



**Commission for
Financial Capability**
Building wealthy lives

National Strategy for Financial Capability

June 2015

introduction

This document makes clear recommendations to all interested sectors about how we can achieve the greatest impact on personal financial decision making for all New Zealanders over the long term.



The vision outlined in this National Strategy is to equip everyone to 'get ahead financially'. It sounds good, but what does it actually mean? And does 'getting ahead' resonate with everybody or is it just a pipe dream for some? In putting together this document, we debated those questions at length.

The term 'getting ahead' holds different meanings for different people, but at its core it is about how we successfully navigate our way through products, choices, demands and needs across a lifetime.

The vision is about being equipped to be on the winning side of your decisions. It means knowing where you want to get to, what success looks like, and having a plan to get there.

One of the streams of work outlined in the strategy is 'talk'. It's about the benefits of talking about money. It's not suggesting we boast about our income, or overshare on how much we think our house is worth, but that we gain the confidence to have the hard conversations and ask questions when we don't understand. That may mean asking to see the paperwork and asking more questions before investing, or talking about debt and assets within a family or relationship.

Behavioural economics tell us that knowledge alone is not the determinant of success. Our behaviour is not always rational and we sometimes act in a way that is at odds with what we know.

It's important that we recognise those complexities, lest we focus on simply telling people what they should do, then stand back in surprise when they don't do it.

To that end we are always seeking to better understand through research, both global and local, qualitative and quantitative, how to bring about sustainable change – change for life.

Recent research on scarcity concludes that worrying about money, how to feed the family and pay the bills, erodes mental bandwidth, confidence, energy and optimism. Building financial stability builds our own personal capability and allows us the space to plan our lives.

One of the strengths of KiwiSaver that became apparent in focus groups in 2013 was that it changed the way people felt about themselves and what they were capable of. They went from being 'that person who is hopeless at saving' to 'that person who has \$10k in an account'. It is a moment of success and an opportunity to feel successful, and in that sense it has an impact above and beyond the dollar sum saved.

Another insight was the importance of knowing that success is about your best result and nobody else's. It is easy to give up when everyone else seems so much further ahead, but in the words of Warren Buffett 'no one knows who's swimming naked until the tide goes out' (in other words the neighbour's new car may just be a large loan on wheels). It's an important message that only you can carve your own path, at your own pace.

And critically, success at an individual level builds success at a national level, both socially and economically.

The goal of the National Strategy is to bring us closer to that success, by galvanising and consolidating efforts, sharing knowledge, and providing a structure to talk about the work to be done.

It offers a clear articulation of goals and work streams, and reduces the need for the same but separate conversations, in small disparate groups, to get to the same point. Some of the goals are hairy and audacious, but that's not a bad starting point.

There are many individuals, agencies, NGOs and corporates working on financial capability initiatives across New Zealand. Bringing about sustainable behavioural change is a task that is huge, resource hungry and seemingly without end, but we have a better chance of success with collaboration.

Together, we can equip New Zealanders to get ahead financially.

Diane Maxwell
Retirement Commissioner



everyone getting ahead financially

To achieve
our vision

we've identified distinct
activity streams

with clear
objectives

to deliver the
outcomes
we all want to see

by working as
partners



talk

A cultural shift
where it's easy to
talk about money



Money becomes a
**comfortable topic
of conversation**

People can **talk
with their partner,
family and friends**
about money

People
**confidently talk
with providers,**
ask questions and
understand the
choices before them



learn

Effective
financial learning
throughout life



All learners achieve
**financial capability
outcomes** as part
of their educational
pathway

Financial capability
is part of **lifelong
learning** for
everyone



plan

Everyone has a
current financial plan
and is prepared for
the unexpected



People make
financial plans to
support their **life
goals**

All New Zealanders
have a **current
financial plan**

People protect
their assets with
**insurance and
emergency funds**



debt-smart

People make smart
use of debt



People **manage
debt** to their
advantage

People get out of
high-interest debt
faster



save/invest

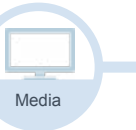
Everyone saving and
investing



More people **save
and invest** in the
short, medium and
long term

More people
actively engage with
and contribute to
KiwiSaver

More people save
and invest in a
**range of financial
assets**





a cultural shift where it's easy to talk about money

OUTCOMES

- **Money becomes a comfortable topic of conversation**
- **People talk with their partner, family and friends about money**
- **People confidently talk with providers, ask questions and understand the choices before them**

BENEFITS

People are able to **navigate their way through decisions** about financial products and services

Families and partners make joint **decisions and work together** to improve their financial situation

CHALLENGES

As a culture, we are **not used to** talking about money

Individual **differences** can make talking about money stressful

Financial products and services can be complex

'I feel like I can talk to the bank a bit better now, knowing a bit more.'
Money Week Evaluation

37% of people talked to family, relatives or friends to get financial information or advice in the last year. **(FKBS)**

ACTIONS



Conduct campaigns about why talking about money is important.

Embed 'talking about money' in financial capability and investor education programmes

Equip people to navigate their way through a point-of-sale conversation with a financial services provider

GOALS 2025

Money is an everyday topic of conversation

Community focused, innovative programmes are delivered based on emerging concerns

Families and households make use of quality financial resources when talking about money



effective financial learning throughout life

OUTCOMES

- **All learners achieve financial capability outcomes as part of their educational pathway**
- **Financial capability is part of lifelong learning for everyone**

BENEFITS

Good financial behaviours learned early help **avoid financial traps** and have a compounding positive impact throughout life

Financial education equips people with the **tools to make** choices for a better life

CHALLENGES

Need to invest in growing **levels of financial capability** among tutors and teachers

Getting **widespread buy-in** from self-managing schools with an already crowded curriculum

Involving **tertiary institutes, workplaces and communities**

‘The light went on – I’d never thought of such a simple system to manage my money.’

Money Week Evaluation

77% of 18–22 year olds had no formal financial education during their high school years.

Massey University study

ACTIONS

- Promote and evaluate teacher professional learning and development in financial education
- Encourage widespread adoption of the Financial Capability Progressions
- Pilot and provide support for workplace and community financial capability programmes
- Increase access to and use of a wide range of relevant and effective financial education resources
- Increase access to and use of a wide range of relevant and effective financial education resources among Māori and Pasifika learners

GOALS 2025

- All** schools have access to effective professional learning and development for financial education
- All** schools make active formal use of the Financial Capability Progressions
- All** workplaces offer relevant and effective financial education to their employees
- All** schools and groups use resources that are relevant and effective when delivering financial capability education
- 100%** of Māori and Pasifika learners can access appropriate financial education programmes



everyone has a current financial plan

OUTCOMES

- **People make financial plans to support their life goals**
- **All New Zealanders have a current financial plan**
- **People protect their assets with insurance and emergency funds**

BENEFITS

Money is **managed well** so more can be spent, saved and invested

Individual and household **net worth improves** over time

Crisis **borrowing** is reduced

Wealth is **protected**

CHALLENGES

Individuals are not accustomed to paying for **professional financial advice**

Consumer trust in **financial advisers** needs to improve

People inadequately **assess their risks**

'I wish I'd had this conversation maybe at high school. It was a bit of an eye-opener.'

Commission focus groups

Only **17%** of 25–34 year olds have a long-term financial plan.

Financial Knowledge and Behaviour Survey

ACTIONS

- Promote the benefits of financial planning (short, medium and long term) and risk management
- Conduct campaigns to encourage households to build an emergency fund
- Agree the elements of, and make freely available, financial plan templates
- Grow innovative and accessible channels offering qualified financial advice
- Work with employer groups to introduce and extend financial education in the workplace

GOALS 2025

- 90%** of people annually review their financial plans and insurances
- 90%** of households can access three months' expenses in an emergency
- All** New Zealanders have a financial plan that suits their needs
- 50%** more people use qualified financial advisers
- 50%** of workplace financial education programmes include understanding financial planning

BENCHMARKS

- Up from 66% for plans (FBI)Up from 57% for insurances (FBI)
- Up from 72% (FBI)
- Up from 15% (FKBS)



debt-smart

people make smart use of debt

OUTCOMES

- People manage debt to their advantage
- People get out of high-interest debt faster

BENEFITS

Individuals are **better equipped** to negotiate with lenders

Unproductive debt decreases and net worth **increases**

As debt is paid off faster, more money **is available** sooner to spend, save and invest

CHALLENGES

Easy **access** to credit

Lenders make money from people being in debt

Pressures of **consumerism**

New Zealanders owe **\$6 billion** in personal credit card debt

'I like to budget week to week, put a bit aside. I had some bad experiences with debt...and I've realised you can't throw money away.'
Money Week Evaluation

41% of people don't pay their credit card off each month, so they're paying interest at an average of **17.6%**
(FBI/RBNZ)

ACTIONS

- Promote awareness of the impact of long-term borrowing on an individual's future
- Partner with price comparison websites to make people aware of the available options when purchasing goods and services
- Work with employee groups to introduce and extend financial education in the workplace
- Educate people to borrow only what is needed where possible, and explain the consequences of over-borrowing
- Work with banks to develop greater reporting of real credit card debt on statements

GOALS 2025

- 65%** of people are making more than the minimum mortgage repayments
- 95%** of people shop around before making a significant purchase
- 50%** of financial workplace programmes include debt management
- 70%** of people pay off their credit cards in full each month
- 100%** of lenders show the 'real cost' of borrowing on statements (currently under review)

BENCHMARKS

- Up from 40% (FBI)
- Up from 72% (FBI)
-
- Up from 59% (FBI)
- Up from 0%



everyone saving and investing

OUTCOMES

- More people save and invest for the short, medium and long term
- More people actively engage with and contribute to KiwiSaver
- More people save and invest in a range of assets

BENEFITS

Individual and household **net worth increases** and unproductive **debt decreases**
People's **financial resilience** and ability to **reach goals** in a downturn increases
People reap the rewards of **compounding** interest over time
The **economy benefits** from more diversified investment
Potential for **deeper capital markets**

CHALLENGES

Low **awareness of the gap** between people's desired and expected retirement income and what can be done to fill it
Disengaged **KiwiSaver members**... may not be contributing enough, or not be in the optimal type of fund for them
Continued **reliance on property** as a savings vehicle
In some instances, household **outgoings exceed income**

'Exploring ideas on shrinking debt and saving motivated people... some have already made changes.'
Money Week Evaluation

Only **45%** KiwiSaver investors get the full \$521 member tax credit each year.
IR KiwiSaver Evaluation

ACTIONS

- Conduct campaigns to drive more saving and investing
- Run investor education programmes
- Promote key investing principles via workplace financial education programmes
- Conduct campaigns to encourage KiwiSaver members to actively engage with and contribute to KiwiSaver
- Promote community saving and investment schemes among Māori

GOALS 2025

- 90%** of people put money into short-, medium- and long-term saving and investments
- 80%** of investors invest in assets in addition to KiwiSaver, such as bonds, shares and managed funds
- 100%** of current and potential investors understand key investment principles
- 90%** of KiwiSaver members qualify for the member tax credit
- 90%** of the largest iwi offer savings schemes

BENCHMARKS

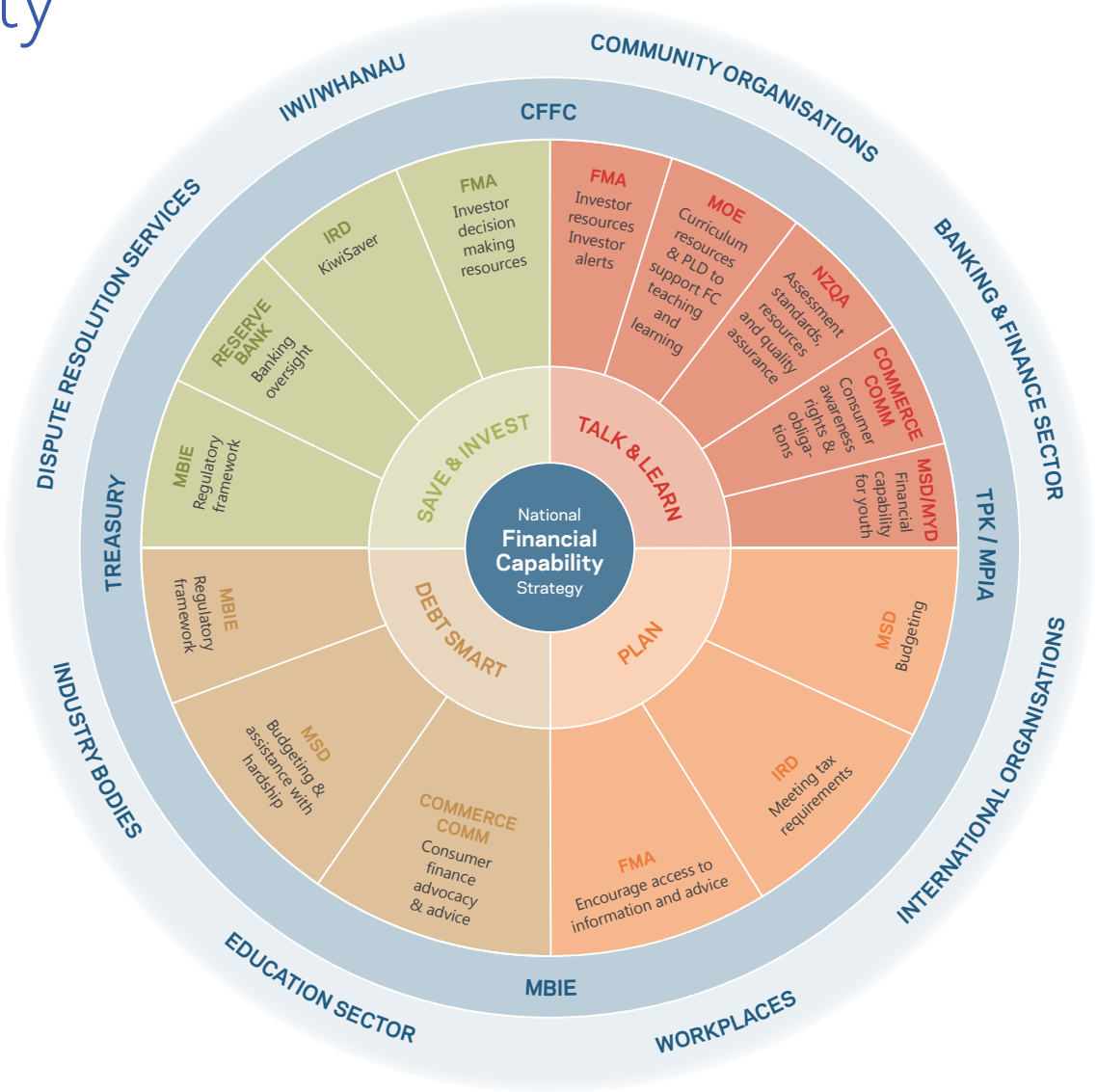
- Up from 74% (FBI)
- Up from 66% (FBI)
- Benchmark to be finalised (FKBS)
- IR KiwiSaver Evaluation
- Like that offered by Ngai Tahu through the Whai Rawa scheme



the cross government financial capability network

Building financial capability of New Zealanders is a priority for the Government. It will help us improve the wellbeing of our families and communities, reduce hardship, increase investment and grow the economy.

A cross government group focusing on financial capability is in place to build on the work already being done within the community.





about

New Zealand was one of the first OECD member countries to adopt a *National Strategy* for Financial Literacy when it was launched in June 2008 and updated in 2014.

The *National Strategy* was a collective effort of many individuals and organisations who worked together with a common vision, mission and focus.

The focus of the 2008 Strategy was on the key processes needed to get things underway. The revised *National Strategy* for Financial Capability (2015) is more targeted at desired outcomes.

The Commission for Financial Capability plays a facilitation role and encourages all stakeholders to align their actions to the *National Strategy*.

references

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Finance



Government



Education



NGOs



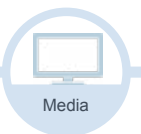
The
Exchange



Workplaces



Māori



Media



CFFC