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A FRAMEWORK TO MONITOR FINANCIAL EDUCATION INTERVENTIONS PROMOTED BY A FINANCIAL INSTITUTION

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TABLE OF CONTENT

ABSTRACT

Financial education is a way to develop financial literacy and an important intervention to financial well-being. In this context, financial education can be offered in different environments: school, online platforms, educational games and, why not in a financial institution?

In Brazil, financial education must be offered by financial institutions and these interventions must be monitored by the financial institution. A lot of institutions handle this as an exclusive compliance topic, but this could also be a competitive issue.

This paper proposes a framework to define **key results to monitor financial education interventions promoted by a financial institution.**

KEYWORDS

- Financial literacy
- Financial education
- Financial institution
- Key results

INTRODUCTION

In Brazil, in 2019, the Central Bank published a recommendation to encourage financial institutions to promote financial education interventions (Central Bank of Brazil [BACEN] , 2019).

At that moment, financial inclusion and financial education were already a concern. According to the Standard & Poor's Ratings Services Global Financial Literacy Survey carried out in 2014, only 35% of Brazilians adults were financially literate (Global Financial Literacy Excellence Center [GFLEC], 2014).

However, after the Covid-19 pandemic, over-indebtedness increased. According to the Central Bank of Brazil, from January 2019 to December 2021, the household debt increased from 39,29% to 49,48%. In 2021, the Federal Government published Law 14.181 (Federal Government of Brazil, 2021) to prevent over-indebtedness.

In 2023, the Federal Government published Law 14.690 (Federal Government of Brazil, 2023) to facilitate the process of debt renegotiation. In that law it was predicted that the National Monetary Council and Central Bank needed to regulate financial education interventions promoted by financial institutions.

Therefore, the National Monetary Council and Central Bank of Brazil published Resolution No. 8, which established financial education measures to be adopted by financial institutions (National Monetary Council [CMN] & BACEN, 2023). In other words, in Brazil, financial education interventions must be offered by financial institutions and financial institutions should also monitor their financial education interventions with their clients.

In this context, financial institutions have two ways to handle this, as a compliance topic or as differential in the competitive market. And, they will handle this as differential in the competitive market if this is important to their results. Thus, why is this important?

Financial education interventions can be effective in motivating consumers to have a financially capable behavior, such as breaking destructive behaviors and habits and stimulating financially sound behaviors (Brüggen et al., 2017).

Financial education is also a way to improve financial literacy (Huston, 2010) and financial literacy could be positively associated with financially capable behavior, such as the ability to handle emergency situations (Murta & Gama, 2022) and the timely payment of credit card bills (Lusardi & Tufano, 2015; Lusardi & Mitchell, 2013). Or could be negative, when the low level of financial literacy is associated with an absence of financially capable behavior, such as over-indebtedness and default (Gathergood, 2012).

With all these associations, it is reasonable to conclude that clients' financial literacy could affect the financial institution performance. **For this reason, monitoring financial education interventions is more than a compliance topic, it is also a competitive and strategic issue.**

According to Brüggen et al. (2017) "*it is important to consider interventions because they make it possible for policy makers and financial institutions to affect financial well-being*". Financial education interventions can also help financial institutions to improve customer portfolio management. For this, it is important for financial institutions to have a way to monitor the results of its investment in financial education interventions.

Experts at Sicoob, a Brazilian financial institution and essentially a credit union system, developed a framework to monitor the financial education interventions with its members to also improve the results. This idea could be replicated by other financial institutions around the world.

CONSTRUCT DEFINITION

It is normal to cause some confusion with these definitions: financial education, financial literacy and financial behavior. Therefore, one of the objectives of this paper is to present each of these important concepts.

Financial education is a way to improve financial literacy. In other words, the purpose of financial education is to improve financial literacy (Brüggen et al., 2017; Huston, 2010) and can be offered in different environments, for example: school, online platforms and educational games (Willis, 2011).

Financial literacy is the knowledge about fundamentals of financial concepts: risk diversification, inflation, numeracy and compound interest. These are the fundamentals concepts to financial decision making (Lusardi, 2019). In this way, Lusardi and Mitchell (2008, 2011) developed a scale to measure financial literacy with five questions, called the big five. With five questions it is possible to know the level of financial literacy.

Lastly, financial behavior is the behavior adopted by consumers from several interventions received during their life: access to financial education, access to financial services, personal skills, sociodemographic conditions, family income (Brüggen et al., 2017). Some examples of capable behavior are timely payment, saving more money, appropriate use of financial products and services (Murta & Gama, 2022; Lusardi & Tufano, 2015; Lusardi & Mitchell, 2013). In this context, it is not difficult to see a line that connects financial education to improve financial literacy, to develop capable behavior.

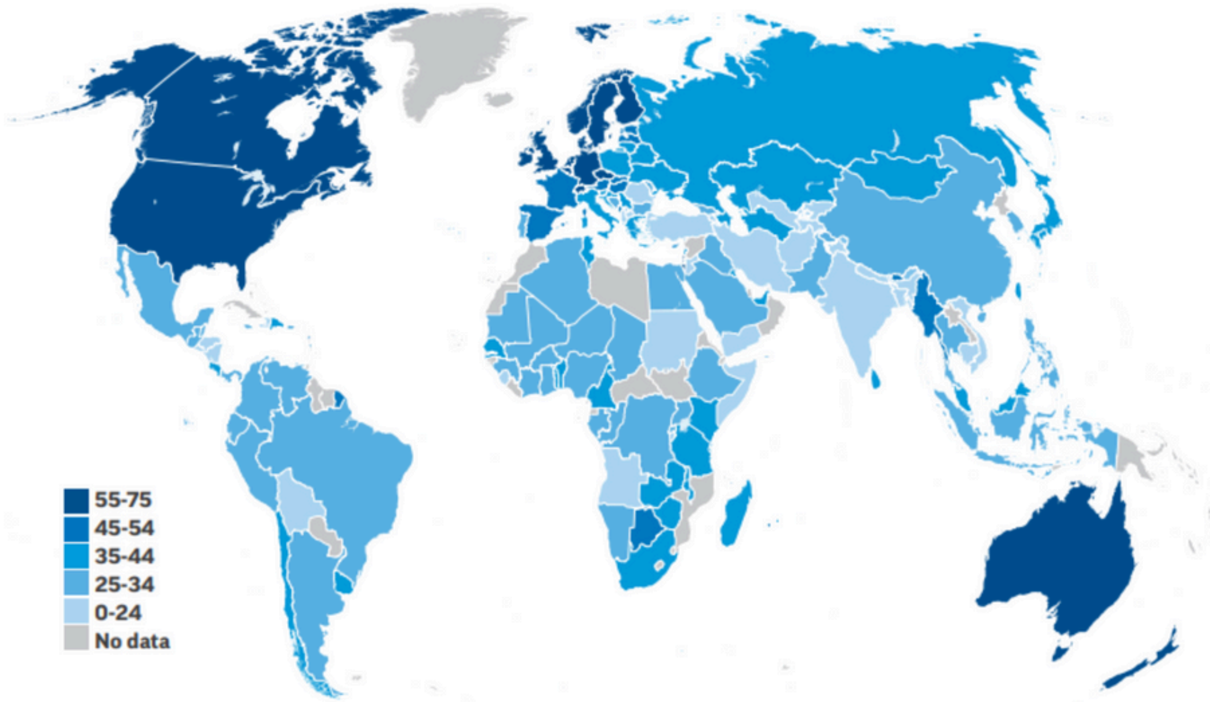
Therefore, financial institutions have a responsibility and opportunity to promote financial education interventions. Certainly, financial institutions will reap the rewards of this with their clients' capable behavior improvements.

ACTING LOCALLY, THINKING GLOBALLY

It is possible to perceive that several countries share the same social challenges. Low financial literacy rates and over-indebtedness are some examples of this, and Brazil is not the only country facing these challenges. In the United States of America, household debt rose by $109 billion to reach $17.80 trillion in the second quarter of 2024 "*with 3.2% percent of outstanding debt in some stage of delinquency*" (Federal Reserve Bank [Fed], 2024). In the United Kingdom, household debt was 123.7% of household incomes in the last quarter of 2023 (House of Commons Library, UK Parliament, 2024).

Furthermore, according to the Standard & Poor's Ratings Services Global Financial Literacy Survey carried out in 2014, only "*33% of adults worldwide were financially literate. This means that around 3.5 billion adults globally, most of them in developing economies, lack an understanding of basic financial concepts*" (GFLEC, 2014). Figure 1 shows financial literacy rates by country.

Figure 1 - Percentage of Global Variations in Adults' Financial Literacy



Source: GFLEC, 2014

Countries with advanced economies have better financial literacy rates than that with emerging economies. "*But even across these countries, financial literacy rates range widely, from 37% in Italy to 68% in Canada*" (GFLEC, 2014).

Financial education interventions could be a way to handle these social challenges around the world. Several papers have shown that financial literacy could be positively associated with financially capable behavior (Murta & Gama, 2022; Lusardi & Tufano, 2015; Lusardi & Mitchell, 2013; Gathergood, 2012). Therefore, a framework for financial institutions to monitor financial education interventions with their clients and also improve their results could be replicated by other financial institutions around the world, specifically by credit unions, which business model presumes a high level of clients' financial education.

Credit unions have seven global principles:

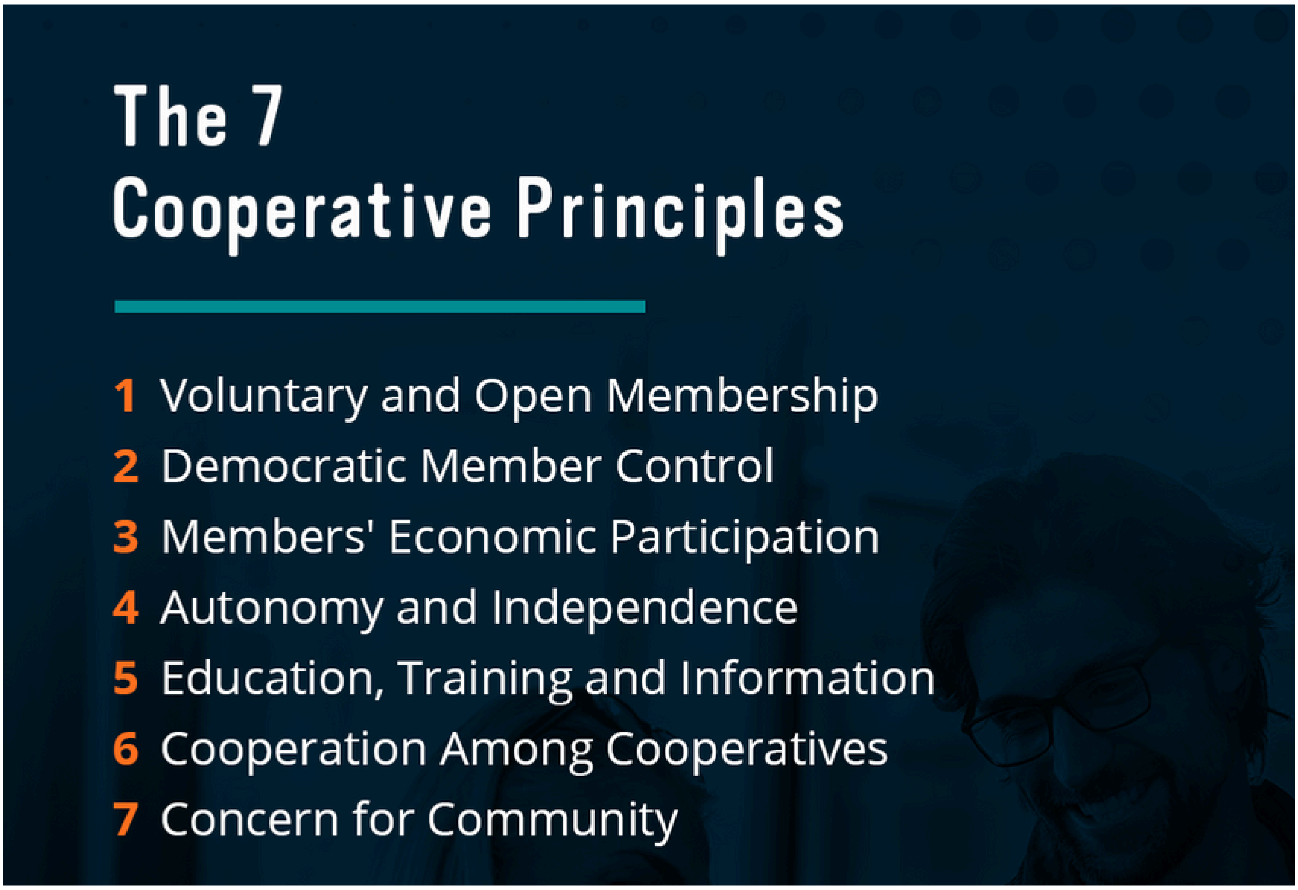
- Principle 1 - Voluntary & Open Membership
- Principle 2 - Democratic Member Control
- Principle 3 - Member Economic Participation
- Principle 4 - Autonomy & Independence
- Principle 5 - Education, Training & Information
- Principle 6 - Cooperation Among Cooperatives
- Principle 7 - Concern for Community

For this paper, it is important to highlight the Principle 2 - Democratic Member Control and Principle 5 - Education, Training and Information.

According to ICA (2024) "*credit unions are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership*". This explains the principle 2.

Therefore, to make good decisions, it is important to have a good education level, this explains the principle 5. The higher the level of education, the better decisions will be made. It is reasonable to assume that financial and cooperative education are essential for members of a credit union.

It was in this context, and also considering that the Central Bank of Brazil established financial education measures to be adopted by financial institutions (CMN & BACEN, 2023), that the framework which will be presented in the next topic was developed at Sicoob, in Brazil, and also for this reason it could be replicated by other financial institutions, especially credit unions around the world.



STEP BY STEP FRAMEWORK TO MONITOR FINANCIAL EDUCATION INTERVENTIONS PROMOTED BY A FINANCIAL INSTITUTION

Interviews

To set the financial institution goals regarding financial education interventions, interviews were carried out with Sicoob's executives responsible for the areas of Credit, Marketing, Strategy, Corporate Education and Sustainability, and also with Central Bank representatives. With structured interviews, it is possible to collect information about the perception of these professionals (Kvale & Brinkmann, 2009).

These interviews were carried out online by an independent consultancy in March 2023. The decision to hire an independent consultancy was to ensure impartial interviews. Each interview lasted approximately one hour and had nine questions regarding the main topics: expected results, assessment, benchmarking, internal challenges and governance (Appendix A).

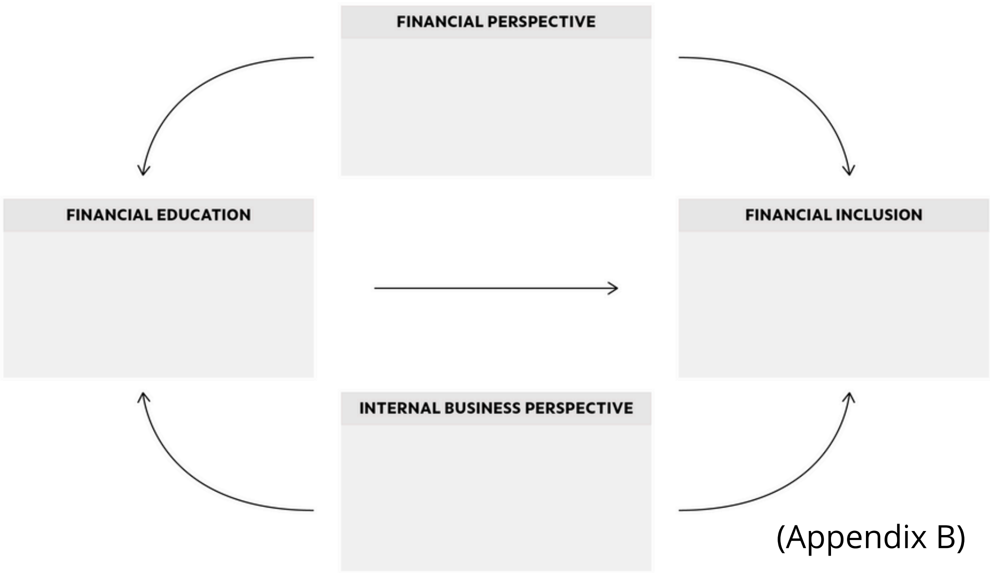
These interviews were carried out with 18 professionals and the goals mentioned by them were related to:

- Address compliance issue
- Align the financial education initiative with business goals
- Promote financial inclusion and increase the customer base
- Improve customer financial well-being

Perspectives and key results

After the interviews were carried out and considering the goals mentioned, it was possible to develop a framework with four perspectives: Internal Business Perspective, Financial Education, Financial Inclusion, Financial Perspective (Figure 2).

Figure 2 - Financial education perspectives

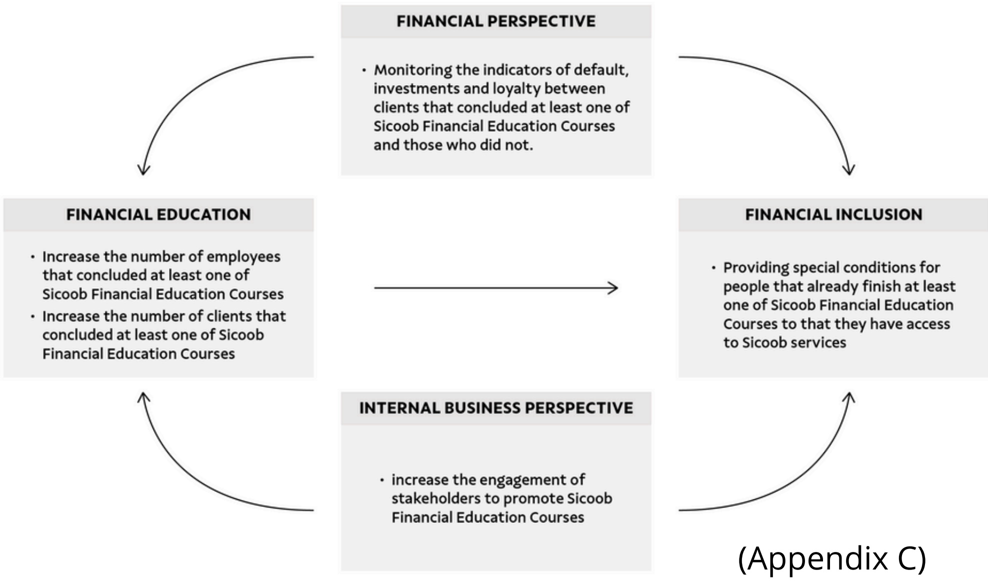


(Appendix B)

In each perspective, there are some key results that were defined and aligned with the Sicoob's strategic plan, which is:

- Increase the engagement of stakeholders to promote Financial Education Courses;
- Increase the number of employees that completed at least one of Financial Education Courses offered by Sicoob;
- Increase the number of clients that completed at least one of Financial Education Courses offered by Sicoob;
- Providing special conditions for people that already completed at least one of Financial Education Courses offered by Sicoob to have access to Sicoob services;
- Monitoring the indicators of default, investments and loyalty among clients who completed at least one of Financial Education Courses offered by Sicoob and those who did not (Figure 3).

Figure 3 - Financial education key results



(Appendix C)

The foundation of the idea presented lies in the hypothesis that financial education interventions improve clients' financial literacy. Therefore, members who completed at least one of the Financial Education Courses offered by Sicoob should present financial capable behavior (ex. timely payment, save more money, appropriate use of financial products and services).

This entire process lasted six months.

FINDINGS AND RESULTS

This framework makes it possible to compare some results among members who completed at least one of the Financial Education Courses offered by Sicoob and members that have not. The percentage of default regarding members who have completed at least one of Financial Education Courses offered by Sicoob is less than members who have not.

This percentage considers the ratio between the total default balance and the total credit balance granted (Figure 4).

Figure 4 - Results

	Clients that have completed at least one of Financial Education Courses offered by Sicoob	Clients that have **not** completed at least one of Financial Education Courses offered by Sicoob
More than 15 days and less than 90 days default	3,3%	5,1%
More than 90 days and less than 180 days default	2,0%	2,4%
Loyalty	42,8%	15,7%

Source: Sicoob. July, 2024

Moreover, members who have completed at least one of the Financial Education Courses offered by Sicoob are more loyal than members who have not. This considers the percentage of members who have more products and credit acquired at Sicoob than any other financial institution (Figure 4).

These results are in consonance with researches related to financial education and financial behavior (Murta & Gama, 2022; Lusardi & Tufano, 2015; Lusardi & Mitchell, 2013; Gathergood, 2012).

CONCLUSION

This framework was implemented at Sicoob in January 2024, the indicators have been monitored since that. **If other financial institutions around the world implemented a similar framework it could be an opportunity to join a next study and compare some results.** Until this date the author has no knowledge of other articles with a similar approach regarding the benefits of financial education for financial intuitions.

A lot of papers have shown that financial literacy could be positively associated with financial capable behavior (Murta & Gama, 2022; Lusardi & Tufano, 2015; Lusardi & Mitchell, 2013; Gathergood, 2012). If financial institutions begin to monitor this association, this also could motivate investments in financial education initiatives, to improve the financial market, financial policies and to develop a sound and sustainable economy.

Besides, **this framework is especially important for financial institutions that would like to adopt sustainability initiatives in their strategies, with emphasis on popular banks and credit unions**, which have principles to encourage them to promote education to their members. **For future research, efforts could be applied to understand how to provide special conditions for clients that have a good level of financial literacy**; maybe analysis about credit risk could consider this.

AUTHOR STATEMENT

Louize Pereira Oliveira is the main author of this article and is responsible for all writing. All data for this research was provided by the Sicoob.

DECLARATION OF COMPETING INTEREST & AUTHOR AGREEMENT

While working on this research project, Louize Pereira Oliveira was employed by Sicoob Institute as a supervisor and continues until the present date. However, the Sicoob Institute had no editing influence over the discussion and conclusion sections of this article.

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APPENDIX A - QUESTIONNAIRE

Introduction

Thank you for your time.
This interview's goal is to explore your perspective about financial education interventions promoted by a financial institution and how this could contribute to client's financial well-being and to financial institution goals. Your participation is voluntary and your personal information will not be shared. Your answer will be collected to a qualitative research to develop a framework to monitor financial education interventions promoted by Sicoob.

Expected results

1. What are the main results that you expect of financial education intervention promoted by a financial institution for its clients?

2. How are the stakeholders involved in these expected results?

3. What are the impact(s) and benefits of financial education intervention that could be promoted to the business goals?

Assessment

4. How to evaluate the success of financial education intervention promoted by this financial institution?

5. What outcomes do you expect to have if you are a client receiving financial education intervention?

Benchmarking

6. What are your references of good practices from financial education interventions promoted by other institutions?

Internal challenges

7. What are the strengths and weaknesses of this financial institution in coordinating financial education interventions with its clients?

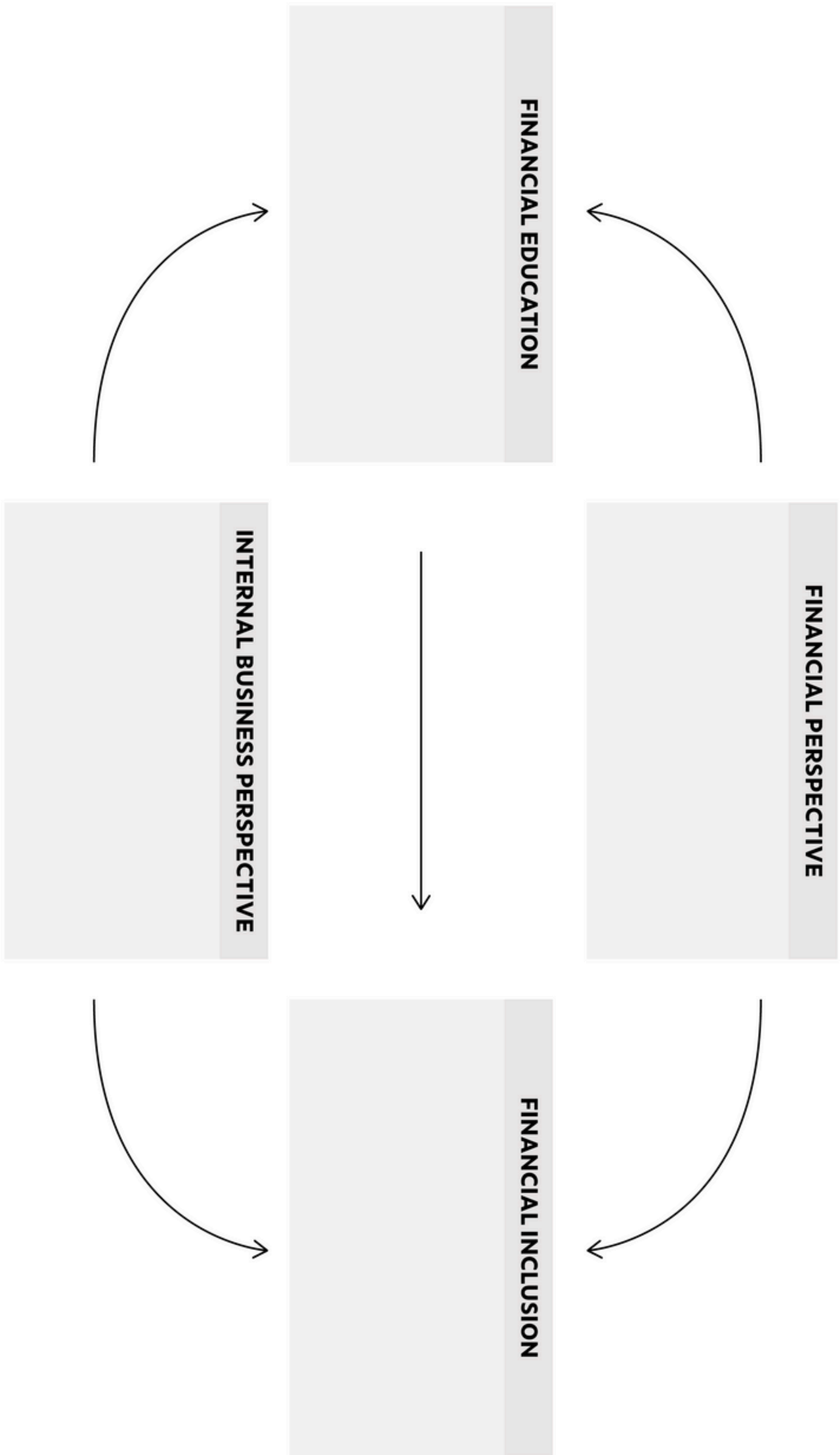
8. What do you think could be done to overcome these weaknesses?

Governance

9. What would be the optimal governance model for a financial education agenda in this institution?

APPENDIX B

Figure 2 - Financial education perspectives



APPENDIX C

Figure 3 - Financial education key results