



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

What the literature says

June 2017 | Rae Torrie and Robyn Bailey



MINISTRY OF SOCIAL
DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

 evaluationworks



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Ministry of Social Development
PO Box 1556
Wellington 6140
New Zealand

Telephone: +64 4 916 3300
Email: info@msd.govt.nz
Web: www.msd.govt.nz

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DEVELOPMENT**
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Building Financial Capability services

It is a government priority to build the financial capability of all New Zealanders, to equip everyone to get ahead. The Ministry of Social Development (MSD) supports this through focusing on building the financial capability and resilience of people, families and whānau who experience hardship.

MSD's Building Financial Capability services will support people experiencing hardship 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.

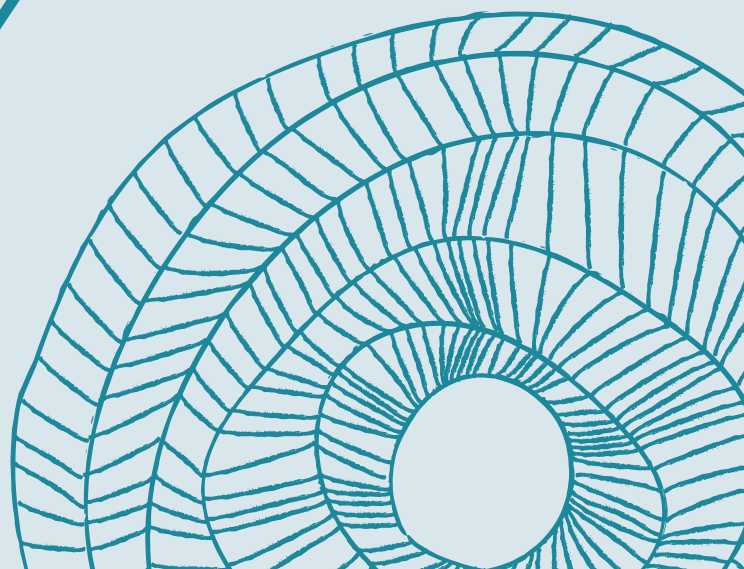
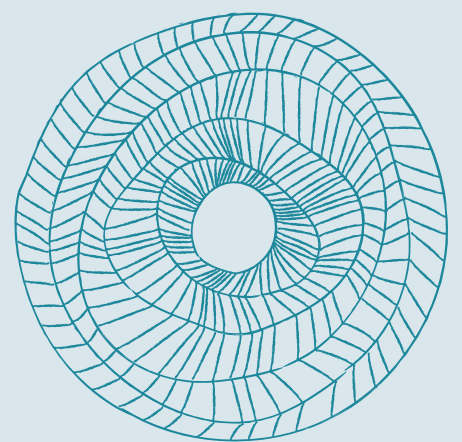
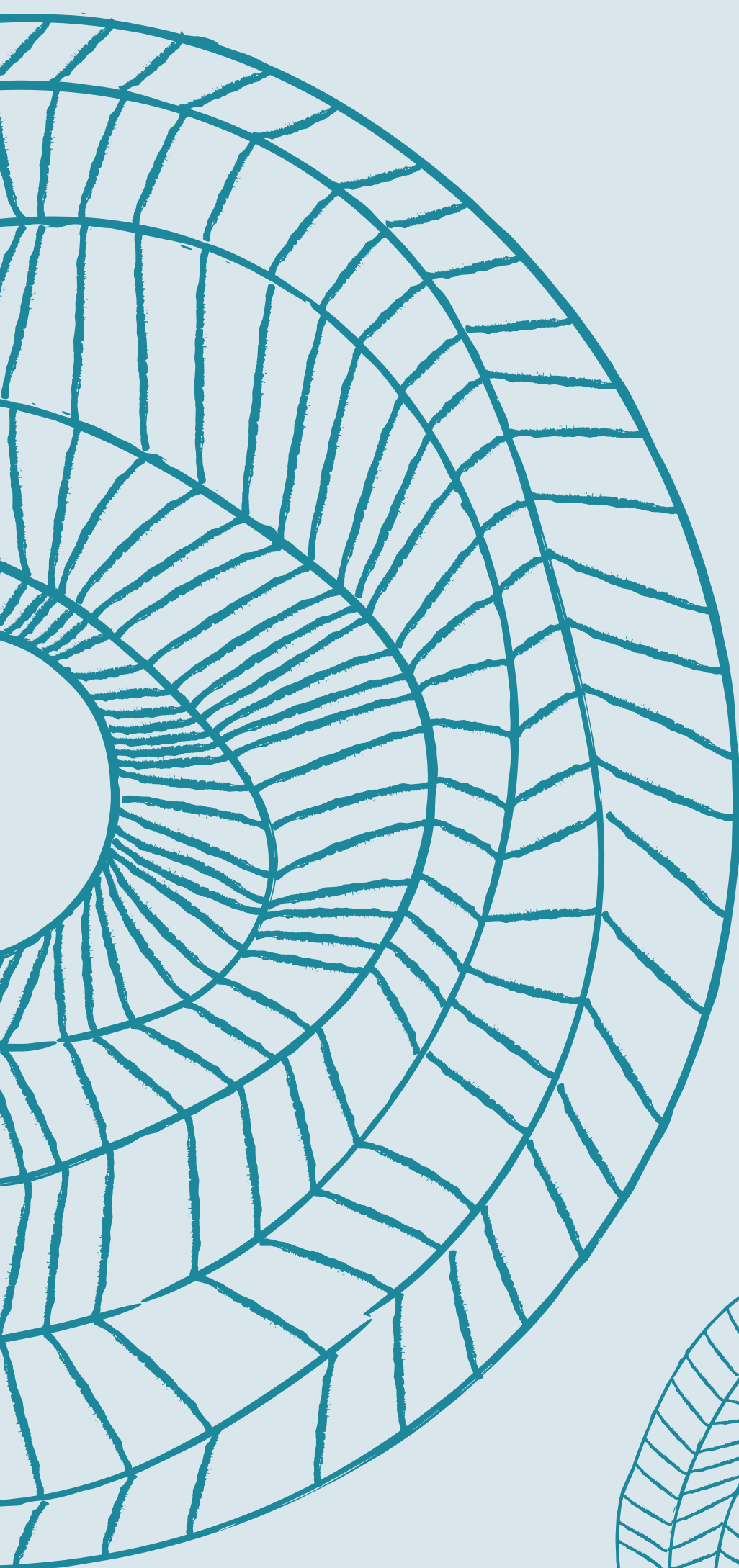
In planning for these changes MSD wanted to know:

- more about financial capability and resilience
- who is in financial hardship
- what 'works' to build the financial capability and resilience of people in hardship
- what is the best way of responding to the diverse and complex needs of New Zealanders experiencing hardship.

MSD commissioned a literature review to find out what the research is saying at the same time as they were talking with the people using and delivering budgeting services about the design of the new services.

This document summarises the key ideas in the literature that informed the development of the new Building Financial Capability services.

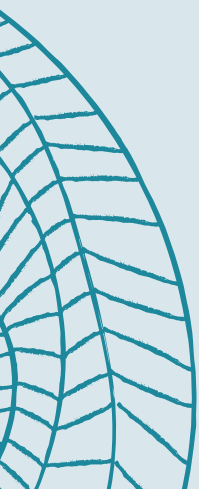




Part One:

People in hardship

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1.1. Why building financial capability is important

Building financial capability addresses the consequences of living in hardship (poverty)

Living in hardship is difficult, time-consuming and stressful

Families in financial hardship face a daily struggle to meet basic needs – for food, housing, power, phone, clothing, furniture, transport, health care and education costs. Asking for help can be challenging and humiliating (Auckland City Mission, 2014). The pressure has a negative effect on adult wellbeing and relationships as well as affecting children (Families Commission, 2009).

Low-income families can become trapped in a downward cycle of debt

To deal with a crisis situation or to make up shortfalls, some families find it easier to borrow from third-tier or fringe lenders (Auckland City Mission, 2014).

Unmanageable levels of debt can exacerbate financial hardship

High levels of debt negatively affect families' ability to meet basic needs and to take part in family activities and celebrations.



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 family member (Families Commission, 2009, p. 38).

Financial hardship can become inter-generational

Some families face complex social challenges that can result in financial instability and inter-generational patterns of crisis and indebtedness, which in turn impact on families' participation in society.

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)

Children are particularly affected

Now

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)

In the future

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

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)

1.2. What is financial hardship?

Definitions

Financial hardship is an insufficiency of income for current circumstances (Perry, 2016a).

Material hardship (and poverty) is an insufficiency of resources to meet basic needs, and thus being excluded from a minimum acceptable way of life in one's own society (Perry, 2016a).

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 ... are important and capture different aspects of poverty. (UNICEF, 2012, in Children's Commissioner's Expert Advisory Group on Solutions to Child Poverty, 2012, p. 3)

Material wellbeing 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 (Perry, 2016b).

MSD's Building Financial Capability services define financial hardship as incorporating both financial hardship and material hardship:

Financial hardship is defined as an insufficiency of resources to meet basic needs, and thus being excluded from a minimum acceptable way of life in one's own society.

1.3. Who experiences hardship?

Families can experience times of having both ‘enough’ and ‘not enough’ income. Trigger events include relationship separation, illness, job loss, or unexpected bills; for example, for cars or medical events (Madden, 2016; Quigley and Watts, 2015). 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 indebtedness.

In 2014 and 2015:

- 380,000 New Zealanders experienced material hardship, and 200,000 experienced severe hardship
- 150,000 children and young people experienced material hardship, and 80,000 experienced severe hardship (Perry, 2016a).

New Zealanders experiencing hardship		
	Material hardship	Severe hardship
New Zealanders	8%	5%
Children	14%	8%

Approximately one in eight households (12%) report not having enough money to meet their everyday needs. One in four households (25%) report having only just enough money to meet their everyday needs (Statistics New Zealand, 2015).

In 2015, New Zealanders on low incomes had the following experiences more than once in the past 12 months.

- 10% couldn’t pay their rent or mortgage on time.
- 14% received help in the form of food, clothes, or money from community organisations.
- 16% could not pay car insurance or registration.
- 22% could not pay utility bills on time.
- 23% borrowed money from family or friends to meet everyday living costs (MSD analysis of Statistics New Zealand’s 2015 Household Economic Survey and email correspondence with Bryan Perry dated 25 May 2016).

Certain groups of people experience more hardship

Children

Children and younger people are the most likely of all age groups to be living in material hardship.

Between 2002–2009, around 12% of children were living in persistent poverty. 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. 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 (Children's Commissioner's Expert Advisory Group on Solutions to Child Poverty, 2012).

Women

Women are more likely (84%) to head a sole-parent family, which is one of the high risk factors associated with persistent poverty.

In 2013, nearly 170,000 sole-parent families were headed by women.

Sole parents (mostly women)

A third (31%) of sole parents with dependent children live in material hardship.



Māori and Pacific peoples

In 2013/14, the percentage of each ethnicity living in material hardship was:

- 35% of Pacific peoples
- 20% of Māori.

This compares with 5% European/Pākehā and 4% other ethnic groups.

The median personal income in 2013 for Pacific peoples was \$19,700, and for Māori it was \$22,500. This compares with \$30,900 for European/Pākehā (MSD, 2016, p. 8).

In two small studies Māori whānau and Pacific families rarely defined themselves as poor even when they were on limited incomes and struggling to meet basic needs. They drew on a wide range of cultural resources and support and focused on what is positive (a stable home, good parenting, love) rather than factors outside their control (Families Commission, 2012a; Houkamau, 2016).

The Children's Commissioner's Expert Advisory Group on Solutions to Child Poverty (2012) noted that Māori poverty needs to be considered against the backdrop of colonisation, and the loss of a cultural, spiritual and economic base through the alienation of land.

People with disabilities

Long-term disabilities contribute to higher levels of hardship. In 2013, 64% of disabled adults received an annual income of \$30,000 or less, compared with 45% of non-disabled adults (Statistics New Zealand, 2014, p. 5).



1.4. The reasons for financial hardship are multi-layered

Broader societal influences

Insufficient income prevents being able to balance the limited budget and stay out of debt.

Increases in the cost of essential items can mean that households are unable to cover day-to-day expenses and may incur debt.

The high cost of rental housing now takes a higher proportion of household income.

The financial market does not cater to a large part of the low-income population, meaning that services such as a safe place to deposit money or access to credit are not available to them.

Third-tier lenders and mobile traders target low-income families. Once engaged there is ongoing dependency and increased debt.

The **social service system** is less effective for people with complex needs (New Zealand Productivity Commission, 2015). Auckland City Mission 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. (2014, p. 36)



Individual or family influences

Poor financial decisions can result from low levels of literacy, numeracy, and/or money management skills and financial literacy.

Low education attainment can limit access to stable, well-paid work. This is one of the primary contributors to persistent and intergenerational poverty (Madden, 2016).

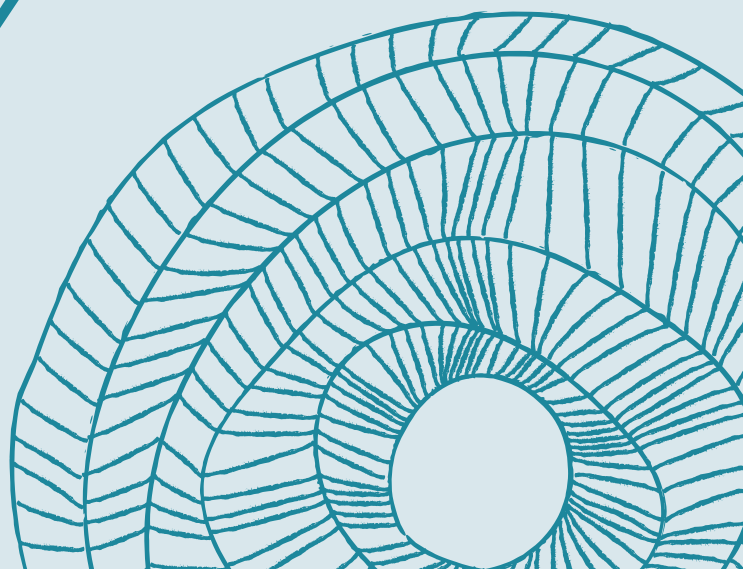
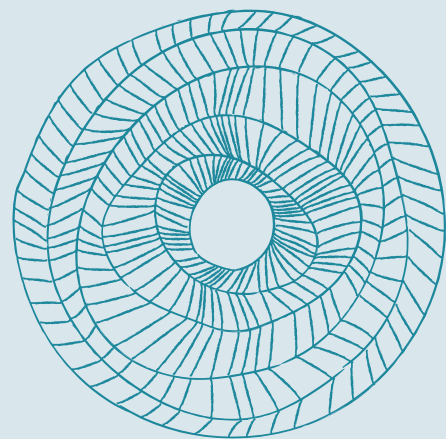
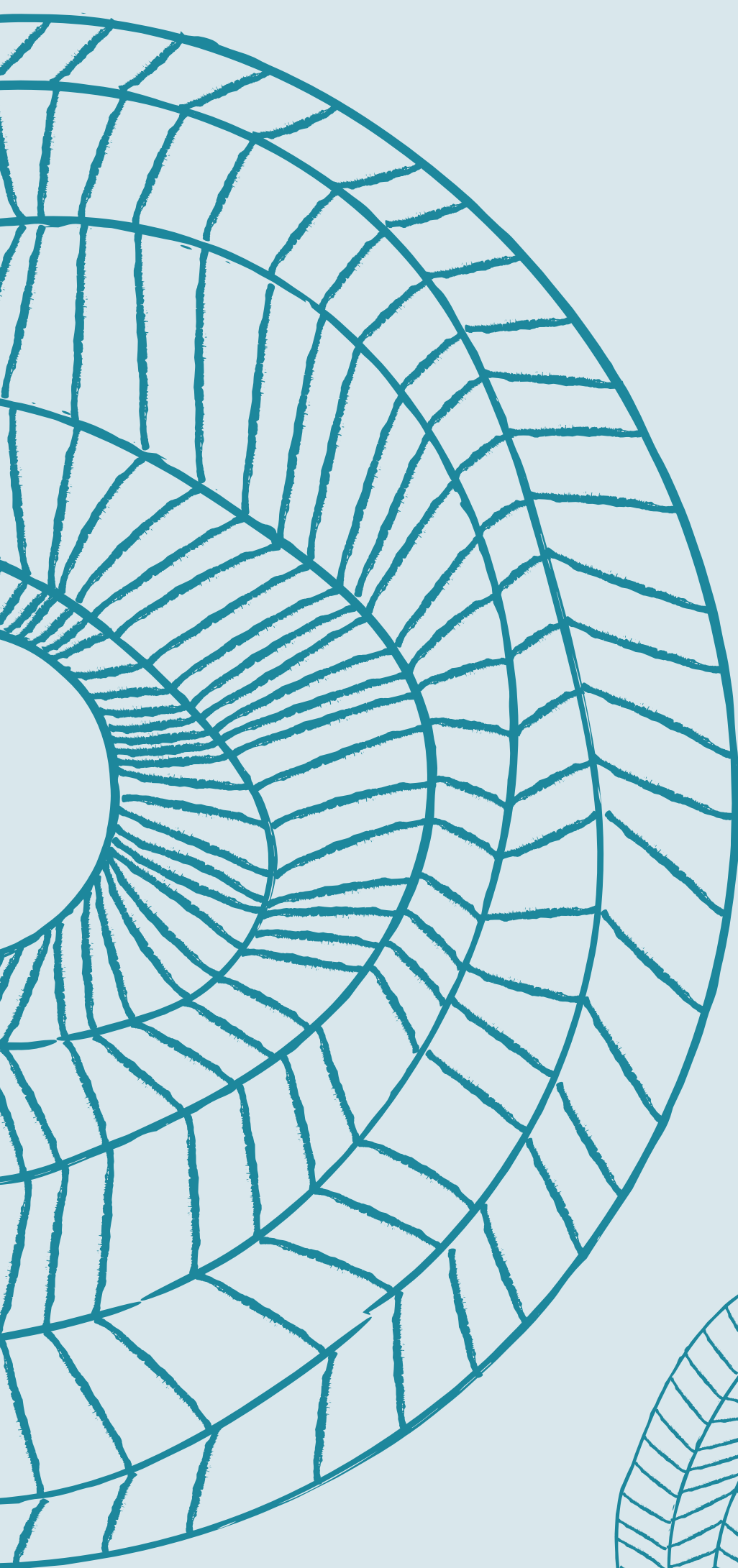
A cycle of problem debt can result from unmanageable debt and fines.

Cultural understanding of money and associated obligations both provide support as well as potentially exacerbate financial hardship.

Ongoing life challenges may include addictions, mental health challenges, family violence, long-term unemployment, and ill-health/disability (Families Commission, 2009).

People in financial difficulties are often under considerable **stress**. The accumulation of hardship-associated problems may result in family breakdown.

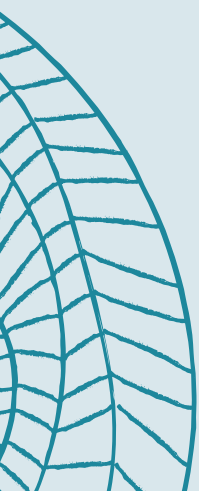
Some families do not seek help for financial problems because of the **stigma** (Families Commission, 2012b).



Part Two:

Approaches and frameworks for building capability for people in hardship

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2.1. Navigating the terminology: What is financial capability?

Many approaches aim to build financial capability for people in hardship. Here is an introduction to the main terminology and definitions.

Financial capability

Financial capability is the ability to make informed judgements and effective decisions regarding the use and management of money. This requires financial knowledge and the understanding, confidence and motivation to implement financial judgements and decisions (Malatest International, 2016). Financial capability includes financial planning and budgeting; dealing with debt; informed use of financial services; saving; and investing.

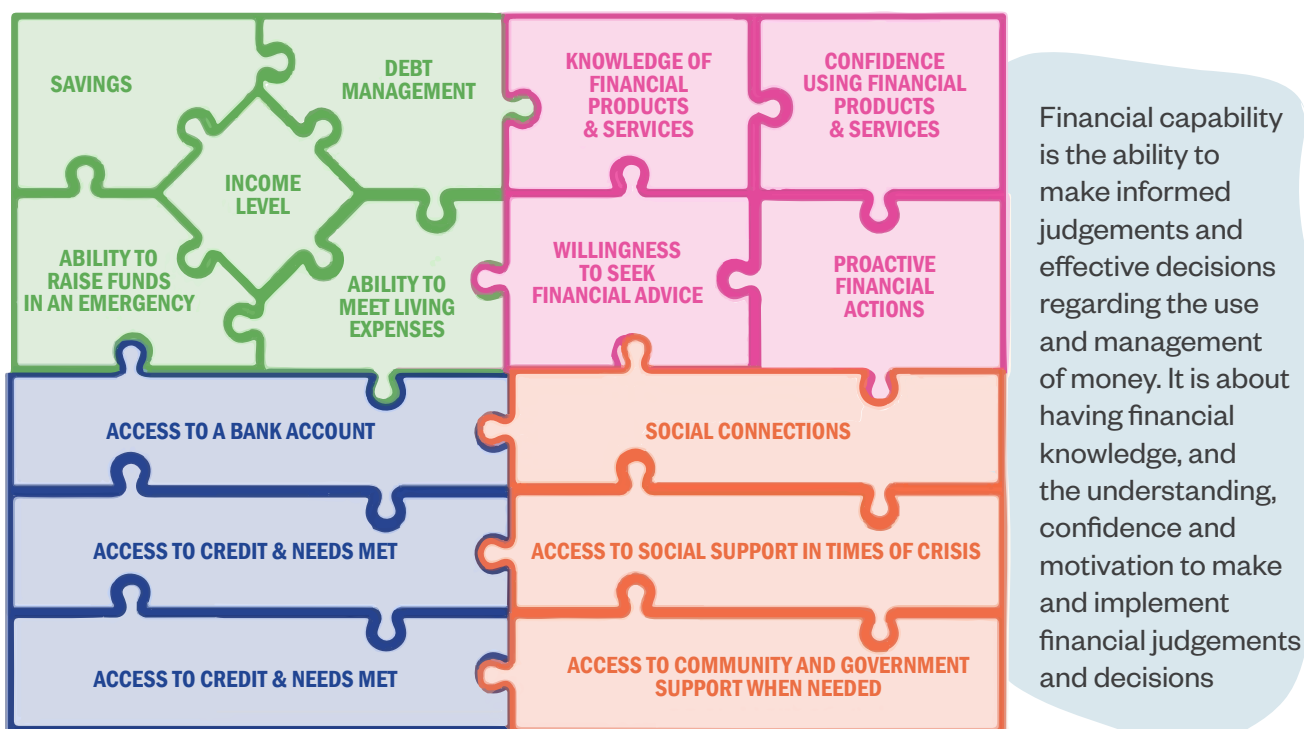
To achieve financial capability a person must have both the ability to act (individual capabilities) and the opportunity to act (external opportunities and conditions) (Sherraden, 2013).

Financial resilience is the ability to draw on internal capabilities (skills and know-how), and to access appropriate external resources in times of financial adversity. How people bounce back from a financial shock is seen to determine their level of financial resilience.

Four factors produce financial resilience when they work together (Figure 1):

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

Figure 1: The jigsaw of financial resilience



Other approaches:

Financial education

Financial education aims to build an individual's understanding of financial concepts and products, to develop their skills and confidence to make informed choices and to navigate through the complexity of financial services to improve their financial wellbeing.

Financial guidance

Financial guidance provides vulnerable families with advice and budgeting services, including budgeting-related information, mentoring and support.

Financial literacy

Financial education and guidance are used to improve financial literacy, which results in people being able to make sound financial decisions (Financial Literacy and Savings Partner Working Group, 2014; Worthington, 2013).

Financial inclusion

Financial inclusion refers to access to financial products. This is contrasted in the literature with financial exclusion, which describes people having limited access to mainstream financial services.

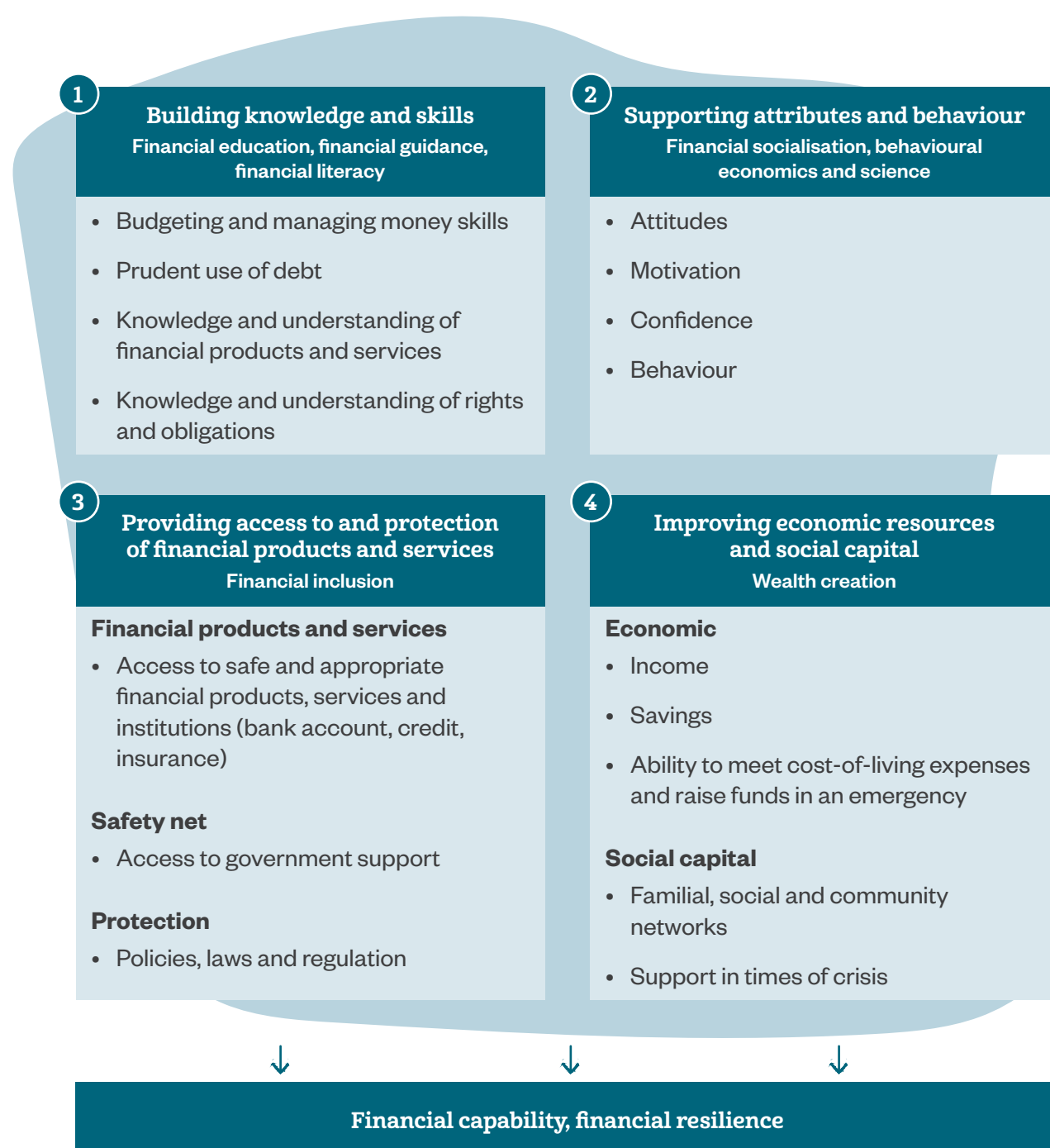
2.2 The focus of different approaches – a framework

This four-quadrant framework organises the various approaches to building financial capability into groups that are most ‘like’ each other, and identifies their main activities and areas of focus:

- **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 (the ‘ability to act’), and Quadrants Three and Four with external structural and contextual opportunities and conditions (the ‘opportunity to act’) (Sherraden, 2013).

Figure 2: Four-quadrant diagram: Focus of different approaches to addressing financial hardship



2.3. The approaches within each quadrant

Quadrant 1: Building knowledge and skills

Financial education and guidance are commonly used to build financial capability.

Improved financial literacy is seen as a means of building resilience to financial crisis and avoiding problem debt.

The provision of financial education services is also a response to the increasing complexity and demands of everyday financial life. Financial education seeks to improve an individual's ability to navigate through this complexity in order to access appropriate services.

Evidence regarding the effectiveness of financial education and guidance approaches is mixed.

It works.

Some researchers suggest that the impact of financial education is positive, and that most service users will undertake some action or behaviour change (Crossan, 2010; Sherraden, 2013).

It doesn't work

Others argue that “the causal chain of financial education improving financial literacy, and improved financial literacy improving financial wellbeing, has not been proved” (Families Commission, 2012a, p. 24; Lundberg & Mulaj, 2014). Assuming that the provision of knowledge and skills will lead to behaviour change has been shown to be dubious, “so it is too simple to say budgeting services alone would have made a difference” (Families Commission, 2012a, p. 104).

Quadrant 2: Supporting attributes and 'good' financial behaviour

Research from behavioural economics, science and psychology identifies psychological barriers that prevent people making optimal financial decisions even when they have good information.

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, [and] can be emotional. (Financial Markets Authority, 2016, p. 7)

Many of these 'behavioural biases' are even more pronounced in the context of poverty (Lundberg & Mulaj, 2014).

Approaches in this quadrant use behavioural insights to enable better understanding of people's decision-making processes and what supports behavioural changes. These insights are used to improve financial capability strategies, activities, products and services.



Two examples of frameworks grounded in behavioural economics and psychology are included below.

Examples

1. This framework draws together the main components that research has identified need to be present for a behaviour to occur.

Capability

Knowledge and skills



Opportunity

All the factors that lie outside the individual that prompt the behaviour or make it possible



Motivation

Conscious goals and decision-making as well as habits and emotional responses



Behaviour

These factors interact to produce behaviour

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

2. A framework that has been shown to be effective in designing interventions and resulting in measurable behavioural change outcomes is:

E.A.S.T – Easy, attractive, social and timely

- Make it easy. Address the present bias and preference for status quo; for example, reduce the ‘hassle factor’ of taking up a service, and simplify messages.
- Make it attractive. People are more likely to act if something grabs their attention.
- Make it social. The social factors should show what most people desire from a particular behaviour, use the power of networks, and encourage commitment.
- Make it timely. Interventions will be more effective if they prompt people when they are likely to be most receptive and consider the immediate costs and benefits (Service, Hallsworth, Halpern, Algate, Gallagher, Nguyen, Ruda, Sanders, Pelenur, Gyani, Harper, Reinhard & Kirkman, 2014 as cited in FMA, 2016, pp. 13–17).

Quadrant 3: Providing access to and protection of financial services and products

The approaches in this quadrant recognise that “certain external conditions must also exist in order for people to be capable” (Sherraden, 2013, p. 4).

For vulnerable groups, there needs to be access to quality financial products and services that meet their needs. Many families in hardship face high levels of debt, lack income and assets and often have a poor credit rating (Families Commission, 2009; Families Commission & Retirement Commission, 2009). When unable to access mainstream credit, they often access loans from fringe lenders, which in turn can contribute to a cycle of problem debt. Researchers in this quadrant also argue that vulnerable people need to be protected, both from fringe providers as well as from the mainstream services.

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. (Families Commission, 2009, p. 96)



Characteristics of inclusive products and services

- **Appropriate** – Designed to meet the diverse needs of vulnerable families, and may consider characteristics like age, education, cultural background, and financial situation.
- **Accessible** – The ability and right to approach, enter, use, and communicate with a financial institution. Barriers may be physical, psychological, language hurdles, and inconvenient hours.
- **Affordable** – Inexpensive with low-income threshold requirements.
- **Financially attractive** – Incentives such as high returns, low fees, and bonuses available to all.
- **Easy to use (with automatic features)** – Simple and transparent products, understandable to all, including non-English speakers, and people with low literacy or disabilities.
- **Flexibility** – Can accommodate irregular and unpredictable income streams, and low resilience to shocks, that vulnerable families often have.
- **Secure and reliable** – A financial institution that will not exploit or discriminate against low-income families, and enables trust to be rebuilt (Sherraden, 2013).

Quadrant 4: Improving economic resources and social capital

The inclusion of economic resources and social capital as a core component of building financial capability is contested.

Kempson (2015) argues that increasing household income is key for vulnerable families. She states that people with insufficient income are unable to do the first two of four key dimensions of financial capability consistently identified in international research:

- day-to-day money management to live within their means
- planning for future needs
- choosing and using appropriate products
- being informed and getting help (Financial Markets Authority, 2016; Kempson, 2015).

She suggests the need for two interventions: increase income and provide a safety net.

Social capital refers to the resources available to us through personal, community and business networks through networks of relationships and who you know. It is grounded in the idea of people working together for common purposes.

Perry (2016b) identifies four possible ways of addressing poverty and hardship from the perspective of the household:

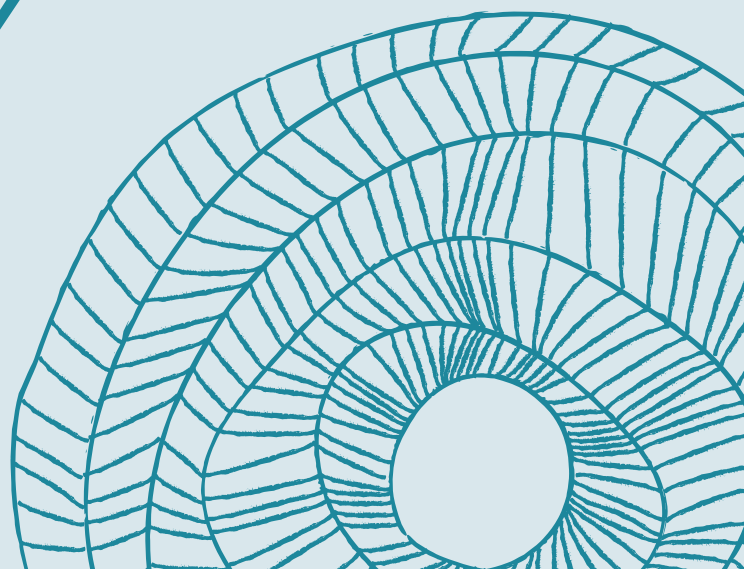
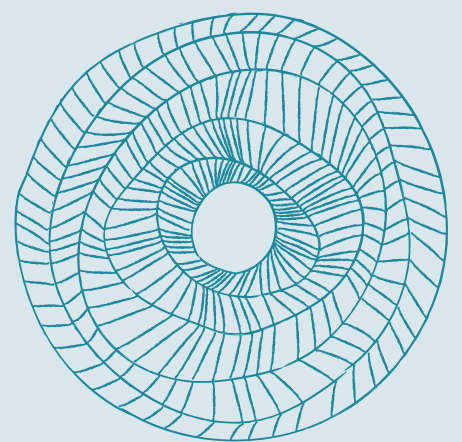
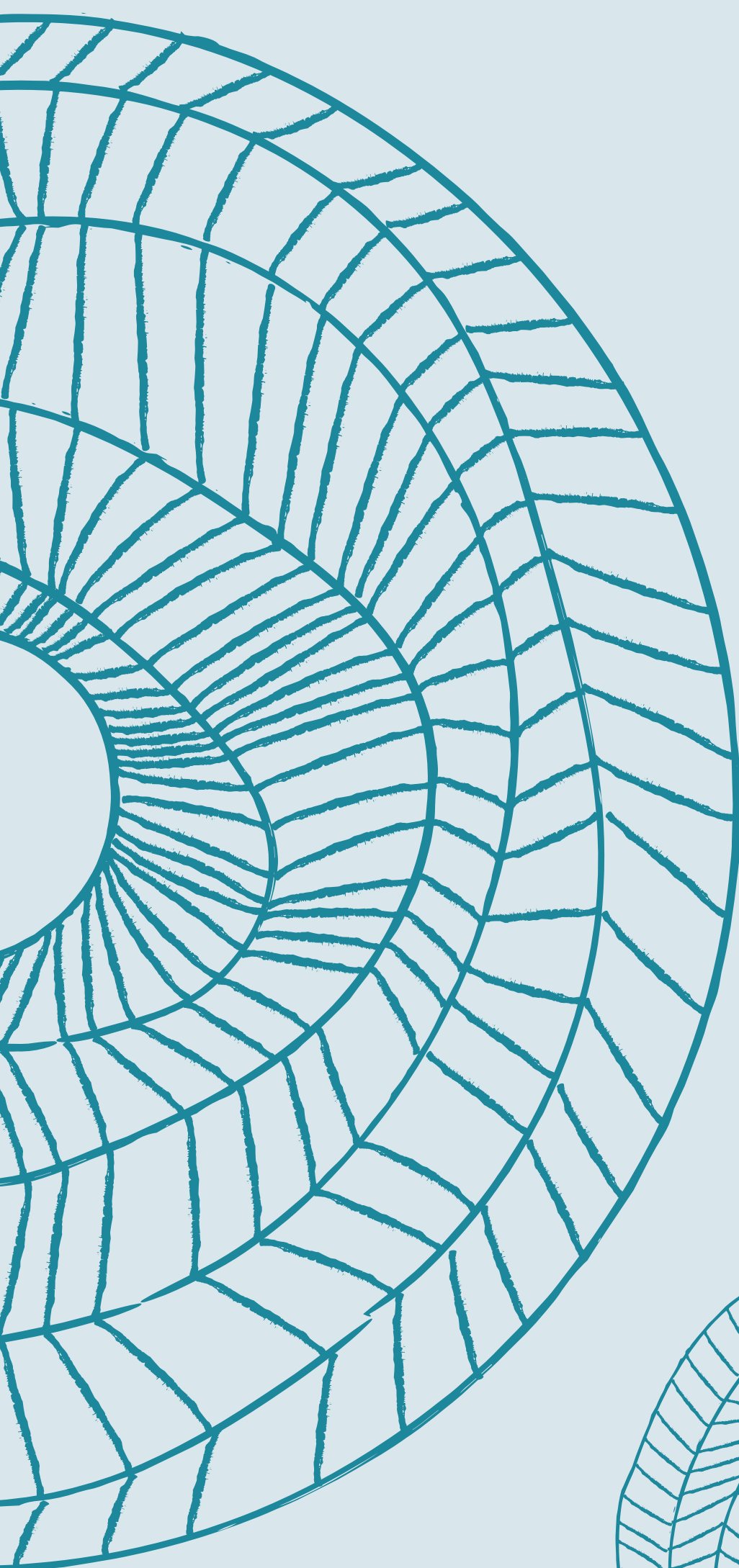
Two macro-level responses:

- increasing household income (per adult equivalent
- reducing demands on the household budget for basics

Two micro-level responses:

- getting better at using a given income to meet basic needs
- increasing capacity to cope with 'shocks'.



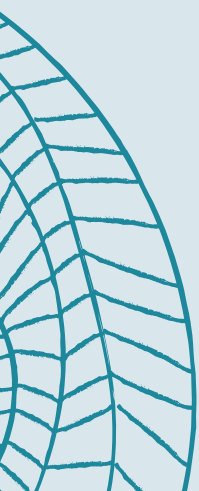


Part Three:

Characteristics of interventions that are likely to be effective in building the financial capability of New Zealanders in hardship

3.1. What works in building the capability of people in hardship

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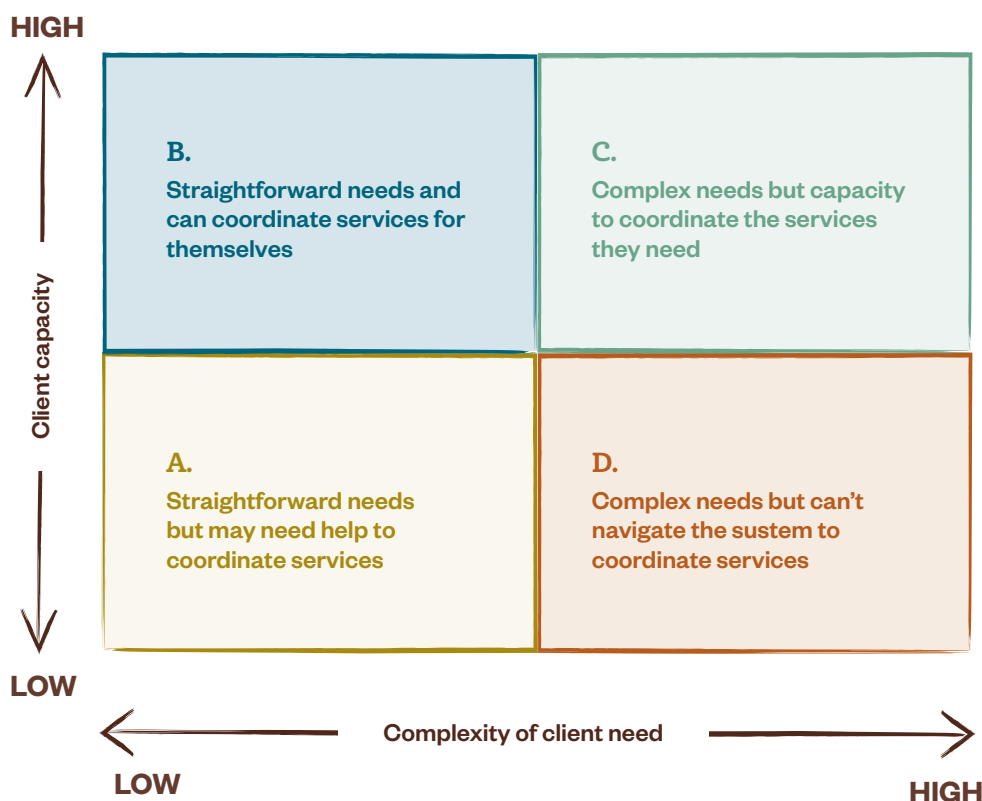
3.1. What works in building the capability of people in hardship

Support for more comprehensive, integrated approaches

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

Reasons for this include that a singular focus on improving clients' budgeting skills was found to have limited success (Families Commission, 2009), and that the needs of people in financial hardship are increasingly diverse and complex (Auckland City Mission, 2014).

Figure 3: Characteristics of clients in the social services system



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

Recently, the New Zealand Productivity Commission (2015, p. 2) described a framework for better recognising client need using two axes: client capacity and complexity of need. Different authors variously note that attending to any area in the four-quadrant diagram (Figure 2) will have some value if offered alone, but financial capability is enhanced through a combination of various approaches. Muir, Salignac and Reeve (2016) call for a more holistic approach that “puts the individual at the centre and understands and addresses people’s personal, economic and social contexts” (para. 16). In addition, they identified a complex interplay of factors that all play an important role in addressing financial resilience, including:

- the financial literacy and capacity of consumers
- the supply of accessible, affordable and appropriate financial products
- regulators and regulation
- people’s economic circumstances
- people’s social capital.

Positive engaged relationships and a strengths-based approach

International research has established the significance of positive, engaged relationships in helping families change their behaviour. A strengths-based approach – where families are at the centre and are the experts and the authors of change – increases client engagement and contributes to better service outcomes (Sanders & Munford, 2010). The Families Commission (2012b) noted that interventions need to understand the geographical and social environment in which families live, and recognise the pressures under which they operate, which can lead to exploitation, a high level of debt, health and relationship problems, and low self-worth.



Whānau-centred approaches for working with Māori

Whānau-centred approaches, which are culturally grounded, holistic and focused on improving the wellbeing of whānau as a group, as well as the individuals within it, are important for engaging with Māori (Te Puni Kōkiri, 2015, p. 9). 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 following table provides a framework for engaging with whānau.

The use of existing relationships for working with Pacific peoples

For both Māori and Pacific families, support is most effective when it is an integral part of daily life, 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 evaluation of a recent building financial capability pilot programme for Samoan families also noted the importance of the programme being delivered in the Samoan language, using Samoan concepts and examples, and the centrality of talanoa (Torrie, 2015).

Table 1: A framework for engaging with whānau (Tangaere, 2016)

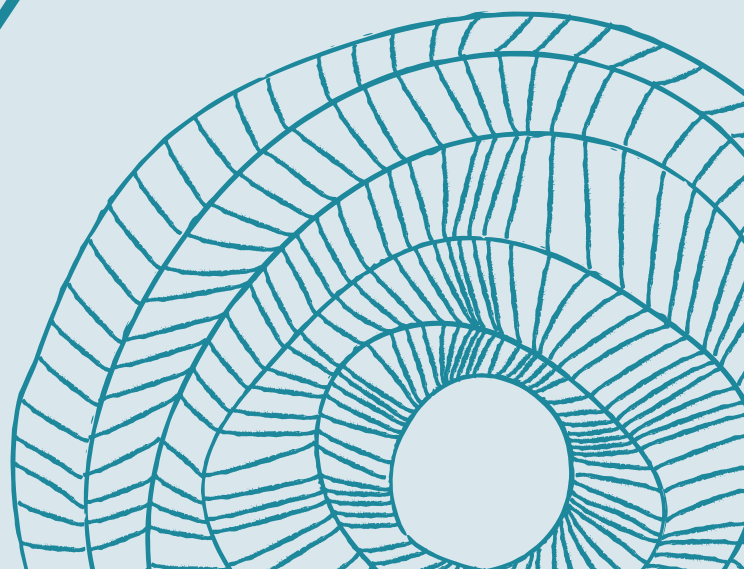
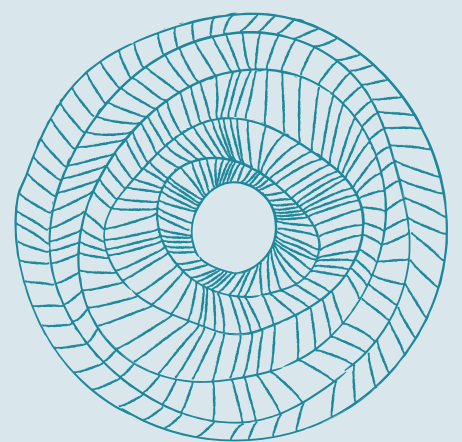
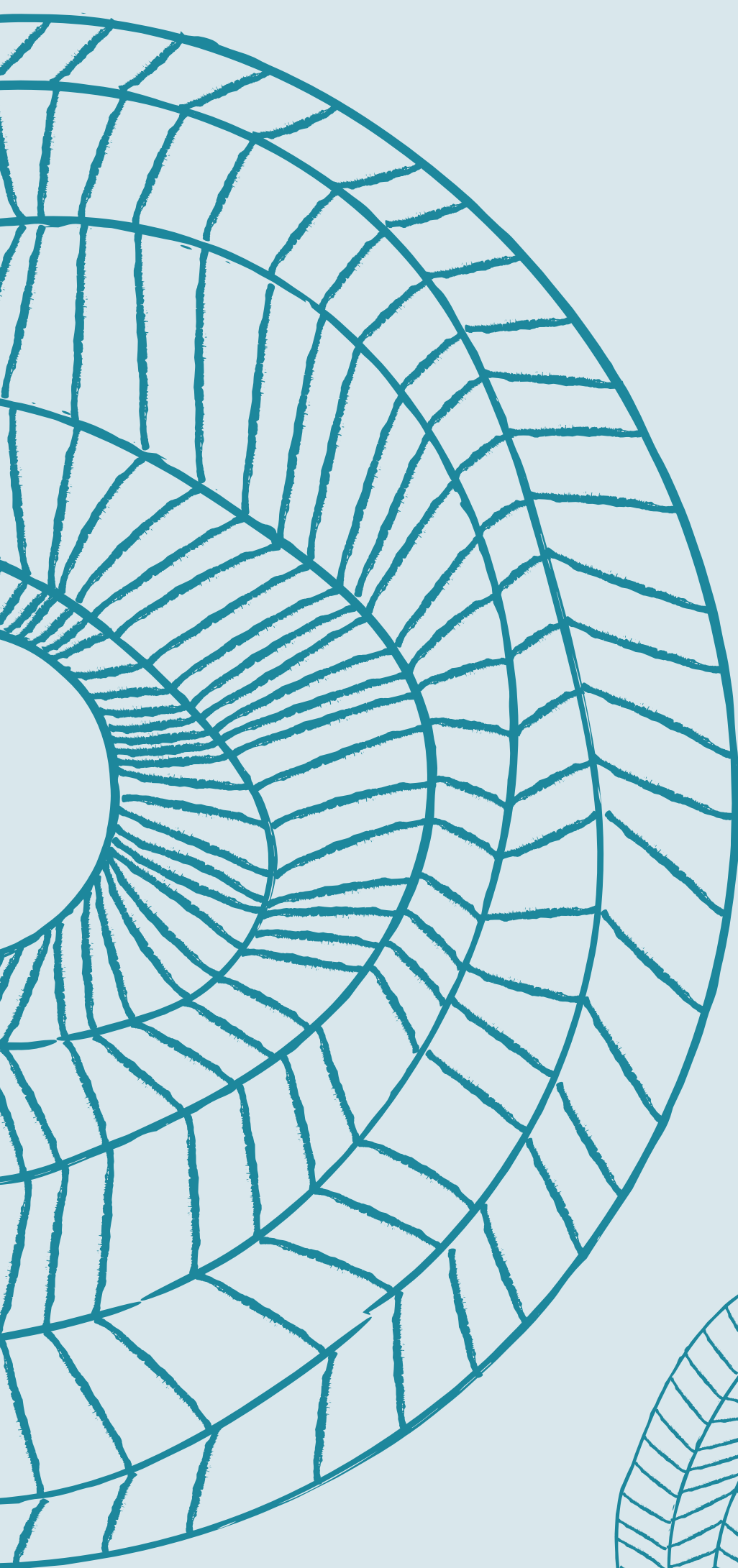
Principle	Application for whānau centric co-design
Manaakitanga	Hosting whānau in a way that empowers them, and removes any barriers to participation.
Whanaungatanga	Establishing meaningful relationships in culturally appropriate ways. Engaging whānau in a way which builds trust.
Tino Rangatiratanga	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.

The need for cultural competence for working with refugee families

Participants of recent research stressed the need for organisations to have cultural competency when working with former refugees. They commented favourably on community organisations such as the Citizens' Advice Bureau, where they experienced staff as more knowledgeable about refugee-specific issues and more culturally responsive towards their clients (Searle, Prouse, L'Ami, Gray, & Gruner, 2012).

Early intervention is desirable

There was general agreement in the literature that receiving budgeting and financial planning or mentoring services as early as possible is desirable to reduce the risk of escalating debt and negative impacts on family members. It was also noted that many families are reluctant to access early support, and while opportunities are available, they are often not taken up. There was also some challenge to the concept of a 'build up' of financial hardship because for many families in chronic hardship, they have always faced these struggles (Families Commission, 2012a, p. 66).

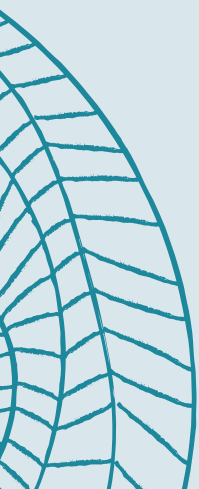


Part Four:

How the new Building Financial Capability services link to the literature

4.1. Linking the literature to the new Building Financial Capability services

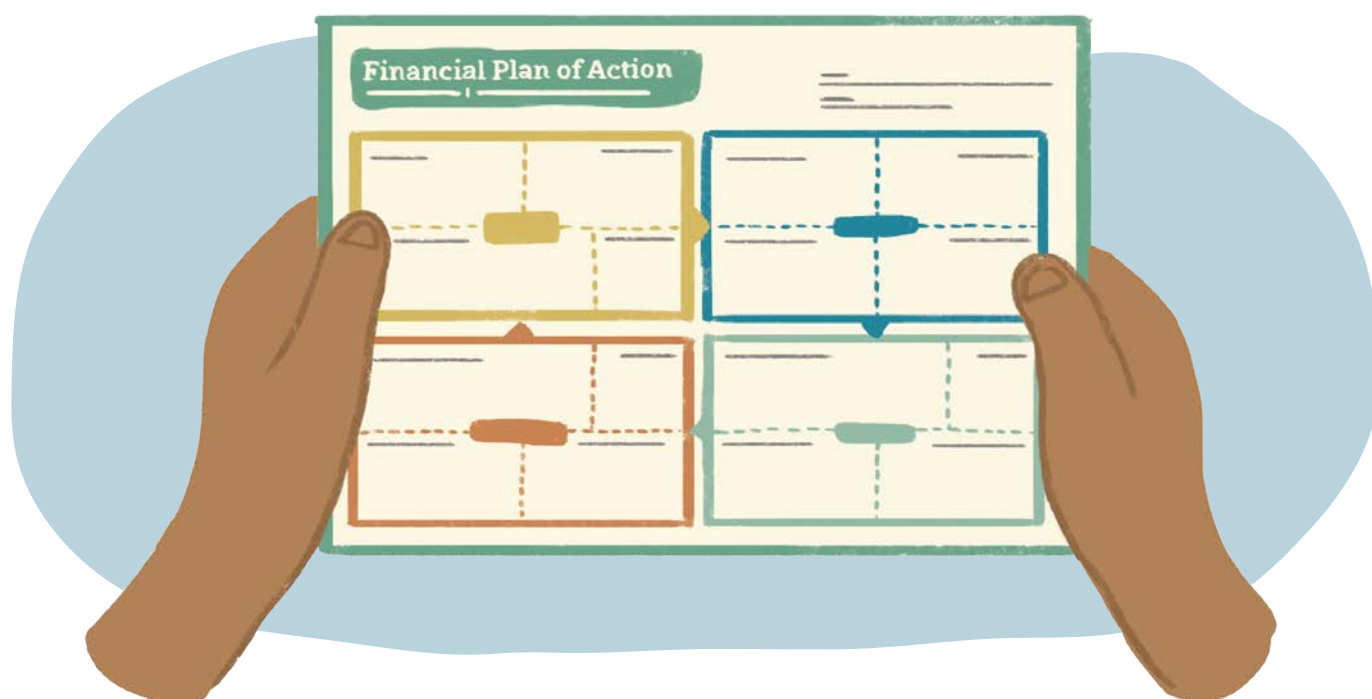
36



4.1. Linking the literature to the new Building Financial Capability services

The range of MSD's Building Financial Capability services indicates a broad interpretation of financial capability. The four services that are in place at the time of this publication are described briefly below and then located according to the four-quadrant diagram (Figure 2).

Financial mentors, a reframing of budget advisors, use a strengths-based approach and work collaboratively with clients, focusing on empowering people and making connections with a range of social services to ensure people get the right support. The financial mentor concept is similar to the Navigator concept from Whānau Ora. The financial mentor role aligns primarily with Quadrant One: Building knowledge and skills.



The Financial Plan of Action is a resource for clients, their families and whānau to document their goals, supported by a financial mentor where necessary. The Financial Plan of Action has a focus on clients' future outcomes and the strengths that they bring to overcome their challenges. The plan recognises the importance of breaking goals into manageable chunks and receiving feedback and ongoing support along the way. The Financial Plan of Action aligns with Quadrant Two: Supporting attributes and behaviour.

Referral and communication practice with Work and Income refers to a standardised referral service by case managers with the knowledge and resources to talk to clients about building their financial capabilities, and referral to the 'best fit' financial capability service, at the right time. Central to this service change is recognition that reaching people at the right time is important to influencing financial behaviour. These changed referral and communication practices align with Quadrant Three: Providing access to and protection of financial products and services.

MoneyMates provides peer-led support and is based around the concept of sharing and learning together as a group, connecting to others, receiving support when needed, and giving back at other times. Peer support is a well-tested concept in the social services and health sectors. MoneyMates aligns primarily with Quadrant Four: Improving economic resources and social capital. It then aims to change behaviour drawing on the methods within Quadrant Two: Supporting attributes and behaviour.

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