Driving Towards Impact: The Emergence of Financial Capability

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August 2014
About CFSI
The Center for Financial Services Innovation (CFSI) is the nation’s authority on consumer financial health. CFSI leads a network of financial services innovators committed to building a more robust financial services marketplace with higher quality products and services. Through its Compass Principles and a lineup of proprietary research, insights and events, CFSI informs, advises, and connects members of its network to seed the innovation that will transform the financial services landscape.

For more on CFSI, go to http://www.cfsinnovation.com and follow on Twitter at @CFSInnovation.

About Financial Capability Innovation Funds I & II
The Financial Capability Innovation Funds support nonprofit-led projects designed to promote the financial capability of low-income and underserved consumers. These projects aim to spur positive behavior change and create measurable outcomes such as improved credit scores, increased savings, or avoidance of unnecessary transaction fees.

The Financial Capability Innovation Funds I & II were made possible thanks to the support of a collaborative of funders led by the Citi Foundation and also including Bank of America, Capital One, Morgan Stanley, NYSE Euronext Foundation, Experian, Charles Schwab Bank, Charles Schwab Foundation, US Bank, and Visa.

About the Financial Capability Institute
The Financial Capability Institute website is an online resource from the Center for Financial Services Innovation developed to empower nonprofits to improve the financial lives of their clients with high-quality financial products. The Financial Capability Institute is made possible thanks to a generous grant by the Citi Foundation.

Photos provided by Financial Capability grantee, Mission Asset Fund
As the mortgage crisis dragged on and unemployment peaked, many Americans found themselves struggling to make ends meet. The Great Recession had tipped the scales on fiscal stability, and suddenly it was painfully obvious that not all U.S. consumers were in good financial health. Financial health means having day-to-day financial systems in place to manage income and expenses. It means having resiliency against unexpected shocks in the form of accessible financial options to handle ups and downs. That resiliency can help people plan, invest and take advantage of future opportunities. But, according to the Financial Industry Regulatory Authority (FINRA), in 2009, only 35 percent of Americans had a “rainy day” fund. Forty percent were just making the minimum payment on their credit cards. Twenty percent were spending more than their income every month.

With so many households struggling to stay afloat following the recession, financial health advocates stopped to consider a critical point: How do we help consumers adopt financial behaviors that lead to improvements in their financial lives? To tackle this question, the Citi Foundation partnered with the Center for Financial Services Innovation (CFSI) to identify, support and test promising strategies to help consumers achieve their financial goals.

Financial Capability: Turning Knowledge into Action

Financial capability is a set of consumer behaviors, based on knowledge, skill, and access to tools that lead to tangible improvements in consumer financial health. Financially capable consumers are able to cover monthly expenses with income, track spending, plan ahead and save for the future; select and manage financial products and services; and gain and exercise financial knowledge.

Galvanized by the idea of financial capability, the Citi Foundation and CFSI set out to explore its potential. The two organizations sought out methods to help consumers improve their financial behavior by combining relevant, timely, actionable, and ongoing guidance with access to high-quality financial products and services. By 2010 they had identified these promising strategies:

» Connect education and guidance with high-quality financial products to empower consumers to act on what they learn.

» Leverage technology to engage with customers at the moment they make financial decisions.

» Incorporate behavioral design principles such as automation and smart defaults to nudge consumers toward positive financial habits.

» Build and engage social networks as a means of providing support and accountability for financial behavior change.
Testing the Theory
In order to test this new approach, CFSI, the Citi Foundation, and a collaborative group of financial services industry leaders, created the Financial Capability Innovation Fund. Between 2010 and 2014, the Fund provided $4 million to 13 innovative nonprofit-led projects that aim to increase the financial capability of low-income and underserved consumers. Each project tested one or more of the new approaches identified by CFSI and the Citi Foundation, for example:

**Connecting Guidance & Products:**
**Mission Economic Development Agency**
Created a text-messaging platform to give clients timely feedback on their use of a secured credit card. By “coaching” clients in real-time, the platform provides useful reminders on how to use the card in ways that can improve credit scores.

**Leveraging Technology:**
**PiggyMojo**
Uses goal visualization, social dynamics and mobile technology to help low-income savers turn impulse buys into “impulse saves.” PiggyMojo users can use their mobile phones to contribute money toward a savings goal at the moments they decide not to spend.

**Social Networks:**
**Juma Ventures**
Built a Facebook app to connect, engage and motivate students participating in CollegeSet, a college savings program conducted at sites across the country. Through the app, Juma is building a support network to help CollegeSet students reach savings goals.

**Behavioral Design:**
**Clarifi**
Partnered with Innovations for Poverty Action, a leader in behavioral design, to test how social commitments, peer support and text reminders help credit counseling clients stay on track toward repaying debt and repairing their credit.
Case Study: Mission Asset Fund

Lacking a robust credit history, 54 million U.S. consumers are invisible to mainstream financial institutions. As a result, they have limited access to financial services and few options to turn to when financial shocks arise. Seeking a solution, Mission Asset Fund built and expanded its award-winning Lending Circles program to help low-income consumers start or build credit.

Mission Asset Fund, a nonprofit organization based in San Francisco, began its Lending Circles program in 2008. The organization recognized that many of its clients confronted their lack of credit access by turning to an informal group borrowing practice known as “tandas.” Typically, tanda participants each contribute a pre-determined amount of money to a “pot” on a periodic basis (e.g. once a month). Each time the pot is funded, it is distributed to a different member of the group on a rotating basis.

Mission Asset Fund recognized that the commitment to make tanda payments was no different than making payments on formal credit products such as a credit card or mortgage. The only difference was that financial activity in tandas was not formalized and thus not recorded nor reported to credit bureaus, meaning their on-time payments had no impact on their credit score.

MAF’s Lending Circles program was created to formalize tandas and to record and report loan payments to credit bureaus. Program participants sign promissory notes that validate the lending and borrowing activity so it can be reported to credit bureaus. The communal aspect of Lending Circles creates a social network of support and accountability, increasing participants’ motivation to follow through with their commitments to make payments. The group dynamics also provided MAF with periodic opportunities to educate participants about how the credit system functioned and the importance of maintaining healthy credit behavior.

In 2011, MAF received a grant from the Financial Capability Innovation Fund to assess the impact of the Lending Circles program and to begin exploring ways to scale it. The results of the program’s evaluation were remarkable. On average, participants increased their credit scores by 168 points and reduced their debt by $1,000 during the ten-month term of a Lending Circle. With these impressive results, MAF has worked to scale the program by partnering with 26 community-based organizations across the country. The organization has developed a powerful and mobile-optimized platform to service Lending Circles sourced at partners. It has also developed a tool to deliver financial education via SMS text messaging to clients.

“Taking any program to scale is incredibly hard. And it’s doubly hard for community-based nonprofit organizations to transform from providing direct services to providing them at scale. At MAF, we were fortunate that CFSI and the Citi Foundation supported Lending Circles so that we could take a viable concept from a pilot in San Francisco to scale nationally.”

–Jose Quinonez, Chief Executive Officer
The work of these organizations and the other Financial Capability Innovation Fund grantees is a positive step towards uncovering new strategies for building financial capability. Their efforts are part of a widespread change in the approach taken by those seeking to help Americans take control of their financial lives. Increasingly, nonprofits, funders, financial services providers and government entities are seeking opportunities to reach consumers with tools, programs and products that can make a bigger impact.

There is more work to be done as American households continue to struggle to build and maintain financial health. Nonprofits and financial services providers have a key opportunity to help consumers by building programs that focus on financial capability.

Nonprofits
Hundreds of nonprofits across the country work closely with clients to assist people struggling with financial challenges. These organizations play an important role in the lives of their clients and are poised to achieve greater impact and scale.

For instance, pairing efforts aimed at education or coaching with opportunities to access high-quality financial products can be an effective way to help clients take action. This not only provides clients with guidance on what they should do, but also equips them with the tools they need to take positive steps toward improving their financial health. Organizations that employ this strategy generally provide clients with products by building partnerships with financial services providers such as credit unions or banks.

Nonprofits can also increase their impact and scale by incorporating technology into their offerings. Mobile and online communications offer an opportunity to connect between regular meetings to provide useful reminders or timely advice to help clients stay on track. They can also help an organization serve more clients for a given amount of resources. For instance, the MyBudgetCoach platform, managed by Solutions for Progress and created as a part of the Financial Capability Innovation Fund, enables financial coaching clients to access education modules and communicate with their coaches online. The platform not only helps to improve the client experience but also enables each coach to serve a greater number of clients.
**Financial Services Providers**  
Financial services providers – such as banks, credit unions and prepaid card providers – have a unique opportunity to further impact the mass market. Already, a wave of providers has introduced new tools and features that help consumers make better use of financial products and services.

Many providers offer timely mobile alerts that warn customers of low balances and help them keep an eye on their finances. Others are providing products that automatically deposit funds into savings accounts to help consumers gradually build their “rainy day” fund. Through money management tools, some providers are making it possible for customers to easily assess their financial situation and make informed decisions.

These tools represent a step in the right direction but there is more that the financial services industry can do to help customers build financial capability. Providers can ensure that customers have a clear understanding of how their products can fit into their financial lives by creating easy-to-understand disclosures and opportunities to get questions answered.

With the ability to tap into transaction data, financial services providers can also observe when a customer has potentially made a financial mistake or when they might be showing signs for financial distress. Providers have an opportunity to use transaction data to provide relevant feedback, guidance or support when they see that customers could benefit from it. For instance, a bank could identify customers that incur significant ATM fees and proactively reach out to them with recommended methods of accessing cash less expensively.

With approaches like these, financial services providers can strengthen their customer relationships, build trust and attract new clients; all while helping consumers take crucial steps towards financial health.

**The Future of Financial Capability**  
The emergence of financial capability in the past five years has been driven by a collective push to have a greater impact on the financial health of Americans. Millions of households continue to face financial struggles and need more and better tools, products and services to build financial capability. While many stakeholders in the space have shifted their focus toward a greater emphasis on spurring behavior change, there is a need and opportunity for more to join in the search for effective solutions.

**Find out More Information**

Want to learn more? Join CFSI’s network of financial innovators and be part of the movement to improve financial health for all Americans.

Go to: [http://www.cfsinnovation.com/FinCap](http://www.cfsinnovation.com/FinCap).