

## Financial Education Showcase – Tailoring Programs for Groups Experiencing Greater Economic Hardship

### Concurrent Session D: Integrating Asset-Building and Financial Education for the Financially Excluded

#### Summary:

While it is essential to increase the financial knowledge of people who are outside of the formal financial sector, asset-building initiatives also play an important role in achieving long-term financial stability. Community development experts provide their insights into programmes that incorporate both asset-building and financial education to help the most vulnerable and marginalised groups start saving, build their wealth and enter the financial mainstream.

#### Key takeaways:

- Research conducted in the US suggests that 22.5% of Americans are ‘asset-poor’ in the sense that they would not be able to survive at or above the poverty line for 3 months following a disruption to their income
- A focus on asset-building potentially avoids some of the limitations of income-based measures of poverty/wealth
- The combination of financial education and the provision of an incentivised savings account is thought to lead to both increased frequency and levels of savings. However, while incentives help, they also have limitations and benefits can plateau after a certain level of savings
- Overcoming cultural sensitivities to poverty amongst low-income groups is a major challenge for these programmes

#### Presentation synopsis:

Moderated by **Salman Haider, Regional Head of Marketing, Corporate Sales and Structuring, Markets, Citi Asia Pacific**

#### **Andrea Levere, President, Corporation for Enterprise Development (CFED), US**

Ms Levere provided a brief overview of the work of CFED in the US and stated that their business model is to some extent unique in the way that it connects local and federal public policy and enables their continuous interaction.

The recent crisis has exposed the lack of savings in the US and the relative ‘asset-poverty’ of individuals and households to withstand a disruption to their income for more than 3 months, and in this sense asset-based measures of poverty are potentially more useful than income-based measures.

CFED believes that there are immediate benefits for low-income groups in pairing financial education with a savings account.

In CFED’s experience these benefits are manifest in more frequent and higher savings levels with the result that 50% of low-income participants in the programme that saved \$100 or more were able to purchase an asset / finance an investment.

Financial incentives to save help a great deal but have their limitations. Research suggests that the rate at which the programme benefits increase begins to plateau after a certain level of savings.

Lessons learned:

- The structure of the programme has to be right (as the ability to save is more to do with having the right structure than developing a skill)
- Financial education makes a difference at all levels when directly connected with an individual savings account
- Asset-building combines large scale standard financial products platforms with individual human-development
- Public policy drives market development but one challenge is to ensure that asset-building becomes more than a philanthropic interest for its supporters

**Antony W.K. Pang, Supervisor, Tung Wah Group of Hospitals Hong Kong**

The HDA (Hope Development Account) and CDF (Child Development Fund) were designed to benefit low-income women, youth and children in Tin Shui Wai, Hong Kong.

Participants join small groups that draw on a sense of community and are given training on topics such as distinguishing between 'needs' and 'wants' and entrepreneurship skills. The training is combined with a matched savings programme and provides opportunities for participants to work with mentors (for example Citi staff volunteers). The programme often results in engagement with entire families, and helps these families build assets.

The programme has already had a positive impact within the community. For example, 25 participants have secured part-time employment, participants with mental illness have been reintegrated into their communities, 96% of participants engage in regular savings and 8 participants have been able to produce and sell handicrafts.

Two major challenges for the programmes include:

- The importance of preserving the participant's sense of dignity – there is still a cultural stigma from being associated with poverty which is a barrier for some individuals who would benefit from the programme; and
- Suspicion that the incentives embedded in the programme are not without some cost to the participant – many participants were suspicious of hidden costs in the programme

Currently there is some discussion around the use of microfinance in relation to the current asset-building programmes.

**Session Q&A:**

***Would asset-building programs work in developing countries, given that income levels may prohibit any savings at all?***

- Ms Levere suggested that the levels of poverty within particular communities in the US would be similar to those in emerging economies. On a purchasing-power basis some US communities might even appear to be worse off.
- Mr Pang suggested that for the extremely poor there is some benefit from seeing programme participants work in clusters where the relatively better-off encourage and support the less well-off

***Are you allowed to take deposits?***

- Ms Levere stated that all deposits are in regulated accounts that are held with institutions; no deposits are held by CFED
- In Hong Kong, Mr Pang indicated that all savings from the program are held in regulated accounts for the individuals although some donor money is held with Tung Wah

***How do you change entrenched attitudes towards poverty?***

- Ms Levere indicated that a respected advocate for the programme from within the community was important to change mindsets, eg. a community leader, religious leader, academic
- Mr Pang gave his view that for most individuals from low-income groups there is always something absent but implicit in terms of their mindset – a dream, an idea or aspiration that speaks of their desire to survive and achieve. An appeal to that which is implicit together with inspirational stories and examples of success may assist in changing attitudes.

***What types of restrictions exist on the use of savings?***

- Ms Levere stated that in the US scheme savings were generally limited to home purchases, education, and starting/expanding a business. However, it was recognised that starting a business required greater cash-flow flexibility and that there was an on-going debate over car financing (given the depreciation profile of the asset).

***What is the cost of running a program?***

- Ms Levere indicated that there is no single answer to this question as there are a number of different programs run by CFED. Moreover, what would the cost be compared against?
- Tax policy is important to help create the right incentives and costs for individuals and the financial institutions that support the programmes, e.g. in the US, financial institutions would typically be eligible to claim a tax credit against matched funding for recognised individual savings accounts.