

# MAKING THE SHIFT FROM FINANCIAL EDUCATION TO FINANCIAL CAPABILITY: Evidence from the Financial Capability Innovation Fund

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# EXECUTIVE SUMMARY

The need for new ideas to improve Americans' financial capability has been evident throughout the recent recession. Never before have Americans been so highly motivated to improve their financial behavior. At the same time, many people are confronting foreclosure, unemployment or other ills related to the downturn that impede behavioral change. As new financial products and services emerge, and as financial service providers respond to the new economic and regulatory environment, consumers need better guidance to make wise financial decisions.

In response to this growing need, the Center for Financial Services Innovation (CFSI) launched the Financial Capability Innovation Fund (FCIF). We issued a Request for Proposals in late 2010 from nonprofit applicants interested in creating new and innovative financial capability interventions. A collaborative of funders led by the Citi Foundation and also including Bank of America, Capital One, Morgan Stanley, Experian, U.S. Bank and Visa Inc. provided a total of \$1.5 million in available grant funding. Applicants were encouraged to develop programs in partnership with organizations in the nonprofit, for profit, or government sectors. We planned to award four to six grants ranging from \$200,000 to \$300,000 each, giving priority to programs that coupled financial products and services with education; leveraged technology; and applied behavioral economics concepts to positively affect financial behavior.<sup>1</sup>

We received 246 proposals totaling more than \$67 million in requests from nonprofit organizations across the country. Five were chosen for funding:

- **Consumer Credit Counseling Service of Delaware Valley**, which will test whether social commitments and text alerts can help consumers reduce debt.
- **Co-opportunity Inc.**, which will leverage technology to enhance its volunteer budget-coaching program.
- **Filene Research Institute**, which will test whether rewards for timeliness can improve loan repayment behavior.
- **Mission Asset Fund**, which will franchise its Cestas Populares peer loan program to help immigrants build credit and manage credit wisely.

- **Grow Brooklyn and Piggymojo**, which will help low-income savers turn impulse buys into impulse saves.

As we reviewed the proposals, we realized they were not just part of a selection process. Collectively, these proposals reveal the way nonprofits are thinking about financial capability today. In particular, the proposals highlighted (1) cross-sector partnerships, (2) improved saving behavior, (3) an interest in scaling financial counseling and coaching programs, and (4) the use of incentives to drive behavior change.

This paper explores common themes among the proposals and recommends ways nonprofits could enhance their financial capability programs for greater effectiveness.

<sup>1</sup> For a full listing of FCIF selection criteria and priorities, see the original RFP at <http://cfsinnovation.com/node/440613>.

# INTRODUCTION

In response to the economic downturn and volatility in the financial services industry, Americans are placing a higher priority on sound financial management. Yet simultaneously, those same economic factors make it harder to adopt sound practices. For many, attempts to shore up their financial health have been derailed by financial challenges such as foreclosure, unemployment or other ills related to the downturn. Although new financial products, providers, and distribution channels are emerging to help consumers gain greater financial control, these new offerings complicate consumers' choices. In this environment, consumers need additional and improved guidance that will help them act on their desire to improve their financial management skills and access the tools they need.

The financial education field has long worked to equip Americans with useful financial knowledge. But the traditional financial education approach may need to be revisited in this volatile environment. Organizations in the field are adopting the broader framework of "financial capability," extending their efforts beyond the classroom to help people more directly translate financial knowledge and guidance into better financial behavior in their everyday lives. Specifically, the financial capability framework targets the following behaviors:

- Being able to cover monthly expenses with income
- Tracking spending
- Planning ahead and saving for the future
- Selecting and managing financial products and services
- Gaining and exercising financial knowledge

To accomplish this goal, financial capability programs link financial products with financial education, ensuring that people gain access to safe and effective products and know how to use them appropriately.

To learn what works, CFSI conducted research in early 2010 to assess the current landscape of programs and providers and identify the characteristics and practices most likely to help consumers better their financial behavior. The research found that the most effective interventions were:

- *Relevant*, addressing participants' specific concerns and financial situations,
- *Timely*, coinciding with key life events or moments of decision,
- *Actionable*, enabling consumers to put newly gained knowledge into action right away, and
- *Ongoing*, developing long-term relationships to provide support and accountability.<sup>2</sup>

It was clear that the financial capability field needed further innovation and development of promising ideas, and that there was a role for CFSI in catalyzing change and facilitating the shift toward the financial capability framework.

## ***The Financial Capability Innovation Fund***

To explore the financial capability approach, we launched the Financial Capability Innovation Fund (FCIF) in late 2010, aiming to develop and support the shift toward this broader framework. By providing grants to promising programs and evaluating their performance, we saw the FCIF as a way to help identify the tools and practices most effective in helping consumers achieve tangible improvements in their financial health. We also hoped to provide evidence for the financial capability field about which solutions showed the greatest potential for positive outcomes.

A collaborative of funders led by the Citi Foundation and also including Bank of America, Capital One, Morgan Stanley, Experian, U.S. Bank and Visa Inc. helped launch the FCIF with a total of \$1.5 million in available grant funding. The Request for Proposals (RFP), issued in September 2010, sought applications from nonprofit organizations interested in creating new and innovative financial capability interventions. Applicants were encouraged to develop programs in partnership with organizations in the nonprofit, for-profit, or government sectors.

<sup>2</sup>For additional information on the financial capability concept and framework, see "From Financial Education to Financial Capability: Opportunities for Innovation," Center for Financial Services Innovation (March 2010), <http://cfsinnovation.com/node/440486>.

CFSI planned to award four to six grants ranging from \$200,000 to \$300,000, giving priority to programs that<sup>3</sup>:

- Coupled financial products and services with new or improved educational tools or resources
- Leveraged technology to improve the customer experience or to improve the provider's efficiency
- Applied behavioral economics concepts such as automation, default settings, or social commitments to positively affect financial behavior

We received 246 proposals totaling more than \$67 million in requests from nonprofit organizations across the country. After a rigorous review process, five have been awarded grants:

- **Consumer Credit Counseling Service of Delaware Valley**, which will test whether social commitments and text alerts can help consumers reduce debt.
- **Co-opportunity Inc.**, which will leverage technology via a new online platform to enhance the effectiveness and scale of its volunteer budget-coaching program.
- **Filene Research Institute**, which will test whether rewarding consistent timely loan payments with interest rate reductions improves payment behavior.
- **Mission Asset Fund**, which will franchise its Cestas Populares program, a peer loan coupled with product-specific peer-led education, to help immigrants build credit and manage credit wisely.
- **Grow Brooklyn** and **Piggymojo**, which will use goal visualization, social dynamics and mobile technology to help low-income savers turn impulse buys into impulse saves.

See the Appendix for additional information on each project.

Reviewing these proposals showed several prominent ways in which the nonprofit community is applying the financial capability framework. In addition to the five grantees, there were many other excellent examples of nonprofits putting the financial capability framework into action. This paper explores the universe of applicants to identify common themes within the proposals and highlights some of the most innovative and promising financial capability interventions submitted to the FCIF.

<sup>3</sup>For a full listing of FCIF selection criteria and priorities, see the original RFP at <http://cfsinnovation.com/node/440613>.

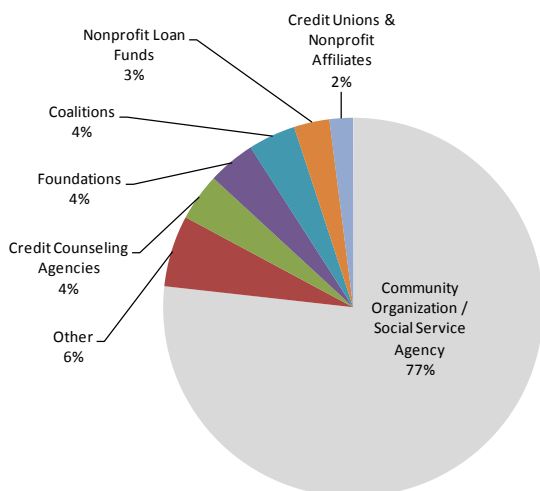
# What We Saw: The Proposals

The Financial Capability Innovation Fund is the fourth CFSI grant program to choose grantees via a competitive RFP process. Through the previous three grant funds, we have provided a total of \$2.25 million in grants to nonprofits working to improve and increase the supply of financial products and services for underbanked and low-income consumers. The FCIF represented a shift in focus, as we sought to support the development of educational tools that, when offered in conjunction with well-structured products, would help consumers improve their financial behavior.

The 246 proposals submitted for the Financial Capability Innovation Fund were the most we have ever received for a granting initiative — an 85 percent increase over the 133 proposals submitted to CFSI’s 2008 Nonprofit Opportunities Fund.<sup>4</sup> Similarly, the approximately \$67 million in total funding requested in the proposals represented a 124 percent increase over the \$30 million requested during the 2008 RFP process.

The increase in proposals was encouraging, as was the number of proposals received from new applicants. Ninety-one percent of the proposals came from organizations that had not applied to the 2008 Nonprofit Opportunities Fund. The majority of the applications were submitted by community organizations and social service agencies (see Chart 1). Fifty-four percent of the applicants sought funding for entirely new projects, and 38 percent applied for funding to enhance an existing program.

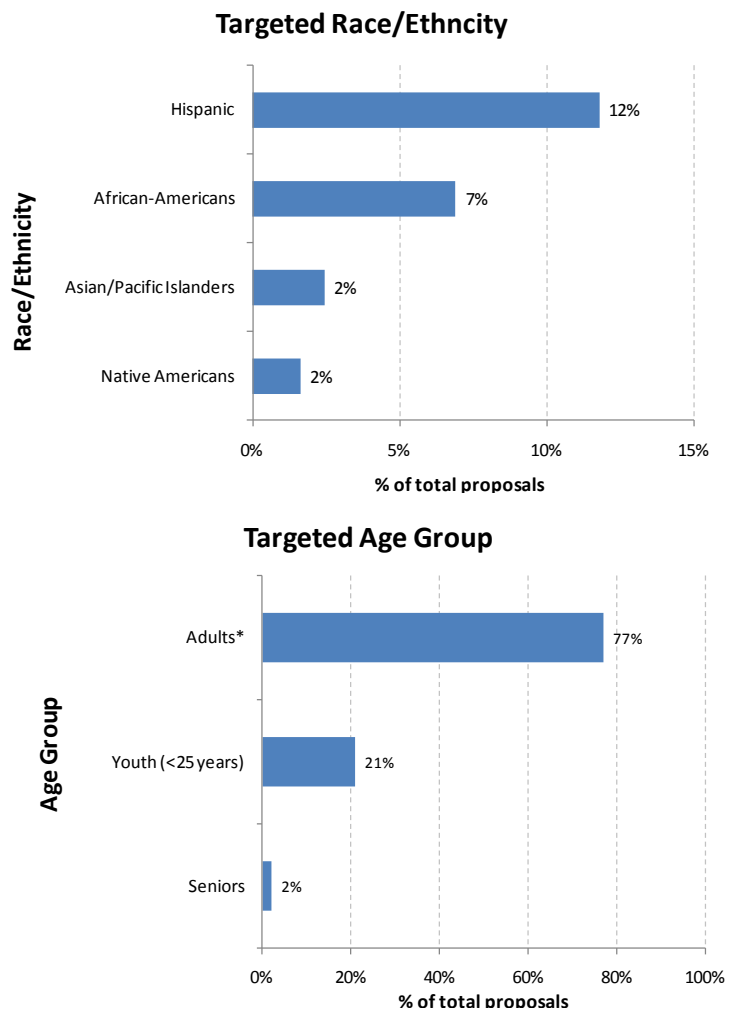
Chart 1: Proposals by Organization Type



<sup>4</sup>For more information on the 2008 Nonprofit Opportunities Fund, see the Grantee Learning Briefs, <http://cfsinnovation.com/node/440436>, and “Nonprofit Innovations for the Underbanked: Trends & Developments” (September 2008), <http://cfsinnovation.com/node/330430>.

Applicants primarily targeted their services toward demographic groups or sought to serve clients facing a particular life situation (e.g., homelessness or single parent). Chart 2 and Table 1 highlight various populations targeted in the proposed programs submitted to the FCIF.

Chart 2: Proposals by Target Population



\*Proposals without a specific mention of age were assumed to be targeted toward adults

Table 1: Notable Targeted Populations and Life Circumstances

Population	% of Proposals
Un/Underemployed	5%
Disabled	3%
Single Parents	3%
Homeless	3%
Immigrants	3%
Older Population	2%
Ex-convicts	2%
Domestic Abuse Victims	2%
Expectant Mothers	1%

*continued, What We Saw: The Proposals*

Most notably, however, approximately 10 percent of proposals defined their target population by their financial situation — a valuable strategic approach to segmentation. By defining target populations in this way, nonprofits could focus on helping clients adopt distinct financial behaviors addressing specific aspects of their financial capability. For example, a program targeting people with little to no retirement savings could focus on helping them begin to plan and save for the future and connecting them with an IRA. Similarly, targeting clients who are new to credit creates an opportunity to help them build their credit with such products as credit builder loans or secured credit cards.

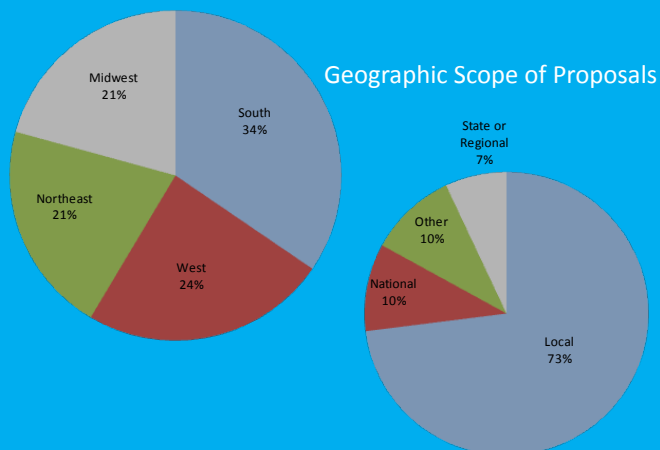
The proposals shared several common themes that, taken together, reveal insights into the nonprofit community active in the financial capability field. In particular, the proposals highlighted (1) cross-sector partnerships, (2) improved saving behavior, (3) an interest in scaling financial counseling and coaching programs, and (4) the use of incentives to drive behavior change.

**Sidebar 1: Geography**

In total, proposals were received from 44 states as well as Washington, D.C. Most submissions proposed local interventions versus multi-state or national programs.

Despite the geographic diversity of the proposals, only 12 percent focused on clients in rural areas. This represents a potential gap in the financial capability field. As clients in rural areas often face unique financial challenges (e.g., limited presence of bank branches), more targeted interventions may be needed to ensure they have the support and access to products they need to build financial capability.

**Diversity of Regions Represented**

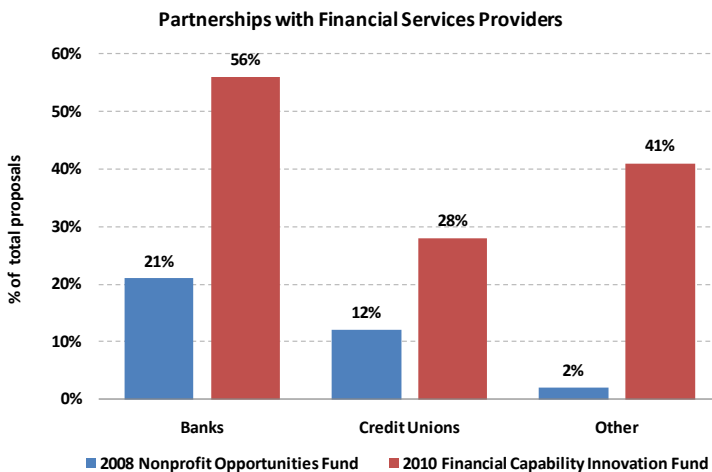


## Partnerships

Pairing financial education with access to financial products is a key component of the financial capability framework. By linking products with guidance on using them, providers can offer consumers tools to change their behavior for the better. For nonprofit organizations, this link is often created by forming partnerships with for-profit financial services providers, with the nonprofit offering education or counseling while the for-profit offers related products. While such arrangements may create challenges for nonprofits — for instance, ensuring products made available to clients are fairly priced and come with appropriate consumer protections—well-structured partnerships between nonprofits and product providers can help clients access the tools they need to improve their financial capability.

Because we encouraged FCIF applicants to form cross-sector partnerships as a part of their proposals, most did so. In fact, 96 percent of the proposals featured at least one partnership and 85 percent featured a partnership with at least one financial services provider. By contrast, only 80 percent of the proposals received for the 2008 Nonprofit Opportunities Fund involved partnerships, with only 35 percent featuring partnerships with a financial services provider. While the difference may reflect each fund’s particular focus, the increase in partnerships with financial services providers suggests that nonprofits now have a greater interest in integrating financial products into their programming. Chart 3 presents a closer comparison between the partnerships featured in proposals to the two funds.

Chart 3: Partnerships with Financial Services Providers – 2008 vs. Current



Note: Many organizations in the 2010 FCIF had multiple financial service providers as partners.



## *continued, What We Saw: The Proposals*

Of particular note, FCIF applicants were much more likely to form partnerships with nonbank organizations, such as prepaid card companies and credit bureaus. The proposals demonstrated an increased tendency to look beyond the traditional banking menu for products that might be helpful to clients. By incorporating alternative products into their proposals, nonprofits could offer underbanked clients the products with which they were familiar — effectively “meeting clients where they are,” in an effort to move them toward better decisions and behavior.

For example, the San Francisco-based **Mission Economic Development Agency (MEDA)** partnered with **Nexxo Financial**, a remittance services provider, on a program to help low-income underbanked Latinos reduce debt, improve their credit scores, and increase savings. Under the proposed partnership, Nexxo would add targeted messages to its remittance receipts, encouraging customers to seek out MEDA’s free tax preparation and financial education services. Customers who acted on the advice would not only receive the advertised services, but also be introduced to other potentially beneficial products, such as savings accounts and credit-builder loans.

Relative to the 2008 fund, FCIF applicants were more likely to form partnerships with a wide spectrum of organizations. But more is not always better. However, many proposals featured a high number of partnerships, often resulting in programs that lacked focus. On average, such proposals had seven partners. Conversely, proposals that demonstrated a more focused approach, addressing targeted specific behaviors averaged only three partners. Nonprofits with focused proposals had a firm grasp of their organization’s strengths and core competencies and the ability to recognize areas in which they were not well positioned to provide a particular service. Strategic partnerships enabled these organizations to focus on their strengths while simultaneously providing clients with a broader range of services or products.

### **Next Generation of Financial Counseling**

Nonprofit organizations have been providing in-person financial counseling and coaching services to millions of low- and moderate-income American consumers each year,<sup>5</sup> often at little or no cost. While this deep level of

<sup>5</sup> Financial coaching and counseling programs provide clients with highly individualized guidance and support in their pursuit of improved financial health. Counseling services typically help clients respond to a financial problem, while coaching services generally help clients reach financial goals.

engagement may help change behavior, it can be also be very costly. Relying on grant and subsidy funding can put financial pressure on counseling and coaching models, limiting their ability to grow and challenging their long-term sustainability.

A number of organizations applying to the FCIF sought to supplement the in-person experience with more cost-effective forms of ongoing support, better enabling them to scale. In most cases, these tools were used to maintain frequent contact with clients for ongoing guidance. Online channels — such as personal financial management sites — were also employed to help clients keep track of their progress toward financial goals. By using online and mobile channels to carry out support services that are traditionally part of in-person interventions, organizations can gain efficiency and serve more clients.

Some organizations found ways to increase efficiency by inserting coaching services into pre-existing client interactions and programming. In conjunction with its partner credit union, **Credit Where Credit Is Due (CWCID)**, a New York City-based organization, submitted a proposal to turn the credit union’s first contact with new customers into a brief financial coaching session. Member services representatives, who acquaint new customers with the credit union, would be trained to engage clients in a discussion about their financial health during the orientation process. Additionally, new members would automatically be placed into a goal-based savings program unless they opted out. By rethinking its partner credit union’s existing orientation process, CWCID created an efficient way to provide financial coaching.

Organizations working to build scalable and efficient models of financial coaching and counseling are making a meaningful contribution to the financial capability field. By using technology and restructuring client interactions to maximize efficiency, nonprofits can test new tools and techniques to determine their ability to increase scale while maintaining high client impact.

### **Savings**

Savings stood out as a particular area of interest and innovation for applicants, with 51 percent of proposals including a link to a savings product. A focus on savings is hardly new. For example, nonprofits have led the movement to use Individual Development Accounts (IDA) as a means of helping underserved consumers save

## *continued, Incentives*

money and build assets. Applicants to the FCIF showed interest in a wide variety of products and practices to facilitate savings. For instance, several organizations created programs to capitalize on newly amended tax forms that now offer the option to purchase savings bonds with refunds. For organizations offering tax preparation services, this option creates an opportunity to talk to clients about the importance of saving and allows clients to act immediately by purchasing bonds. Examples of proposals highlighting innovative savings interactions include:

- Based in San Jose, CA, **Opportunity Fund** proposed a partnership with Citi to help low-income consumers build up “buffer” savings as a cushion in case of financial emergencies. Participants would develop a plan to save \$500 within two years, with each contribution matched 2:1 by Opportunity Fund. Opportunity Fund would send mobile alerts with reminders about upcoming scheduled contributions and warnings about missed deposits.
- **EARN**, a San Francisco-based nonprofit, also focused on facilitating short-term emergency savings, proposing a scalable card-based savings product instead of a traditional account at a physical bank branch. To encourage clients to participate, EARN would incorporate a prize-linked savings element into the program, drawing from the Doorways to Dreams (D2D) Fund’s pioneering Save to Win program in 2008-2009.<sup>6</sup> For extra motivation, a savings contribution of a specific size would earn a client a ticket in a raffle for large prizes or cash awards.
- The **MPower Foundation** proposed to go beyond savings and offer an investment product to asset-poor clients. The proposed program centers on a partnership with **Gratio Capital**, an investment company with a simplified investment product named GoalMine. Clients could contribute amounts as small as \$25 to a GoalMine account, with the proceeds invested in mutual funds. For agreeing not to withdraw money from the account for two years, consumers would gain principal protection, ensuring that they would not suffer a loss and providing an incentive to let funds accumulate.

<sup>6</sup>For additional information on D2D’s Save to Win Program, see “Save to Win: 2009 Final Project Results,” Doorways to Dreams Fund (2010), <http://www.d2dfund.org/system/files/Save+to+Win+Final+Report.pdf>.

## **Incentives**

Applicants frequently proposed incentives to encourage better financial behavior. Almost one-third of the proposals involved incentives, virtually all of them cash-based. Common incentives included matched savings for opening new accounts and cash or prizes for participating in workshops and completing program evaluations. Cash-based incentives may be persuasive, however, they can become too costly over time. Several proposals suggested noncash incentives or incentive structures that were more sustainable or cost-effective. Many provided incentives for improvements in financial behavior. For example, they might reward on-time payments rather than attendance at a financial literacy workshop. Incentives linked to a particular behavior (e.g., making regular contributions to savings) can be effective in pushing clients to convert newly acquired knowledge into actions that improve their financial health.

Demonstrating the use of sustainable and behaviorally linked incentives, **The Filene Research Institute** has developed the Low Interest for Timeliness (LIFT) project. In partnership with credit unions across the country, the LIFT project would help subprime credit consumers build financial capability by rewarding consistent timely loan payments on automobile loans. Using web-based tools to automate administration, LIFT would enable consumers to earn APR reductions for each year of on-time payments. The interest rate savings go to principal, reducing the life of the loan. LIFT focuses borrowers on the goal of making on-time loan payments supported with an explicit and sustainable financial incentive.

These four themes — partnerships, next generation of financial coaching, savings, incentives — show how nonprofits are thinking about financial capability today.

The next section explores the key priorities outlined in the RFP — priorities that we believe are critical to the field’s future success — and the ways applicants responded to them.



# RFP PRIORITIES

The RFP highlighted several key grant priorities and selection criteria that CFSI’s research had identified as promising. In particular, we were interested in proposals that embodied the financial capability approach by:

- Incorporating the elements of effective financial capability programs (relevant, timely, actionable, ongoing).
- Demonstrating the ability to scale.
- Coupling financial products/services with new or improved education tools or resources.
- Leveraging technology to improve the customer experience or to improve the provider’s efficiency.
- Applying behavioral economics concepts such as automation, default settings, or social commitments to positively affect behavior.

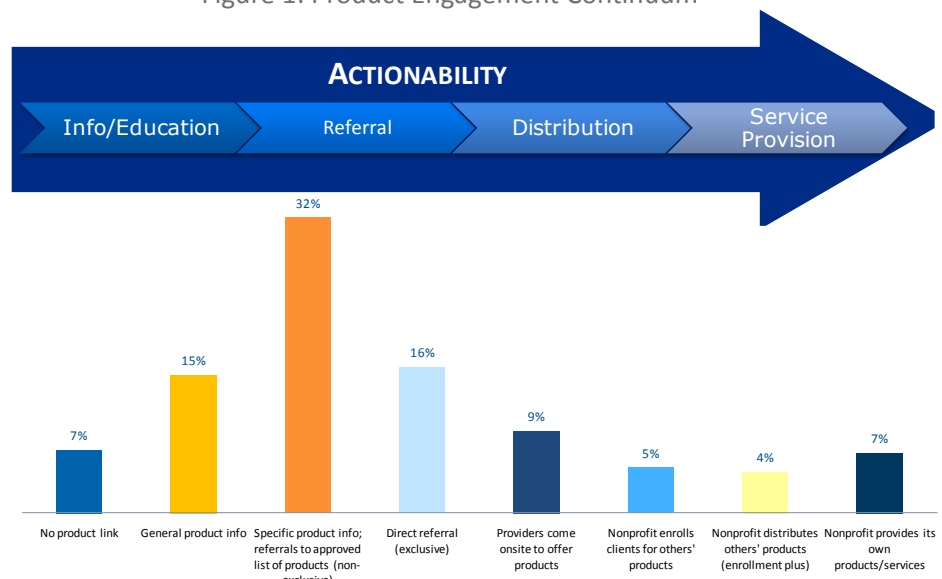
Applicants varied in the degree to which they proposed interventions that aligned with CFSI’s key criteria. Certain strategies were incorporated into the proposals more than others, suggesting room for further growth in the financial capability field. However, for each of the highlighted areas of interest, we also received proposals that stood out as prime examples of how these strategies could be employed. These proposals both reflected a deep understanding of the financial capability framework and demonstrated how it could be applied to generate positive consumer outcomes.

## Access + Education

Of particular interest were interventions that linked education efforts with related financial products. Creating this connection helps to facilitate behavior change as clients receive both the guidance and tools they need to take a step toward improving their financial behavior. The vast majority of applicants (85 percent) incorporated financial products into their interventions through partnerships with financial services providers.

However, the degree to which financial products were linked to education efforts varied widely across the proposals. For instance, some organizations created a link to products simply by referring clients to a local bank, requiring them to take the next step on their own and visit a branch to open an account. On the opposite end of the spectrum, several nonprofits actually served as a distribution point for products, enabling the organizations to offer and open accounts during their client interactions. Figure 1 charts the proposals along a range of “product engagement,” displaying the degree to which products were integrated into education efforts.

Figure 1: Product Engagement Continuum



Note: 5% of proposals were either unclear about their degree of engagement or were only involved in product development.

As the chart demonstrates, 70 percent of the proposed interventions were limited to either providing general information about or referrals to products clients should seek out on their own. While such programs define next steps, they don’t necessarily help clients take them. This makes it more likely that clients will fail to convert knowledge (e.g., knowing a savings account is beneficial) into behavior (e.g., opening and contributing to a savings account). Only 25 percent of applicants created programs in which clients could receive education and access products at a single location. Yet these more integrated programs are more likely to change behavior, because they reduce the steps clients need to take to put their new knowledge into action.

In particular, proposals incorporating the use of “in-line messaging” — advice provided within the context of a financial services transaction—exemplified effective ways to link education and products. This approach requires nonprofits either to be affiliated with a financial services provider or to build a partnership incorporating financial education into the transaction process. Examples of this approach within the proposals include:

- **Self-Help Economic Development, Inc.**, a nonprofit community development financial institution, proposed to further develop the in-line messaging efforts at its Micro Branch outlet in San Jose, CA. Launched in 2010, the Micro Branch is described as a check-casher and credit union hybrid designed to meet the needs of unbanked and underbanked families. By incorporating financial education messages in posters within the Micro Branch and training tellers to guide customers toward better products and decisions, Self-Help offers advice in a setting that allows customers to act upon it. Self-Help aimed to use in-line messaging to encourage customers to open and increase balances in My Piggy Bank savings accounts, which require them to set a date before which funds cannot be withdrawn.
- Seeking to transform check-cashers to savers, the **Latino Economic Development Corporation** proposed an in-line messaging intervention for its Community First Financial Center. Underbanked Latinos visiting the center to use its check-cashing services would be encouraged to open a savings account into which 5 percent of their future cashed checks would be deposited and matched 1:1. Financial counselors would open the accounts, using the opportunity to engage customers in a discussion about their financial health.
- **Lutheran Social Service of Minnesota** proposed integrating messaging and educational content into customer transactions at its sister financial services outlet, the Eastside Financial Center. The organization sought to create a new suite of products to which cash-based customers could be referred. Tellers would be trained to offer advice and products with direct applicability to the particular transaction being conducted, providing customers with “just-in-time” guidance they could act on right away.

In each of these examples, tellers effectively act as financial coaches, pointing customers toward beneficial

decisions and products. Unlike more traditional forms of in-depth counseling, tellers provide bits of advice, but do so each time the customer visits. Over time, these “bite-sized” interactions can lead customers to make small decisions that collectively have a meaningful impact on their financial health.

Creating a tighter link between education and corresponding products—whether through in-line messaging or closer relationships with partnering financial services providers —tends to give financial capability programs greater impact, but does come with challenges. In particular, nonprofits may feel that a close relationship with a single financial services provider might be perceived as a conflict of interest. Being transparent about the relationship with the provider may help to alleviate such concerns. Organizations may also feel ill equipped to vet product offerings, negotiate relationships with financial services providers, and effectively market and distribute products to their clients. These are important concerns that nonprofits should consider carefully before entering into such a partnership.

## Elements of Effectiveness

Most proposals clearly embodied one or more of the elements of effectiveness identified in our research on financial capability. That is, they were relevant, timely, actionable, and/or ongoing. Below are several particularly astute ways in which these components were reflected in proposals.

### Relevant: relating to consumers’ lives and concerns

- Residents on rural Native American reservations often struggle with high energy costs in the winter. **Four Bands Community Fund** proposed to address financial capability through education about reducing energy costs. As a certified Native Community Development Financial Institution, Four Bands would provide savings incentives and loan products to help clients obtain energy-efficient appliances while also helping them learn how to save on energy.
- The **Mission Asset Fund** addresses a target population’s needs within a familiar context. The organization’s proposal sought to formalize peer lending and savings circles, known as *cestas*, which are common practice

*continued, Elements of Effectiveness*

in many immigrant communities. By channeling the *cestas'* payment activity through partnering financial institutions, the Mission Asset Fund would help individuals build credit history without disrupting established practices already accepted by the group.

*Timely: coinciding with key life events or moments of financial decision*

- **Heartland Human Care Services** proposed talking with low-income expectant mothers in health clinics about opening a savings account for their soon-to-be-delivered child. The organization recognized that the right time to approach clients about saving for their child was before the birth, because after the birth the mothers would focus on caring for their babies.
- The **Center for Economic Progress** aimed to capitalize on a significant moment by adding guidance and education about responsible credit use to its efforts to assist low-income high school students through the student loan process. In helping students review their options, CEP would have the opportunity for a deeper conversation about managing credit of all types.

*Actionable: allowing consumers' to put newly gained knowledge into immediate action*

- To create an actionable intervention, **D2D** expanded on its work in creating “financial entertainment” — casual video games imparting lessons of financial management. D2D proposed to incorporate offers from financial institutions within its games, allowing users to obtain the products they need to act on lessons learned while playing games.

*Ongoing: helping consumers through the process of behavioral change*

- The **Mission SF Community Financial Center** created the MY Path program for underserved youth in city employment programs with features designed to offer ongoing support throughout the summer and academic year. MY Path uses periodic in-person meetings, peer counseling and social media platforms to create accountability and provide guidance for students as they pursue savings goals over an extended period.

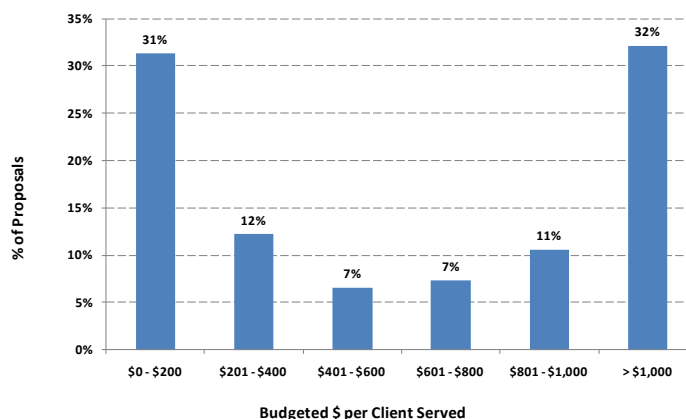
Most of the proposals incorporated several of CFSI's elements of effectiveness but not all four of them. This sampling is understandable as designing an intervention that can be relevant, timely, actionable, and ongoing can be challenging. However, nonprofits should strive to incorporate all four elements of effectiveness into their interventions to maximize their impact.

### Scalability

As the need for greater financial capability grows in the face of a recovering economy and rapidly evolving financial services industry, it becomes increasingly important that tools and resources have the ability to serve large numbers of consumers. With this dynamic in mind, we expressed a specific interest in scalable programs that could be expanded efficiently. Scalable programs typically leverage technology to serve larger audiences or develop a replicable model that other organizations can adopt.

Key to developing scale is the ability to serve clients cost-effectively. Programs that require significant funds to serve each client may have limited growth potential. The chart below shows the distribution of proposals by the amount of funds they budgeted for each client they intended to serve.

Chart 4: Cost Per Participant



Proposals budgeting higher funds per client served often relied heavily on in-person education methods or included sizable financial incentives for clients. These program features can limit scalability as each additional client means greater staff costs and extra incentive payments. On the other hand, proposals on the lower end of the spectrum typically used technological and media channels, such as

*continued, Scalability*

online tools, text messaging, and video broadcasting, to deliver education and support services. Services provided with such tools can often be extended to additional clients for little to no cost, enabling a program to reach more people without seeking more funding.

**Co-opportunity, Inc.’s** proposal provides an excellent example of a financial capability program taking steps to increase its scalability. Representing a prime example of the “next generation of financial counseling,” Co-opportunity proposed an online site that could be used as a supplement to one-on-one counseling. The site, named iCoach2Win, would contain money management tools and create opportunities for clients and counselors to interact online. With fewer in-person client interactions, counselors could serve more clients, boosting the program’s scale.

While nonprofits should seek ways to build scalable financial capability programs, they also must consider the impact of change on their effectiveness. For example, though providing in-person counseling may limit an organization’s reach, it may also lead to better outcomes than impersonal messages delivered through wide-reaching radio broadcasts. Though it can be a challenging task, nonprofits should push to increase the scalability of their programs, finding the right balance between being effective in facilitating behavior change and capable reaching larger numbers of clients.

### **Leveraging Technology**

Developments in consumer technology create opportunities for innovation in the financial capability field. The RFP indicated a particular interest in interventions that leveraged technology to enhance their capabilities and expand their reach. Collectively, the proposals varied in their adoption of technology. The chart below provides details on the types of technology reflected in the proposals.

Chart 5: Types of technology utilized in the proposed projects

Technological Tool	% of proposals
Social Media	13%
Online Financial Education Curriculum	11%
Existing personal financial management/ online banking platforms	11%
Text Alerts	8%
New websites/online platforms	5%
Email Alerts	4%
Online Gaming	3%
Television	2%

*Note: Some proposals included multiple tools in their interventions.*

On the front end, technology can create more consumer touch points to promote financial capability. Technology can also help organizations on the back end by improving efficiency and helping to gather relevant data. Both approaches can help programs achieve greater scalability.

Illustrating a front-end application of technology, **Brooklyn Cooperative Federal Credit Union and Piggymojo** have partnered to leverage the mobile channel to help couples take advantage of “impulse savings” moments to reach savings goals. For instance, when a person makes a decision that saves them money (e.g., taking public transportation instead of a taxi), they can text the amount of their savings to the Piggymojo platform, which transfers the saved amount into a shared savings account. At the same time, the person’s partner receives a text alert about the impulse save that encourages them to make one of their own. The platform allows people to immediately act on the good financial decisions they make in everyday life while encouraging their savings partners to do the same.

**Take Charge America, Inc.**, along with **Ready Financial Group, Inc.**, developed a proposal that illustrates a unique behind-the-scenes use of technology. Based on evidence of specific missteps in prepaid card use, clients are sent short, entertaining educational videos via email that provide advice on ways to improve their financial behavior. By using back-end tools to analyze customer data on the back-end, Ready Financial could identify specific missteps and ensure cardholders receive videos that correspond with their behavior and suggest a better alternative.

Continued adoption of technology and further experimentation to discover its most effective applications can help increase the scale and impact of the financial

## *continued, Leveraging Technology*

capability field. However, technological tools must be useful to their target population. For instance, online tools may not be an effective way to support clients with limited access to the internet. This consideration will likely become less relevant over time as internet access becomes increasingly available. Nevertheless, nonprofits should stay abreast of technological developments as they incorporate technology into their financial capability efforts.

Nevertheless, nonprofits should stay abreast of technological developments as they incorporate technology into their financial capability efforts.

## ***Behavioral Economics***

The RFP also indicated special interest in the use of behavioral economics to enhance financial capability interventions. Behavioral economics investigates the role of group dynamics, cognition, and emotion in economic decision-making. Understanding these factors can help guide consumers toward certain behaviors. Tactics with significant potential to encourage positive behavior include:

- *Pre-commitments*, committing now to making a particular choice in the future — for example, committing in December to save a portion of a tax return expected in the spring.
- *Social commitments*, informing peers of a goal and progress made toward it—for example, keeping friends and family abreast of payments made toward reducing credit card debt.
- *Default settings*, activating particular options of a product or program upon enrollment, requiring the user to take an active step to opt-out—for example, setting the default on a checking account to sweep five percent of direct deposits into a savings account.
- *Automation*, enabling people to make a single decision to have recurring actions automatically taken in the future — for example, setting up an automatic \$25 savings contribution to occur each month.

These tactics can be incorporated into financial capability programs to bolster their ability to guide consumers toward better behavior. For instance, **Consumer Credit Counseling Service of Delaware Valley**, in partnership with **Innovations**

**for Poverty Action**, designed Borrow Less Tomorrow to apply the power of social commitments toward improving credit profiles. The program either sends reminders via text and email to encourage clients to make periodic payments according to their debt repayment plans or sends congratulatory messages when they make them. Should a client miss a payment, their friends and family are informed and asked to encourage the client to continue with the plan.

Despite their proven utility, only nine percent of applicants attempted to incorporate behavioral economics principles into their proposals. As these principles can often be applied by redesigning existing processes, nonprofits should attempt to incorporate principles of behavioral economics into their financial capability interventions as a means of boosting their consumer impact.



# CONCLUSION

The Financial Capability Innovation Fund asked nonprofits to design innovative tools and resources that would help to uncover effective ways to promote financial capability among low-and moderate-income American households. Collectively, the proposals show that the field is developing and ready for the challenge. In particular, the near universal ability to partner with financial services providers to create holistic programs demonstrates a growing capacity to extend financial education beyond the classroom to help consumers translate knowledge into behavior.

However, there is room for further development. Greater use of technology and application of behavioral economics principles can help organizations build scalability into their programs while also increasing their ability to bring about positive consumer outcomes. And while nonprofits have made progress in forming relationships with financial services providers, there is an opportunity to develop the relationships further to create a tighter link between financial education and corresponding products.

By taking these steps to build upon their existing work, nonprofits can create effective interventions and direct the field toward the strategies and practices with the greatest potential to build Americans' financial capability.

## *Sidebar 2: Evaluation*

To make sure that the FCIF builds knowledge of what strategies best promote the financial capability of low-income, underserved consumers, CFSI has paired researchers with each funded project to conduct a robust independent program evaluation. The research partners include the following organizations: Innovations for Poverty Action (Yale University); the Center for Financial Security (University of Wisconsin–Madison); the Center for Community Capital (University of North Carolina–Chapel Hill); and the Cesar Chavez Institute (San Francisco State University).

During the selection process, research partners worked with the grantees to help identify potential research questions and methodologies. The partnerships not only yielded rigorous evaluation plans but also improved the overall project designs by sharpening their focus on specific outcomes.



# APPENDIX – GRANTEE DESCRIPTIONS

**CFSI is pleased to support the following five innovative nonprofit-led projects via the Financial Capability Innovation Fund.**

## CONSUMER CREDIT COUNSELING SERVICE OF DELAWARE VALLEY, BORROW LESS TOMORROW (BoLT)

BoLT, a partnership between Consumer Credit Counseling Service of Delaware Valley (CCCS) and Innovations for Poverty Action (IPA), applies behavioral economics principles to increase the financial capability of low- to moderate-income individuals and families struggling with consumer debt. CCCS of DV/IPA will conduct a randomized-control trial in which a sample of clients who join the Debt Management Plan (DMP) to repay debts through CCCS will receive peer support and/or regular reminders to stick to budgets and their plans. For example, a portion of clients will select up to five peer supporters, such as friends or family members, to referee their progress. Peer supporters will receive updates on client progress, including notifications when clients miss a scheduled debt payment. Additionally, CCCS of DV will test the impact of regular text message reminders on DMP outcomes, testing variations of messaging content (e.g., a focus on tasks, plans, or end goals) to determine the optimal design of the messages. If successful, these interventions will assist participants in committing to the DMP, paying down debt, increasing credit scores, and improving financial health.

**Consumer Credit Counseling of Delaware Valley website:** <http://www.cccsdv.org/>

## CO-OPPORTUNITY, INC., iCoach2Win

Co-opportunity, Inc., partnering with the United Way of Central & Northeastern Connecticut and Hello Wallet, will use technology to enhance the effectiveness of its existing Volunteer Budget Coaching Program (BCP) and position it for growth and replication. Co-opportunity plans to transform its current program into iCoach2Win.org, an online site that combines social interaction and money management tools with individualized planning and support. While the current program relies on in-person support, Co-opportunity and its evaluation partner, the University of Wisconsin –Madison’s Center for Financial Security, will test whether similar or better results can be achieved using a combination of in-person and online interaction and/or a standalone online model.

**Co-opportunity website:** <http://www.co-opportunity.org/>

## FILENE RESEARCH INSTITUTE, LOW INTEREST FOR TIMELINESS (LIFT)

The LIFT project targets low- to moderate-income customers who have subprime credit. LIFT supports education-to-capacity by rewarding consistent timely loan payments on automobile loans. By automating administration with new web-based tools, the program lets consumers earn APR reductions for each year of on-time payments. The interest rate savings go to principal, reducing the life of the loan. LIFT focuses borrowers on the goal of on-time loan payments, backed with an explicit, relevant, and sustainable financial incentive. Filene will conduct a national pilot with six to eight credit unions targeting more than 1,200 borrowers to test whether LIFT can ultimately improve borrowers’ credit scores and overall financial capability. The Center for Financial Security at the University of Wisconsin–Madison is the evaluation partner.

**Filene Research Institute website:** <http://filene.org/>

## MISSION ASSET FUND (MAF), CESTAS POPULARES REPLICATION PROJECT

Mission Asset Fund plans to franchise the Cestas Populares (CP) program in five San Francisco communities. The Cestas Populares program formalizes the financial activity that happens in traditional peer lending circles. Participants sign legally binding promissory notes agreeing to make payments towards their peer loans, and MAF reports payment activity to the credit bureaus. Cestas Populares couples a culturally relevant loan product with peer-led, product-centric financial education and leverages timely moments, such as loan origination and monthly payments, to communicate with borrowers. CP has achieved great success over the past two years in helping low-income Latino immigrants build credit histories, learn to use credit wisely, and increase their financial capability overall. In partnership with the San Francisco Office of Financial Empowerment (OFE), MAF will franchise this model to test its relevance and effectiveness in helping ethnically diverse participants in five communities access the financial mainstream. This project will also serve as a model for how to scale this kind of “product plus education” program at broader regional and national levels. The Cesar E. Chavez Institute at San Francisco State University is the evaluation partner.

**Mission Asset Fund website:** <http://www.missionassetfund.org/>

# APPENDIX – GRANTEE DESCRIPTIONS

## GROW BROOKLYN AND PIGGYMOJO, IMPULSE SAVING

Grow Brooklyn/Brooklyn Cooperative Federal Credit Union, a nonprofit, low-income designated credit union, will offer the Piggymojo solution to new and existing account holders to boost savings balances. Piggymojo uses goal visualization, social commitments, and mobile and online technology to help consumers quantify and enjoy the act of not buying. Research shows that impulse buying provides momentary satisfaction but hinders savings efforts and contributes to debt. The goal of the Piggymojo project is to help low-income earners increase their savings by motivating and enabling them to make “impulse saves” toward a personal goal that retains the satisfaction of impulse buying without the financial costs. This project will integrate the Piggymojo solution with Brooklyn Cooperative’s core platform so that the impulse save results in money actually moving from the user’s checking account into a savings account. Evaluation partner Center for Community Capital at University of North Carolina–Chapel Hill will study how Piggymojo promotes the financial capability of Brooklyn Cooperative members.

**Grow Brooklyn website:** <http://www.brooklyn.coop/personal/asset-building/programs/grow-brooklyn>

**Piggymojo website:** [www.piggymojo.com](http://www.piggymojo.com)

## About CFSI:

The Center for Financial Services Innovation is the nation's leading authority on financial services for underbanked consumers. Since 2004, its programs have focused on informing, connecting, and investing – gathering enhanced intelligence, brokering and supporting productive industry relationships, and fostering best-in-class products and strategies. CFSI works with leaders and innovators in the business, government and nonprofit sectors to transform the financial services landscape. For more on CFSI, go to [www.cfsinnovation.com](http://www.cfsinnovation.com).

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