Financial Literacy Digest: Taking the Long-Term View

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Financially literate customers help to create a culture of learning within their families, with generations of future savers as the result. Financial literacy is good for banking and good for Indiana’s economy as a whole.

In the competitive financial services industry, the pressure is on banks to come up with new products which reach an ever-broadening array of customers. How far will some institutions go to tap into markets that were at one time considered to be off-limits? Recently, the *Washington Post* ran the following news item:

“The popular Hello Kitty brand — commonly found on stationery, purses, pajamas and other items for children — will soon start appearing on a new platform: a MasterCard debit card. ‘Freedom! You can use the Hello Kitty Debit MasterCard to shop ’til you drop,’ the card’s website enthuses. ‘We think our target age group will be from 10 to 14, although it could certainly go younger,’ said Bruce Giuliano, senior vice president of licensing for Sanrio Inc., which owns the brand.”

The article goes on to describe how such a card could be used by parents as a tool to help teach their children how to manage their finances. However one could argue that a credit card branded in such a way in fact does the opposite: It teaches young girls how to spend without consequence.

Also mentioned in the story are a set of fees attached to the card that knowledgeable consumers would not tolerate from their regular credit cards. These fees bring up an interesting question: What is more important, short-term profits or financially literate customers?

Just what is financial literacy? In 1992 the National Foundation for Educational Research in England defined financial literacy as “the ability to make informed judgments and to take effective decisions regarding the use and management of money.”

England’s Department of Education Skills, in the same report, elaborated: “Financially capable people are able to make informed financial decisions. They are numerate and can budget and manage money effectively. They understand how to manage credit and debt.

“They are able to assess needs for insurance and protection. They can assess the different risks and return involved in different saving and investment options.

They have an understanding of the wider ethical, social, political and environmental dimensions of finances.”

As a society, are we lacking financial literacy skills?

- More than 40 percent of families live off of 110 percent of their incomes;

· The average credit card balance for those aged between 45 and 65 is $6,094;

· The percentage of income used for household debt payments, including mortgages, credit cards and student loans, rose to the highest level in more than a decade in 2001 and remained above 13 percent in 2003;

· From 2000 to 2003, personal bankruptcies increased from 1.26 million cases to 1.53 million cases.

Thanks to a multi-media onslaught of marketing, we are slowly moving away from habits that promote financial goal-setting and are moving toward instant gratification. We've all seen the advertisements: "no money down," "bad credit, no problem," "rent to own." The angles have become so sophisticated that it is difficult to distinguish retail sales advertisements from banking advertisements. With mounting pressure on the bottom line, do banks run the risk of becoming "gray market" predatory lenders?

Networks Financial Institute (NFI), a Lilly Endowment-funded initiative of Indiana State University, is working statewide to raise the financial literacy levels of all Hoosiers. In its initial stages, NFI seeks to incorporate a set of stand-alone financial literacy standards in the Indiana State Department of Education K-12 standards.

NFI will build momentum by developing, piloting and implementing a set of curricula that are mapped to the current and proposed standards. The initiative is in the process of partnering with dozens of nonprofits to formulate a solution.

The organization is pursuing a research agenda to demonstrate linkages between quality of life and financial literacy — quantifiable by earnings and increases in state and national gross domestic product. Empowered consumers, armed with the knowledge to make the best choices about their finances, can break a cycle of financial illiteracy that may have been engrained within their families for generations.

Indiana banks can build customer loyalty through the promotion of lifelong financial literacy. The benefits of cultivating generations of customers that are loyal to banks will be lasting and will affect all of us.