



# Banks and Financial Education

## *Integrating Practice, Products, and Partnerships*

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### Introduction

A number of developments have begun to underscore the growing need for financial education. Surveys indicate that Americans have low levels of financial knowledge, as well as insufficient savings and high indebtedness. These disconcerting facts are especially salient in light of the current financial crisis, where plummeting home values, high unemployment, and weak economic growth have exacerbated the already weak balance sheet of many Americans. In light of this grim background, financial literacy has found itself in the spotlight. The topic continues to attract the attention of financial regulators, policymakers, and academics, and the demand for financial education is growing among community based organizations and their clients.

The need for financial and economic education is not new, however. For decades, government and non-

profit organizations have been trying to address what they see as a serious gap in the curricula of our K-12 school systems. Nationally representative organizations such as the Council for Economic Education (previously known as the National Council on Economic Education), Junior Achievement, the Jump\$tart Coalition, and the National Endowment for Financial Education are among a growing group of supporters that have recognized the problem and are taking action to address it.

Financial institutions have also joined the effort and, in some cases, devoted significant resources to the field. They often provide financial support to existing nonprofit financial education programs, and some develop proprietary financial education programs and materials. But a few financial institutions have adopted financial education as a functional unit in their retail banking services.



This article provides an overview of bank-based financial education and describes some of the factors for success.

### **The Role of Banks in Financial Education**

Banks are uniquely positioned to provide financial education, as they can bridge theoretical economic concepts, such as scarcity and opportunity costs, with practical “money-in-the-pocket” services, and supplement them with the necessary financial products. Access to low-cost financial products is particularly valuable for “unbanked” and “underbanked” clients (those that do not have bank accounts, or who have accounts but underutilize them); connecting financial education with financial products allows all individuals to become fully integrated in the traditional financial system, setting them on the path to wealth accumulation.

Financial education helps consumers by offering them the knowledge they need to make sound financial decisions and secure their economic futures. But banks can also benefit from financial education in a number of ways. At a time when competition in retail banking is fierce, targeted financial education programs can open new roads into untapped populations, such as the immigrant and underbanked markets. In addition, financial education programs can also create goodwill at the community level and strengthen relationships with local customers and community partners. In some cases, banks can also receive Community Reinvestment Act credit for providing financial education to low- and moderate-income individuals.

M & I Marshall & Ilsley Bank (M&I Bank), headquartered in Milwaukee, Wisconsin, has been an active supporter of financial education for many years, and in 2005 the bank launched the M&I Community Education Program (M&I CE)—a unique bank-based financial education program designed to organize the bank employees’ volunteer efforts and, at the same time, respond to a widening gap between community needs and community resources in this area. Led by an experienced financial educator, the bank adopted a comprehensive approach to community education informed by research and experience. Going beyond just education, the program design includes specialized banking products for the unbanked, electronic reporting tools, alternative program delivery channels, and short- and long-term outcome measurement. M&I CE designed eight instructor-led financial education seminars, to be offered in both English and Spanish by bankers and community partners, where participants learn about personal finance using a hands-on approach in a workshop setting. Program materials are standardized, and every time a seminar is completed, instructors forward the survey results and evaluations to the program administrator for input and record keeping.

## Incorporating Financial Products into Financial Education

Beyond an increase in financial acumen, the end goal of financial education is to produce a positive change in financial behavior. While there is strong evidence that financial education improves financial knowledge, the evidence linking financial education with improved financial behavior is scarce. It may be the case that an improvement in financial behavior is the result of a convergence of several factors related to financial education, such as lifecycle timing (so-called “teachable moments”), the availability of financial tools, or direct and easy access to financial products. For example, teaching someone to start a budget and regularly make deposits into a savings account is meaningless if the person is shut out of the banking system. Showing someone how to manage and rehabilitate credit is merely an academic exercise if the person is unable to open a new credit line. An effective financial education program should supplement the knowledge gained from a course with access to the tools and products necessary for achieving financial goals.

To this end, M&I CE supplemented its education program with specialized products designed to help those outside the financial mainstream transition into the traditional banking system with ease and clarity, and little cost. The financial education program is now complemented by the “Foundation Suite,” a set of products especially designed to help bank the unbanked, build credit for individuals with no credit history, or rehabilitate credit for those with poor credit. The Suite includes a basic checking account that comes with a bonus incentive of \$50, and is available to anyone that graduates from an approved financial education program; a thrift savings product which is a probationary savings account with a small minimum initial deposit of \$25 and no maintenance fee for balances over \$25; and a credit builder product, which is a reverse loan tied to a certificate of deposit with a maturity term identical to the term of the loan. This loan is designed for credit building and rehabilitation and also acts as a savings vehicle. Customers that have previously been shut out of the credit market can open this account, make regular loan payments to improve their credit scores, and receive the loan principal plus interest upon CD maturity.

## Unique Financial Education Partnerships

While program design and financial product integration are key factors for a successful financial education program, effective delivery channels for reaching target populations are equally important. M&I continues to expand its delivery channels for financial education by partnering with community or government organizations with existing vocational or educational programs. This approach solves the intractable problem of poor attendance in voluntary attendance-based workshops. The commu-

nity partnerships also extend the reach of financial education efforts; staff from partner organizations are trained in the curriculum and learn to integrate financial education into their existing programs on an ongoing basis. Below are a few examples of community partnerships in financial education.

## Wisconsin Department of Correction Reentry Program

Beginning in 2008, the Wisconsin Department of Corrections (DOC) designed a new re-entry program called “A Bridge to Success.” The program required ten modules, one of which was a financial literacy module based on the FDIC Money Smart curriculum. This presented a natural opportunity for collaboration—the M&I CE program was already using the FDIC curriculum as the basis for its financial education program, and the bank has been providing financial education to inmates and staff at several correctional institutions throughout the state of Wisconsin since 2006. Once the new DOC re-entry requirements were announced, M&I CE received many requests from correctional institutions to provide training directly to inmates. However, M&I CE did not have the capacity to meet the demand for services and began working with the DOC’s Re-entry Program Administration to develop a more centralized approach.

The result was a financial education package designed by M&I CE that meets the full requirements of the DOC re-entry program, supplemented with train-the-trainer sessions for the DOC Re-entry Program staff. M&I CE redesigned its existing curriculum to cover all of the topics required by the re-entry program standards, and each seminar was supplemented with pre- and post-surveys, evaluation forms, handouts, certificates of completion, and electronic reporting forms. Since the summer of 2008, M&I CE has held five train-the-trainer sessions, reaching about 130 re-entry specialists. This partnership contributes to improved financial literacy in the community. Inmates who reenter the community after having been trained in the basics of personal finance have a greater likelihood of rehabilitating their financial situations and making wise financial decisions to improve their futures.

## Ways to Work

Ways to Work is a Community Development Financial Institution (CDFI) based in Milwaukee, Wisconsin. Through its network of loan offices across the country, it provides small, short-term, low-interest loans to working poor families with challenging credit histories, and all loans are used to help individuals remain in or move forward in their jobs (the vast majority of loans are made for the purchase of modestly priced used vehicles). Individuals who borrow from Ways to Work have to meet certain conditions related to steady employment and have

to attend counseling and financial education classes. M&I CE worked closely with Ways to Work to design a three-hour financial education seminar for the organization's clients, as well as a staff training curriculum. The program design process relied heavily on feedback from Ways to Work staff, and the final product was delivered in late 2008.

### Program Evaluation and Outcome Measurement

Research has shown that rigorous evaluation demonstrating the effectiveness of financial education is scant, and any credible evidence depends largely on the specific content and context of an individual program. It is therefore important to continue to attempt to measure the effectiveness of financial education programs in order to identify a successful model and maximize scarce resources. M&I CE measures improvements in financial knowledge using a pre- and post-test method and in 2008 documented results for 4,646 seminar participants. On a 10-question multiple-choice test, participants averaged an increase of 2.60 points (from a mean score of 5.89 at pre-test to 8.49 on post-test) which represents a 44 percent increase in the mean score. The improvement in the scores is statistically significant at both the 5 percent and 1 percent significance level for all seminars, both at the individual and aggregate level.

To measure long-term behavioral change, M&I CE utilizes special indicators that are attached to the bank accounts of customers who participated in financial education seminars. This will allow for tracking of financial behaviors over time, as well as comparing results for those customers that received financial education training and those that did not. The analysis is done over time using sample statistics at the aggregate level and does not present any privacy risk for the participants. Behavior change is a long term process, and sufficient time must pass before any conclusions about meaningful behavior change can be drawn. M&I CE is committed to the measurement effort and expects to have preliminary results in a few years.

### Conclusion

Building a successful bank-based financial education program requires several important ingredients. First, the program priorities have to be clearly defined. The bank must decide what it hopes to accomplish through the program and focus on achieving that outcome. Second,

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a standardized, high-quality curriculum should be employed. This does not mean designing a new curriculum with a new website from scratch, as there are several good curricula available for free. The problem of financial education is no longer a problem of supply; consumers currently have many good choices for free and accessible financial education programs, both online and through various delivery channels. Third, delivery mechanisms must be appropriately designed, for example, consider whether the program will be instructor-led, delivered directly by bank employees, or dependent on an indirect delivery channel such as a third party community partner. Also, designing the program to tackle relevant topics at "teachable moments," such as homebuyer education for first-time homebuyers, or credit courses for individuals interested in getting a loan, is an effective strategy. Fourth, sound outcome measures should be incorporated into the program to assess effectiveness and enhance the credibility of the program. This is an important consideration for internal operations, in order to provide results to bank leadership and regulators, as well as external efforts to support community partners who could use the outcomes to enhance their programs and fundraising efforts. Fifth, effective and well thought-out community partnerships should be formed. These community partners are the channels through which a bank can effectively reach community members in a trusted environment. Finally, in addition to education, the bank has to be prepared to provide the tools needed to accomplish the educational goals. Specialized financial products and services are vital for helping the underserved become fully engaged in the financial mainstream.

If done properly, the rewards for having a well-designed and accessible bank-based financial education program are many. They include measurable benefits to the bank, such as increased sales and positive branding, as well as more difficult-to-measure benefits at the community level, such as wiser financial behavior and greater familiarity with financial products. **CI**