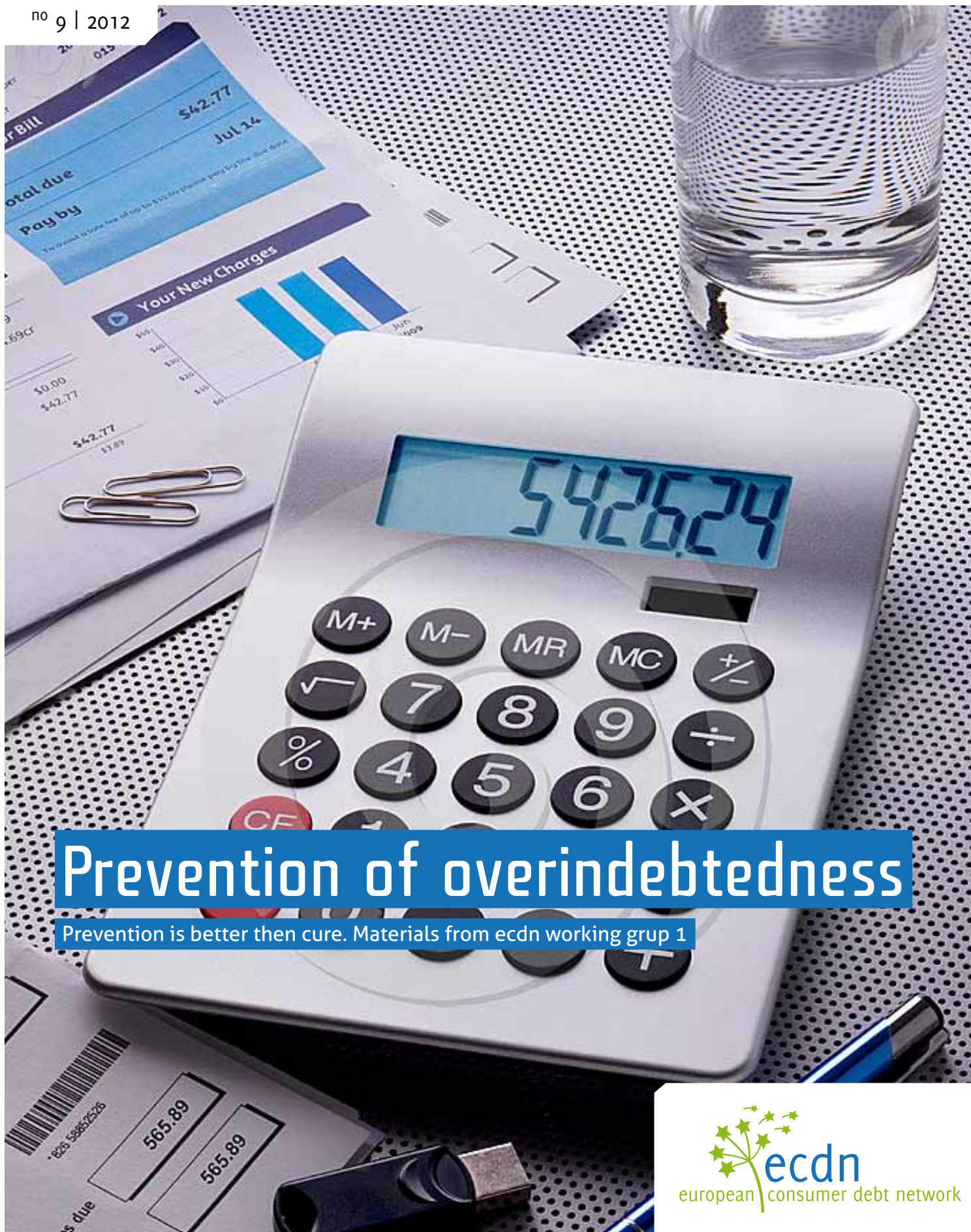


MONEY MATTERS

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Prevention of overindebtedness

Prevention is better than cure. Materials from ecdn working grup 1



Prevention is better than cure

by:
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When talking about overindebtedness most of the attention, focus and money is directed to solve the problems that accompany high consumer debts. Creditors have to write off part of their loans, debtors have to face minimal spending possibilities and society as a whole bears the costs of arranging the process towards that. Above that, there is the indirect damage of overindebtedness.

That this indirect damage is not imaginary is something that the crisis has shown us. The financial sector has lent far too much and will have to write off considerable parts of their loans. However, in doing so, it affects the real economy vastly with rising unemployment figures. Because of that more consumers get into debt problems, banks have to write off more, and so on.

So, it is quite normal that in the current situation a lot of focus is directed to the curing of overindebtedness. But sometimes it feels like swimming against the tide, or mopping with the tap open, as a Dutch saying goes. Are there ways to close the tap? We need to focus on prevention because, when this crisis is over, we should prevent another one from occurring.

This issue of Money Matters is dedicated to prevention. But what is prevention? It seems to be an illusion that we can come to a world where not a single loan will be left unpaid. This problem exists in all countries, no matter the institutional arrangements. A loan makes you less flexible and the contingencies of life (unemployment, divorce, death of a partner) can cause financial problems. So, prevention is not the magical tool that solves all problems. Next to general prevention, we need to have early warning systems to prevent escalation, alleviation and rehabilitation¹. But I am sure that quite some individuals did not have to fall into overindebtedness if they had borrowed less and/or if the creditor had lent less.

But who are these individuals for whom prevention may achieve results, and how can we reach them? In her contribution, Catherine Martin from Archimed, France describes the troubles in identifying the groups who are at risk, gets in touch with them, and describes what messages are appropriate for them.

Ewa Kruk from SKEF describes a couple of prevention projects in Poland aimed at risk groups, especially for those with low income. Increasing knowledge about budgeting and abilities to cope with financial products are strongly needed both for the clients and the social workers themselves.

Gerjoke Wilmink from Nibud, the Netherlands, describes various categorizations of prevention. These categorizations originally stem from health care, but can be used to prevent overindebtedness as well. Prevention activities can range from very general, such as education

at schools, to very specific, such as budgeting courses for households with very low income.

The same categorization in primary, secondary and tertiary prevention is also used by Money Advice and Budgeting Service (MABS) in Ireland. Michael Culloty describes what actions the Irish MABS has taken to start prevention activities in all these three categories.

Reading through this edition of Money Matters will hopefully give you a lot of inspiration for prevention activities. But what you probably also want to know: are they successful?

When talking about success, it is quite hard to evaluate the effectiveness of prevention projects. If you want to measure the effectiveness on a methodologically sound basis, you have to look at the long-term effects of the prevention projects, and use comparable control groups that did not get the training. As it is hard enough to get support for the project itself, means to carry out an elaborate evaluation will be even harder to find. Research of the Hogeschool Utrecht² on some prevention projects on financial education delivered six success factors:

- Make it tailor made
- Use experiences, wishes and possibilities of the target group as a starting point
- Choose the right tone and wording
- Choose for structural programs with more learning moments
- Use professionals who have knowledge about financial matters
- Good communication and marketing

The ECDN could improve its network function to exchange the knowledge of successful prevention projects. For example, we could set up a database of good practices. So, if you have successful prevention programs in your country, whether these are general ('primary') prevention projects, for groups at risk ('secondary') or for individuals who already experience problems ('tertiary') let us know!

1 - ** See Eurofound (2012) Household debt advisory services in the European Union. Dublin: Eurofound. Downloadable from: <http://www.eurofound.europa.eu/areas/socialprotection/householdebts.htm>

2 - P. Van Heijst, S. Verhagen (2010) Geld Rolt, De rol van professionals bij financiële bewustwording door jongeren, SWP Amsterdam.



Prevention of overindebtedness

by:
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When we want to prevent overindebtedness, we can do so along various ways. In this article, we will give an overview over these various ways to prevent overindebtedness.

Prevention is better than cure

But first, let us stress the importance of prevention of overindebtedness. Prevention is better than cure. Over-indebtedness leads to problems for the over-indebted. The burden of repaying debt crowds out spending to other expenditure categories. This may go so far, that even necessary spending is limited, leading to exemption of heating and electricity, disclosure of homes, health problems, social exclusion and other poverty-related issues. The mental burden of overindebtedness may lead to concentration problems at work, causing job loss. Also, the overindebted may be more prone to corruption or other illegal ways to find money.

However, overindebtedness not only affects the debtor. It also leads to costs for the creditor, who has to make costs to collect the loan or eventually has to write off parts of the loan.

Furthermore, other institutions in society itself bear costs because of overindebtedness. Debt advice and debt relief costs money, just as the curing of all accompanying problems, such as poverty, homelessness and health problems.

And, preventing will not only be cheaper than curing overindebtedness, it will also be easier. If the situation of overindebtedness has come to reality, it takes a lot of effort to cure the problem, involving numerous different institutions.

Definition of prevention of overindebtedness

Prevention of overindebtedness aims at preventing financial problems for households and with that, also removes obstacles for social inclusion and/or costs in other parts of society. As a definition, we propose:

Prevention of overindebtedness is a mix of measures, activities and provisions, which are directed to make people financially capable and to make them behave in such a way that they keep their finances in balance.

Classifying prevention of overindebtedness

This is a general definition, but we can classify different forms of prevention, based on the severity of the problems or the target group.

We can use classifications that originally stem from healthcare, one is a classification in three groups, and another is a classification in four groups.

A classification in three

There, a distinction is made between primary, secondary and tertiary prevention.

Primary prevention is the activities, measures and provisions that prevent financially healthy people from getting into financial problems.

Secondary prevention is the activities, measures and provisions to signal a financial problem at an early stage. The problem can be treated fast, so that a solution is reached earlier. This type of prevention can be implemented in households already having problems or those at higher risk.

Tertiary prevention is the activities, measures and provisions to prevent complications or worsening of the financial problems.

A classification in four

Another classification that is used in healthcare is the one in universal, selective, indicated and care-related prevention. This classification is also aimed at different target groups.

Universal prevention aims at (groups of) the general population. These are individuals who are not characterized by a higher risk of overindebtedness. The goal of universal prevention is to increase financial health of the whole population and to reduce the probability of financial problems. Financial education at schools is an example of universal prevention.

Selective prevention is aimed at groups of the population with an increased risk. Its goal is to increase the financial health of specific risk groups. Specific programs for low-income groups, ethnic minorities or young adults are examples of selective prevention measures.

Indicated prevention is aimed at individuals who do not have a diagnosed illness yet. But they do have some complaints or symptoms. The target of indicated prevention is to prevent the state of overindebtedness or other damage to the individual. An approachable advice center can be a good indicated prevention measure.

Care-related prevention is aimed at individuals who are in a state of over-indebtedness. Its target is to reduce the burden that the financial problems bring with them and to prevent complications.

Forcing or encouraging

Measures, activities and facilities to prevent over-indebtedness are aimed at influencing the behavior of individuals. We can distinguish



between “forcing” and “encouraging” certain behavior. Prevention of over-indebtedness can take both forms. A debt advisor that gets the salary of the debtor and pays the rent directly, forces the payment to be made. This is something different from teaching individuals how to spread expenditures over time and over various categories, so that they can pay the rent themselves. That is an example of encouraging the desired behavior.

Limits of prevention of over-indebtedness

Budget training is a good example of a measure to prevent over-indebtedness. However, learning to read or learning to calculate is not. These are necessary competences that everyone needs to have in European society.

Who can play a role in prevention of over-indebtedness?

Lenders

As a loan is a contract between two parties, both parties have an incentive to fulfill the terms of the contract. A lender does not want to write off (parts of) the loan and the borrower wants to get rid of the (interest) burden that a loan takes with it.

So, prevention is in the interest of both parties.

The lender has two direct possibilities to influence the occurrence of debt problems. The lender can do so during the acceptance phase and during the debt collection phase.

Acceptation

When the lender is very strict in his acceptance of borrowers, he will diminish the occurrence of over-indebtedness. On the other hand, a very lenient lender will encounter more debt problems, and perhaps even exponentially more, as the lender will attract households that are at risk already and can not get a loan elsewhere. When the lender

uses risk-based pricing, i.e. charging higher interest rates for households at higher risk, it may cause financial problems even more.

Regulation can also force the lender to use a strict acceptance policy.

Debt collection

In the debt collection phase, the lender can make a difference as well. When it is very strict in its debt collection, the household is forced to face its financial problems, even when one payment is late. And perhaps a temporary drawback in income may slide this household into debt problems.

On the other hand, a very lenient debt collection procedure will give the household the possibility to accumulate debt. And perhaps to such a level that it will not be able to repay its debt at all and the loan has to be written off partly.

Often, there is a link between the acceptance and the debt collection policy of a lender. When acceptance is strict, debt collection can be rather lenient. And, the other way around, when acceptance is lenient, debt collection may be strict.

As the lender faces a major loss when the borrower does not repay, it has an incentive to help the borrower who has problems repaying debt. A lot of secondary or indicated prevention measures can be implemented by them as well. But of course, lenders should need to invest in primary prevention as well.

Government

Over-indebtedness leads to various kinds of costs in society (see above). It depends on the way debt advice and debt relief is organized in a state, which part of government bears these costs. This could be national government, local government or private/public enterprises. They will have a direct urge to invest in prevention.

Furthermore, prevention of over-indebtedness can (or should) be part of general education, i.e. as part of the curriculum taught in primary and/or secondary schools.



Preventative Policies for the Overindebted - Ireland

by:
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A Fable:

“While walking along the banks of a river, a passerby notices that someone in the water

is drowning. After pulling the person ashore, the rescuer notices another person in the river in need of help. Before long, the river is filled with drowning people, and more rescuers are required to assist the initial rescuer.

Unfortunately, some people are not saved, and some victims fall back into the river after they have been pulled ashore. At this time, one of the rescuers starts walking upstream. “Where are you going?” the other rescuers ask, disconcerted. The upstream rescuer replies, “I’m going upstream to see why so many people keep falling into the river.” As it turns out, the bridge leading across the river upstream has a hole through which people are falling. The upstream rescuer realizes that fixing the hole in the bridge will prevent many people from ever falling into the river in the first place”.

The term primary prevention was coined in the late 1940s by Hugh Leavell and E. Guerney Clark from the Harvard and Columbia University Schools of Public Health. They went on subsequently to coin the terms secondary and tertiary as two other degrees of prevention. While the preventative stratification devised by Lavelle and Clark was primarily for public health issues it is, in my view, a suitable structure to look at preventative strategies in other areas e.g. over-indebtedness.

In this article I apply this strategy to the work undertaken by the Money Advice and Budgeting Service (MABS).

The Money Advice and Budgeting Service (MABS) was set up in Ireland initially as a pilot project in 1992 to assist people who had become over-indebted. In response to research carried out by the Combat Poverty Agency in 1988 into the plight of the poor, who were dependant on credit from moneylenders to provide them with the financial resources needed for contingencies, emergencies and/or life’s celebratory events, the MABS service was established. Its methodology was to comprehensively look at a persons’ financial situation, try to maximise the persons’ income, prioritise outgoings, negotiate affordable and sustainable agreements with creditors, be they banks, moneylenders, credit unions or utility companies and put in place a budgeting system suitable to their needs.

The pilot projects were deemed a success, having been independently evaluated, and a decision was taken by Government to extend the service nationwide over the coming years. The new MABS Service was to have the following Mission and objectives:

MABS Mission:

To work towards the elimination of over-indebtedness through the provision of a free, confidential, independent community and rights based Money Advice and Budgeting Service, which identifies, supports, educates and empowers those experiencing or at risk of over-indebtedness, especially those on low income and to use the knowledge and experience gained to bring about policy change towards this end.

MABS Objectives:

Objective 1

To provide an independent free and confidential Money Advice and Budgeting Service to the target group to facilitate them to cope with their immediate debt problems and become financially independent in the long term.

Objective 2

To facilitate the target group to develop the knowledge and skills required to avoid getting into debt or to deal effectively with debt situations that arise.

Objective 3

To identify sources of financial services which can best meet the needs of the target group and facilitate them to access these sources.



Objective 4

To work in partnership with other support agencies to provide an integrated system of supports which can be accessed by the target group as appropriate to their needs.

Objective 5

To support a process of community development through facilitating the target group to be involved in the planning and implementation of MABS to ensure that it is responding effectively to their needs.

Objective 6

To ensure that the target group have equality of access to MABS.

Objective 7

To promote changes in policy and practice which need to be implemented at local or national level in order to eliminate poverty and over indebtedness.

Prevention Stratification or Structure:

MABS has now been in existence for two decades and has developed significantly over that period. Using the preventative framework outlined above I will now illustrate MABS approach to over-indebted as it has developed over the last twenty years with reference to the original MABS objectives.

Primordial:

Primordial Prevention looks at the market place and society in general to see if there are any structural causes that need to be changed in order to prevent overindebtedness*.

In Ireland those working in money advice and in other agencies like Free Legal Advice Centres (FLAC) have identified structural issues needing attention which have a bearing on the causes and consequences of over-indebtedness.

Areas that warrant study, innovation and change are:

- Debt Settlement procedures
- Income Adequacy
- Basic Bank Accounts
- Consumer protection measures - increased transparency
- Adequacy of public services
- Information and educational provision

Structural Changes to date:

- Debt Settlement Pilot 2005
- Consumer Credit Act 1995
- Energy Regulator Consumer Codes 2007
- Irish Banking Federation/MABS operational Protocol 2009
- Code of Conduct on Mortgage Arrears 2010



- Consumer Protection Code (Revised) 2012
- New Insolvency Legislation (pending) 2012
- Basic Payment Account 2012 – at pilot stage

Strategy:

Research: undertaken to highlight the need for change:

Research with NGO's on Minimum Income Retention, over- indebtedness and poverty issues:

- 'Do the poor pay more' researched the plight of loan parents with regard to indebtedness (part funded and in association with One Parent Family Network (OPEN))
- Minimum Essential Budgets (part funded and in association with the Vincentian Partnership for Social Justice)
- Women, Debt and Health (part funded and in association with the Woman's Health Council)



- ‘End Based on Means’ report by FLAC on treatment of credit and debt in Irish law (MABS support role)
- Creditable Alternatives – New Credit Models
- ‘Financial Exclusion in Ireland’ Combat Poverty Agency study
- Lifting the Load – Report on help for people with mortgage arrears
- Financial Burden of Funerals within the Traveller community

Networking:

- MABS cooperation with the FLAC and others NGO’s in research and the promotion of over-indebtedness issues
- MABS national media promotion of over-indebtedness issues at national and local level e.g. irresponsible lending, debt collection practices, sub-prime lending, availability of affordable credit, financial inclusion
- MABS meeting with national and international creditors and utility providers and their regulators regarding issues affecting the over-indebted
- MABS is represented on the Central Bank of Ireland’s Consumer Advisory group where issues relating to over-indebted consumers are raised.
- MABS cooperation, interaction with and submissions to the Central Bank of Ireland, Utility Regulators, Government Departments etc.
- Irish Banking Federation/MABS Protocol Monitoring Group

*In pursuance of MABS Objectives 7, 6,

Primary:

Primary Prevention strategies are designed for the general population. The aim is to enhance protective factors and to prevent problems. Strategies are designed to address fundamental challenges e.g. to increase knowledge of financial products generally in the population*.

Strategy:

- Life stages Financial Information and Education

The National Steering Group on Financial Education was established by the Financial Regulator in late 2006 and brings together a range of stakeholders with an interest in personal finance and/or education, including Government departments, industry representative bodies, educational and training institutions, non-profit organisations and the public sector MABS was a key player in this forum – Report published in 2009

- National Consumer Agency website www.yourmoney.ie, helpline, information booklets and leaflets
- MABS Website, MABS Information Leaflets, MABS Helpline, MABS Money Management Guide,
- MABS provision of financial educational programmes at primary, secondary and adult level on basic money management e.g.,

EuroWatchers

EuroWatchers is a money management programme for adults at a basic education level. It is delivered by tutors in Vocational Educational Colleges (VECs).



Get Smart with Your Money

Get Smart is a Transition Year Programme, developed and operated in partnership with the National Consumer Agency. It is available free of charge to schools and students, and teachers delivering Get Smart are given training in the use of this valuable resource.

www.moneycounts.ie

This interactive website is a money management programme developed with St John of God Carmona Services. It has been designed to meet the needs of learners with intellectual disabilities, or any learner who likes to spend lots of time on particular activities. It is available free of charge.

Cash Conscious

This money management programme for young people is a terrific resource for use in schools or youth groups. Follow the trials of the Cash family, as they make everyday decisions with their money.

MABS works with Traveller groups and Traveller Training Centres with this money management education programme.

PennyWise

Habits learned early last a lifetime. PennyWise is a spending diary designed by teenagers, for teenagers – an excellent way to get into the habit of recording spending!

- Irish Banking Federation/MABS Operational Protocol, Energy Utilities/MABS Operational Protocol

*In Pursuance of MABS Objective 2

Secondary:

Secondary Prevention is targeted towards specific subgroups that are expected to be at higher risk. It seeks to reduce the effect of the risk. Its strategy is early intervention followed by prompt and effective action*

Sub groups Identified:

- Loan Parents
- Social Welfare recipients
- Unemployed
- Local Authority tenants
- Low income families with children
- Travellers and other ethnic groups
- Change of life circumstances
- Redress Board award recipients
- Educationally disadvantaged

Strategy:

MABS Community education initiatives: at local service level, targeting particular groups / issues – e.g., programmes looking at particular

issues of debt, for example, times of year / life events that carry high expenditure – working to skill people in planning and preparing for these rather than incurring debt.

National Traveller MABS: targeting the traveller community and hopefully the other ethnic communities.

Information and strategies on appropriate issues,

- 'Wolf from the Door' in association with the Credit Unions (re. Affordable Credit,)
- Prisoner Savings scheme,
- Caravan Loan purchase scheme
- Public Housing New Tenant Information evenings.
- Appropriate budgeting facilities e.g. MABS Special Budgeting Account.
- Support in periods of crisis - Money Management Guide for people in debt or in danger of getting in to debt

* In Pursuance of MABS Objective 3, 4, 5

Tertiary:

Tertiary Prevention targets specific individuals who have already shown signs of specific problems. The aim of the preventative strategy at this stage is to prevent the progression of the difficulty*

In our experience these difficulties would have arisen because of one or more of the following;

Low income, loss of income, money management, over commitment.

Strategy:

Provision of a local money advice and budgeting service to support individuals in debt who lack capacity. Over 60 offices nationwide

MABS National Helpline and website to assist those with capacity to help themselves

Budgeting facilities: Special Budget Account, Household Budget Scheme

Crisis funding – Loan Guarantee Fund, Emergency Needs Payments scheme, Vincent de Paul Charity

Agreed Operational Protocols with the Irish Banking Federation and Major Energy Utilities

Negotiating affordable sustainable agreements with creditors - debt restructuring

*In pursuance of MABS Objective 1



How to prevent overindebtedness ?

by:
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The problem of overindebtedness is now taken into account in almost all European countries. As political representatives have found out the social and economic consequences of overindebtedness, they have adopted curative regulations. But prevention is still weak. There isn't any policy on that subject in France (except concerning credit advertising).

Developing prevention policies requires:

- a better understanding of the complex causes of overindebtedness, not only poverty, but also lack of education, personal fragilities, unfavorable environment.
- the ability to identify people incurring the risk of overindebtedness,
- getting in touch with these people and finding the appropriate messages.

Identifying people who incur a risk of overindebtedness

Because of the complexity of the causes, it's really difficult to identify people who incur the risk of overindebtedness. Everybody could be at risk at any time of their life.

That is why it is essential to provide everyone with financial education and make them aware of consequences of their financial behavior.

We must not forget that healthy people can experience tragedies due to debt, losing a lot of money, sometimes their house, and end up living in poverty. These situations are difficult to measure, because the people concerned rarely request social or legal help.

Considering the profile of overindebted persons helps to focus on some specific population groups that are more at risk than others: young people getting their first salary; elder people just retired with low rights; dismissed people; extreme credit contractors;

Going further, it is interesting to distinguish between people already having complaints or symptoms that strongly increase the risk of overindebtedness (for example, people already facing a very tight budget and having difficulties paying their bills).

At the end, if prevention should consist of avoiding financial difficulties, people having faced financial difficulties or having requested legal help should not be automatically protected from incurring a new risk. This is especially true in France, where the legal procedure is totally administrative and lacks the building of human relations and the teaching of skills.



Getting in touch with people incurring a risk of overindebtedness

It is difficult to find people who are at risk of becoming overindebted. It is much easier to contact people who face financial difficulties and actually look for help with their situation. These people will often make their own research and find the right office to help them. The role of politicians is then to ensure quality information and to guarantee that appropriate services are available to make sure those people avoid turning to bad solutions that could worsen their situation.

To succeed in prevention, we cannot, nevertheless, limit the action to this category of people. It is necessary to find a way to get in touch with groups at risk, even if they themselves don't feel concerned with overindebtedness. At this point, it could be useful to make partnerships with organizations that are in touch with the aforementioned population.

We can think of many kinds of partnerships:

- Unemployment agencies
- Pension funds
- Contingency funds
- Social security (health care)
- Housing suppliers
- Banks and credit companies

Most of these partners are in first line to point out factors of risk (decrease of income, increase of charges, unpaid bills). Some of them are more able to measure the scope of the risk (the bank for example has a relevant view on the personal finance and budget).

The challenge is then to convince these partners to cooperate in prevention of overindebtedness. They must be supported with relevant arguments about their interest to deal with clients/beneficiaries staying in financial welfare.

Delivering an appropriate message

Besides solving tough financial situations, to diagnose the causes of difficulties and to work on them is a necessity to prevent those problems from reoccurring.

The less the individual situations are known, the more general and high level the prevention message must be: making people aware of the risks, helping to point some alerts and to measure consequences. The more individual the diagnosed situation, the more personal measures could be adapted. Actions must take into account technical knowledge, behavior with money and what to do on these two aspects.

Working on behavior is often a long term action. One difficulty is to keep people going on. Many of them refuse the constraints that accompany strict financial behavior and give up. The question of using forced measures, yet compatible with pedagogy, must be considered. Forced measures are sometimes the only way to protect people.

Another difficulty regards very poor people. When the budget is so tight that people cannot afford minimum vital needs, the call to solidarity and social care is the only way to solve the problem.

As a conclusion, I want to add that preventing overindebtedness must go further than acting only towards overindebted persons. Prevention also concerns the economic environment and welfare policies that influence personal behavior and strategies. The question should be considered in a systemic way.



Short review – training needs for social workers who can disseminate financial education

by:
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“Financial education cannot replace the quality of (and access to) financial services provided on reasonable terms but still is long lasting solution for people.”

There are many NGOs and other institutions in Poland, which are involved in supporting socially excluded people. While those are managing their different projects, they indicate that there is very urgent need to add to these projects elements of financial education, mainly workshops of the following topics: financial planning, budgeting, acquaintances of basic financial services and products or consumer rights. Moreover, workers of these institutions want to bring up their professional competences by taking part in the same training process. During the conversations with the social workers and completed common projects it seems to be quite clear that they could use obtained knowledge in their current work. At the same time most social workers in Poland have quite low income, so this kind of workshops would be helpful both in their private and professional life. Because of that it is also easier for them to share this financial capability with their wards in the future.

Good practices - examples

Project realized by MOPS (Municipal Centre for Social Welfare) - “Family assistant”

Beneficiaries of this project were families having care and educational difficulties and helplessly trying to run their households by themselves. There were various types of dysfunctions and the risk of locating children in foster families. After family assistants’ training the project was carried out to those families with the following workshops - budget training, focusing on improving financial capability and planning expenditures. As a result of such actions, the following results have been achieved: improvement of family expenditures planning, the elimination or reduction of debts for the rent and the media bills, as well as taking various kinds of work for unemployed family members. These activities have also indirectly contributed to the prevention and reduction of placing

children in foster care. This project has been highly praised by the local District Court Family Division and Juvenile. Driven by family assistants and social workers – 18 children remained in the family environment.

Project realized in Caritas (catholic, social service organization for poor and oppressed) “Second chance”

The aim of this innovative project was to develop a new model of vocational training for young people aged 18-25 who dropped out of the education system and are unemployed due to the lack of adequate vocational training. During the project it appeared that beneficiaries also need support to enhance their financial awareness with particular emphasis on financial planning and issues related to past overdue debts, which arise from taken out loans (issues such as: debt collection, distressed stock, etc.). This knowledge enabled them to make more efficient management of their future funds, what was meant to be the result of the project – a professional activation and becoming independent as a separate household.

Project realized by SKEF in cooperation with “Stefczyk” Credit Union

The project is directed to families with very low income who could not learn the ability to wisely use products available in the financial market and therefore are exposed to overindebtedness. The aim of the project is to educate families on planning and effective management of personal finance and to instill a habit of saving in them. All participants, supported by a mentor/family tutor are faced with the opportunity to develop household budgets, tailored to their needs. In addition, the developed budget is verified by the mentor on running basis. Families also open an account and systematic saving account.

Personal interviews with the staff of the institutions dealing with socially excluded people. Employees’ suggestions:

County Family Support Center – employees reported the need for training regarding household budget, knowledge of basic credit products and consumer rights for the charges of the Center – in particular for young people leaving orphanage after the age of 18.



Municipal Centre of Social Welfare – the most wanted training would be: household budget for their charges that often have financial/overindebt problems. It was also noted that there is a need of training for social workers in their daily work with the poor and shiftless practically people. For employees it would be a perfect opportunity to raise their professional competences and skills. It should also be pointed out that the problem of inheritance of poverty could be reduced by early financial education classes for socially excluded children. In that way deficits could be aligned, resulting from their hard situation and because natural parents in their environment are not able to eliminate these deficits because of the lack of adequate knowledge and financial awareness.

Citizens Advice Bureau – the workers have no appropriate knowledge of issues related to overidebtness, so they often redirect their customers to the Financial and Consumer Counselling Centres, working within SKEF.

County, Consumer Rights, City Attorneys – employees also have no sufficient knowledge of issues related to overindebtness.

Associations and Foundations dealing with children with disabilities - employees have contact with parents who, often due to their child's disability, had to give up work and have to deal with large expenditures associated with the child's therapy and therefore often belong to the group of low income families. Lack of efficient financial planning skills in such families can cause the problem of overindebtteness. Employees point out that there is a strong need to lead workshops for those parents to support their every day living.

Summary:

- awareness of the increasing role of financial education as a prevention method for overindebted and socially excluded people
- it is important to exchange good practices and increase cooperation between social workers and advisors from institutions offering counseling to overindebted people through participation in joint projects, training process or consultation
- there is a need for special training for social workers in the following fields: financial planning, household budgeting, knowledge of basic financial services and products, consumer rights, also from the psychological point of view
- carrying out educational projects for the children who come from overindebted and socially excluded families and who are unable to acquire such knowledge in their homes



PISA and financial literacy

by:
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In addition to assessing proficiency in reading, mathematics and science, the Organisation for Economic Cooperation and Development (OECD) will make it possible to measure financial literacy in the 2015 Programme for International Student Assessment (PISA). The OECD will make this possibility available, if enough countries are interested. This document summarises the background to PISA and financial literacy. Background information on PISA is provided first, after which the focus shifts to financial literacy to provide an impression of the why, what and how of measuring financial literacy. A comprehensive description is given in the 'PISA 2012 Financial Literacy Assessment Framework' document, which can be consulted on the OECD website at: <http://www.oecd.org/daf/financialmarket-sinsuranceandpensions/financialeducation/oecdpsifinancialliteracyassessment.htm>

Background to PISA

- PISA is an international OECD study that aims to assess the knowledge and skills of 15-year-olds. Since 2000 a representative random sample of students has been taken every three years. These students complete tests to assess proficiency in reading, mathematics and science. The emphasis is always on one of these three domains. PISA's purpose is to determine the extent to which the education systems of participating countries enable students to become independent citizens.
- PISA does not measure, whether 15-year-olds have mastered curricular content. Rather, it evaluates the extent to which young people are able to apply their knowledge and skills in everyday situations.
- Sixty-seven countries, including the Netherlands, are participating in PISA 2012. The emphasis is on mathematics. The results of PISA 2012 will be published at the end of 2013/beginning of 2014.
- The Netherlands attaches great importance to participation in PISA. The programme provides a unique opportunity for the Netherlands to compare the knowledge and skills of Dutch students with those of students from a broad range of other countries. The results enable policy makers to make well-founded decisions in the field of education. The international comparisons made available by PISA results can also be of importance to students. Strong Dutch performance within the context of the PISA study enhances the reputation of Dutch students, which in turn can increase opportunities for Dutch nationals in the international labour market.

Financial literacy

- In many countries, as a result of the scaling down of government, ageing populations and a broad range of developments in the financial markets, greater attention has been paid to the financial literacy of citizens over the past years. Financial literacy was brought into sharper focus by the crisis because of the realisation that financial literacy was one of the factors that contributed to the crisis. Financial literacy is now globally acknowledged as an important element of economic and financial stability and development.
- For this reason the OECD decided to make financial literacy an optional part of the PISA test in 2012. Nineteen countries included this part.
- The OECD intends to make also it possible to measure financial literacy for the 2015 programme. Although the Netherlands did not include this part of the test in 2012, it has indicated that it wishes to measure financial literacy through PISA in 2015.

What is measured

- The OECD defines financial literacy as follows: 'Financial literacy¹ is knowledge and understanding of financial concepts and risks and the skills, motivation and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society and to enable participation in economic life.'
- PISA considers literacy as the capacity of students to apply knowledge and skills in key subject areas and to analyse, reason and communicate effectively as they pose, solve and interpret problems in a variety of situations. The issue is therefore not so much about whether students have mastered curricular content. It concerns, rather, the ability of students to apply what they have learned in everyday situations.
- The tests were designed on the basis of data from many countries, including the Netherlands.
- The PISA items are organised according to (A) content, (B) processes and (C) contexts. These dimensions are explained below.

A. Content

- PISA distinguishes between four content areas with respect to financial literacy, namely: (1) money and transactions, (2) plan-

¹ - The terms 'financial literacy' and 'financial capability' are considered to be synonymous and are used interchangeably.



ning and managing finances, (3) risk and reward and (4) financial landscape.

- Re (1) Money and transactions. This content area concerns issues like everyday payments, spending, value for money, bank cards, currencies and bank accounts. Examples in this respect include:
 - Understanding that money is used to exchange goods and services;
 - Identifying different ways of paying;
 - Calculating correct change;
 - Being able to check transactions listed on a bank statement and note any irregularities;
 - Paying and receiving interest.
- Re (2) Planning and managing finances. Examples in this regard include:
 - Identifying various types of income and measures of income;
 - Understanding government taxes and benefits and their impact on planning and managing finances;
 - Drawing up a budget to plan regular spending and saving;
 - Planning ahead to pay for future expenses;
 - Recognising the benefit of planning for retirement.
- Re (3) Risk and reward. This is an important aspect of financial literacy. It concerns managing risks in a broad range of situations. In this context, two types of risk are central, namely financial losses that an individual cannot bear and risks inherent in financial products. Examples in this respect include:
 - Being aware of various types of investment and savings vehicles, including formal financial products and alternative methods of saving, such as buying livestock or gold and insurance products;
 - Being aware of the effects of compounding.
- Re (4) Financial landscape. This content area concerns understanding how financial markets work, the rights and responsibilities of consumers and financial contracts. Examples in this respect include:
 - Understanding that individuals have choices in spending and saving, and each action can have consequences for the individual and for society;
 - Understanding that buyers and sellers have responsibilities when applying for financial products and being aware of the implications of not fulfilling these responsibilities;
 - Identifying the parties to ask for advice when choosing financial products;
 - Being aware of the economic climate and understanding the impact of policy changes such as reform relating to the funding of post-school training;

- Being aware of financial crimes such as identity theft and scams and knowing how to take appropriate precautions.

B. Processes

- The process categories relate to cognitive processes. PISA also measures non-cognitive factors (see below). Four process categories have been defined, namely: (1) identifying financial information, (2) analysing information in a financial context, (3) evaluating financial issues and (4) applying financial knowledge and understanding.
- See 'PISA 2012 Financial Literacy Assessment Framework', pp. 22-27, for a more detailed description of the processes.

C. Contexts

- PISA recognises a broad range of contexts/situations in which financial literacy is applied. These are categorised as follows: (1) education and work, (2) home and family, (3) individual and (4) societal.
- See 'PISA 2012 Financial Literacy Assessment Framework', pp. 27-29, for a more detailed description of the categories of contexts.

Non-cognitive factors

- In addition to cognitive factors the PISA working definition of financial literacy includes the non-cognitive terms motivation and confidence, attitudes which, according to some, have great influence on financial literacy. PISA identified the following non-cognitive factors with respect to financial literacy: (1) access to information and education, (2) access to money and financial products, (3) attitudes towards and confidence about financial matters and (4) spending and saving behaviour.
- See 'PISA 2012 Financial Literacy Assessment Framework', p. 30, for a more detailed description of the non-cognitive factors.

How measurements are taken

- The items of PISA are secret. The 'PISA 2012 Financial Literacy Assessment Framework' document contains a number of examples from page 17 that give an impression of the way in which financial literacy is measured. To enable international comparison, participants are asked to imagine that they are residents of the fictional country of Zedland, where the Zed is the unit of currency.
- The PISA test is a pen and paper one. The total test takes about two hours to complete. One hour of testing time is allocated to financial literacy.
- Forty questions distributed across the various categories of content, process and context are asked. A number of questions for non-cognitive factors are included at the end of the assessment.

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