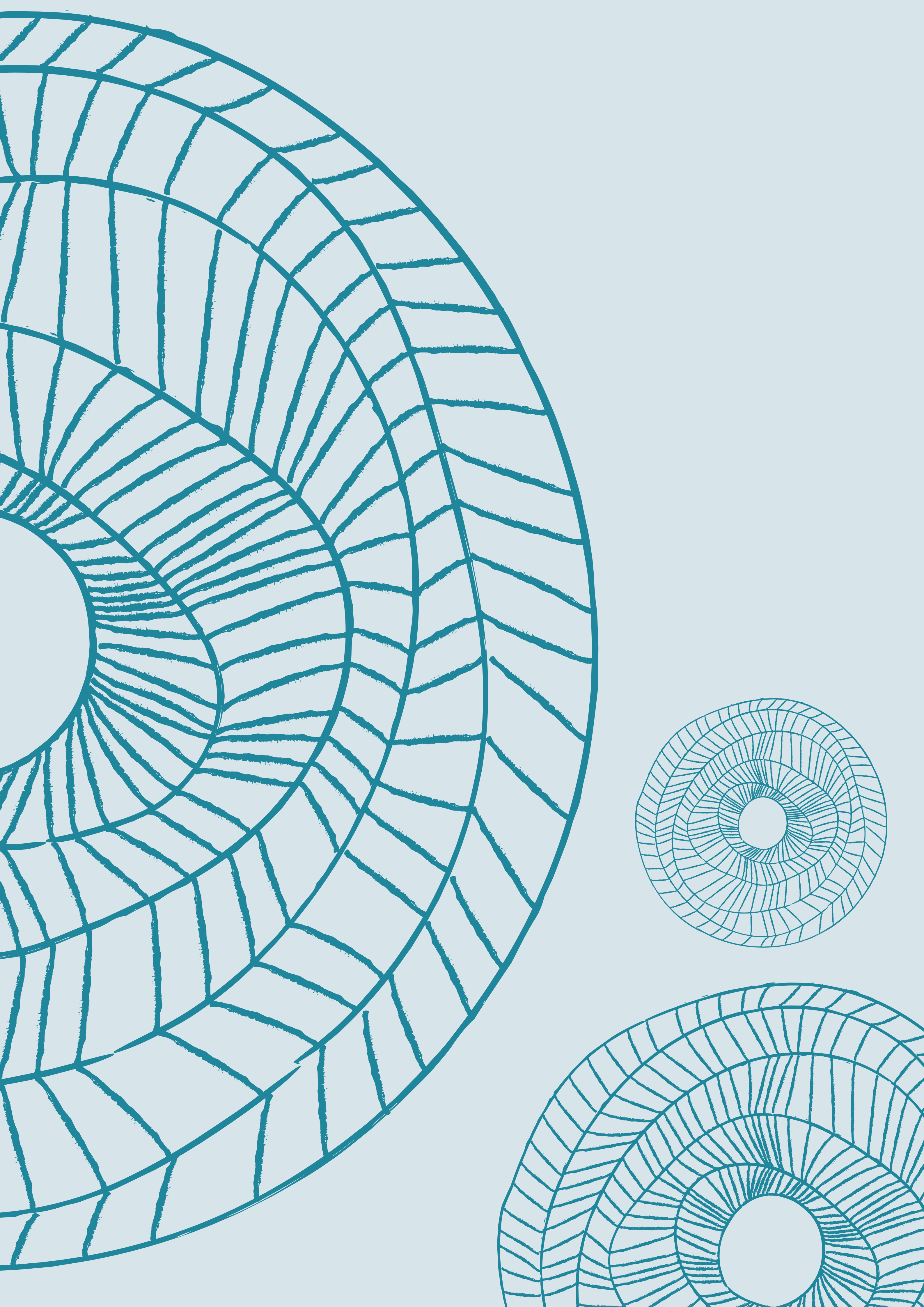
- Make it timely – people respond differently to prompts depending on when they occur. A range of biases and effects mean the same decision made at different times can be made in very different ways. Behavioural interventions will be more effective if they:
  - prompt people when they are likely to be most receptive
  - consider the immediate costs and benefits
  - help people plan their response to events (Service, Hallsworth, Halpern, Algate, Gallagher, Nguyen, Ruda, Sanders, Pelenur, Gyani, Harper, Reinhard & Kirkman, 2014 as cited in FMA, 2016, pp. 13–17[20]).

In a similar vein, Arnold and Rhyne (2013) have distilled seven behaviourally informed practices for effective financial capability interventions from around the world, with specific attention to Mexico and India:

1. Teachable moments
2. Learning by doing
3. Nudges, reminders and default options
4. Rules of thumb (heuristics)
5. Make it fun
6. Customise it
7. Make it social.

Reaching people at the right time is important. Effective financial capability interventions recognise that each contact with a client is a potentially teachable moment.

Arnold & Rhyne (2016)



Section Four: A brief discussion summarising relevant literature related to the new Building Financial Capability services

Section Four: A brief discussion summarising relevant literature related to the new Building Financial Capability services

4.1 Introduction

As part of this literature review, we link the literature to the new set of Building Financial Capability services. These were launched by MSD on 1 November 2016 to build the financial capability of New Zealanders experiencing financial hardship.

The services include:

- financial mentors – a reframing of budget advisors
- MoneyMates – peer-led support.

These will be supported by:

- a new strengths-based financial plan
- a strengthened Work and Income referral and communication practice.

Each of these is described in more detail below. MSD also intends to develop further products and services in a second phase; however, these are not discussed in this review.

4.2 Financial mentors – a reframing of budget advisors

MSD has reframed budget advisors as financial mentors to take into account the complexity of people's needs and to recognise the fact that many advisors provide more than budget advice alone. Financial mentors focus on empowering people and making connections with a range of social services to ensure people get the right support. Financial mentors use a strengths-based approach, working collaboratively with clients so that they have choices and control over the support they need.

The New Zealand Productivity Commission (2015) identified that social services markedly underperform for vulnerable families in financial hardship, who often have multiple, complex needs. The financial mentor concept is similar to the Navigator concept from Whānau Ora. The New Zealand Productivity Commission (2015, p. xiii) describes a navigator as "a suitably experienced person who works with clients and families to help identify, prioritise and sequence a package of services and support for them".

In reference to Figure 3, **Primary focus of different approaches to addressing financial hardship** (p. 29), the financial mentor role aligns primarily with Quadrant One: Building knowledge and skills. The financial mentor also plays a navigation role through the other quadrants.

Some features to make the financial mentor role work well include:

- trusting and respectful relationships between the mentor and clients (Families Commission, 2012b)
- seeing clients as capable of adaptation and change – growth mindsets (Burd & Hallsworth, 2016)
- flexibility for the mentor to source services from a wide variety of suppliers (New Zealand Productivity Commission, 2015)
- clear responsibilities, funding and accountabilities (New Zealand Productivity Commission, 2015)
- culturally competent and culturally responsive mentors (FLSPWG, 2015).

4.3 MoneyMates – peer-led support

MoneyMates is the new peer-led support and is based around the concept of sharing and learning together as a group. Facilitators will encourage participants to learn from others, talk about and de-stigmatise financial hardship, and gain control over their financial lives to make longer-term behaviour changes.

The MoneyMates concept aligns with evidence from the health and wellbeing sector that peer support can "help people feel more knowledgeable, confident and happy and less isolated and alone" (Nesta & National Voices, n.d., p. 2). "Peer support is a well-tested part of social care, mental health, physical health and, at an everyday level, it forms the basic structures of our families, friendships and communities" (Temperley, Baeck, Hampson, & Langford, 2013, p. 6).

In their paper on behavioural factors in person- and community-centred approaches for health and wellbeing, Burd and Hallworth (2016, p. 12) report that:

> *Connecting to others, receiving support when needed and giving back at other times are strongly linked to experiencing a sense of wellbeing and buffering against mental ill health. In practical terms, people who have more social connections are more likely to receive timely help in order to cope in a crisis.*

MoneyMates is primarily in Quadrant Four: Improving economic resources and social capital (Figure 3) – being the 'social capital' aspect of this quadrant. It then aims to change behaviour drawing on the methods within Quadrant Two: Supporting attributes and behaviour.

Arnold and Rhyne (2016) point out that social supports often influence behaviour and decision-making, particularly around money. While group and peer-led support sessions enable sharing and learning about money, research suggests that they will need to be well-managed to overcome potential participants' shyness and/or embarrassment.

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

Arnold and Rhyne (2016)

The Families Commission report (2012b, p. 39) describes the Good Cents programme in Porirua, which takes a holistic, strengths-based position, engaging with the community rather than intervening when families are at 'crisis point'. One of the issues that this approach seeks to address is described elsewhere in the report (p. 67):

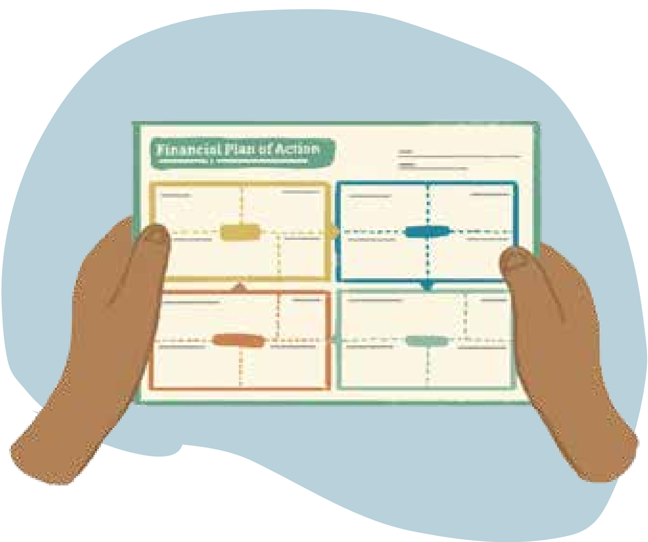
> *After a presentation was delivered on a national Pacific radio station, much interest was expressed by Pacific listeners. Many called the organisation's phone line and asked for advice. When offered the opportunity to attend workshops at the organisation, many said they would attend; on the day, however, very few showed up. The participants reflected that the poor attendance might be attributed to people's pride and not wanting others to find out they were experiencing financial difficulty.*

An American programme which integrates financial capability into a youth employment programme (Loke, Choi, Latin, & Libby, 2016) found that adding peer-led group coaching sessions to the standard programme led to two additional youth financial capability outcomes. The participants were nine times more likely than the comparison group to have increased financial knowledge and 11 times more likely to report increased use of more complicated financial management behaviours such as comparison shopping before making a purchase. The authors also noted that the 'MyPath Savings' action-based curriculum is tailored for youth workforce and employment staff and settings: it is shorter and designed to give youth earning their first pay cheques a positive experience banking and saving for the first time.

4.4 Financial Plan of Action: a strengths-based financial plan

MSD has launched a new Financial Plan of Action, which takes a strengths-based approach. It is a resource for clients, their families and whānau to document their goals, supported, where necessary, by a financial mentor. The Financial Plan of Action has a focus on clients' future outcomes and the strengths that they bring to overcome their challenges. This approach to financial planning views people as resourceful and resilient in the face of adversity, and as the experts in their own lives.

In their paper on behaviour change, Burd and Hallworth (2016, p. 15) note that achieving a goal often involves more than deciding what to aim for and then working at it.



Feedback and ongoing support from others can be beneficial:

> *Breaking goals down into manageable 'chunks' and receiving timely feedback along the way can make it more likely that a person will stay on track and ultimately achieve their goal … Use of precise, actionable implementation intentions in plans is also correlated with better recovery after people relapse on the road to permanent behaviour changes, as does following up intention planning with feedback and proactive 'check-ins' from others to see how sticking to the plan is going.*

This therefore aligns with Quadrant Two: Supporting attributes and behaviour (Figure 3).

4.5 Referral and communication practice with Work and Income

Work and Income case managers will connect their clients to Building Financial Capability services where the focus is on strengths-based financial planning. This is being done by:

- case managers having the knowledge and resources to talk to clients about building their financial capabilities
- having a consistent practice and approach for referring clients to financial mentors and MoneyMates at the right time
- stronger communication channels for service providers and Work and Income to work together.

Reaching people at the right time is important. Effective financial capability interventions recognise that each contact with a client is a potentially teachable moment. Information provided when a person is about to make important financial decisions or use a financial service is more likely to be retained and influence behaviour (Arnold & Rhyne, 2016).

The standardised referral service and referral to the 'best fit' financial capability service aligns with Quadrant Three: Providing access to and protection of financial products and services (Figure 3). This includes access to government support, as well as access to safe and appropriate financial products, services and institutions.

The effectiveness of this approach will depend on the quality and consistency of interactions with Work and Income staff. In the report on long-term settlement of refugees (Searle et al., 2012), 20% of participants did not think that Work and Income treated everyone fairly or equally, and a number commented on inconsistent treatment and/or application of policy within an agency. The Auckland City Mission (2014) Family 100 Research Project makes numerous references to difficulties with Work and Income, as do the earlier reports by the New Zealand Council of Christian Social Services (2009) and Presbyterian Support Otago (2008).

If Work and Income services improve, Burd and Hallworth (2016, p. 11) suggest that this may lead to improvements and more rapid change in client behaviour:

> *Making care (services) truly person- and community-centred will mean that commissioners, policymakers and practitioners in charge of creating supportive services need to design out 'friction' from their services wherever possible. This means accounting for the difficulty of travelling somewhere if a long-term condition makes that challenging or public transport links are poor, or the difficulty of referring a patient (client) to a service if it requires lots of computer log-ins and form-filling.*

Endnotes

1. For more information, see MSD's Building Financial Capability web page: https://www.familyservices.govt.nz/about-funding/budgeting-services-funding/index.html
2. See: http://www.msd.govt.nz/documents/what-we-can-do/providers/building-financial-capability/guiding-narrative-overview.pdf
3. See: https://www.familyservices.govt.nz/documents/about-funding/budgeting-services-funding/draft-intervention-logic.pdf
4. See http://www.teara.govt.nz/en/glossary#whānau
5. Using data from the Te Kupenga Confidentialised Unit Record File. Te Kupenga is a post-census survey that was undertaken by Statistics New Zealand after the 2013 Census. The survey involved interviewing a sample of the usually resident Māori population, defined on the basis of either ethnicity or ancestry.
6. New Zealand literature on this topic includes Grimes & Hyland (2015), Madden (2015), and Perry (2016a, 2016b).
7. Conversation and subsequent email exchange with Bryan Perry, 15 September 2016.
8. Hardship grant is a generic term covering a range of categories of emergency grant linked to payments to people on a particular benefit (e.g. Job Seeker related, Sole Parent Support) as well as those not already on a benefit.
9. In the United States in 2012, nearly 25% of low-income households were estimated to be 'unbanked' (i.e. without a deposit account) at any banking institution (Sherraden, 2013, p. 15). The Commission for Financial Capability in their peer review of this literature review note that New Zealand has very few 'unbanked' households, but we may have 'under-served' households.
10. The FMA noted that these four dimensions have been consistently identified in research carried out by the World Bank (across 10 countries), and in work originally carried out for the UK Financial Services Authority.
11. The view that financial capability addresses all four quadrants would be contested. For example, the Malatest International (2016) definition would likely see financial capability as covering Quadrants One and Two. Sherraden's (2013) definition would have it covering Quadrants One to Three. Financial resilience incorporates Quadrant Four (NAB and Centre for Social Impact, 2016b, p. 1).
12. The term 'wealth' is used to encompass both economic and social resources, described here as social capital.

13. Quadrants One and Three are the most well-developed aspects of financial capability in the literature.
14. Reference dependence refers to attempts to assess the value of something relative to a reference point and fixing on that when our reasoning may be inaccurate.
15. Loss aversion refers to the idea that people are hard-wired to fear losses.
16. Projection bias recognises that people find it difficult to estimate how much our feelings, attitudes and preferences will change as we age, and this means we don't know, and may inaccurately predict, how much to save.
17. Some people use different 'mental budgets' to allocate money. This can lead to poor decision-making if they stick to these religiously and don't use money in other accounts when their day-to-day money runs out.
18. Framing, salience and limited attention biases relate to how we interpret information depending on the context and presentation of that information.
19. See the full version of this diagram in Figure 3 on p. 30.
20. The FMA paper includes a one-page checklist with a series of questions to help consider the appropriate application of each of the four principles – easy, attractive, social and timely (FMA, 2016, p. 19).

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