

## Financial Capacity Building & Advice

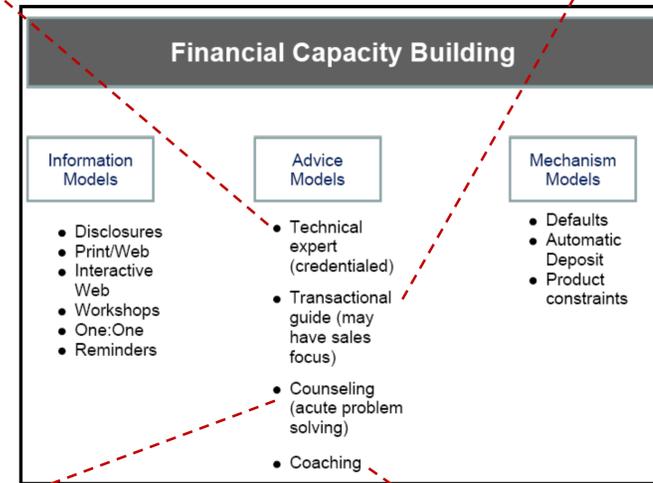
Financial advice is a *complement* to other interventions, such as education or product defaults. Financial advice can help people *apply* knowledge, provide technical expertise or help with self-control problems depending on the form it takes.

### Technical Experts

- Providers of technical information
- Typically expertise is provided for a fee
- Use when financial information is costly or difficult to acquire and process

### Transactional Agents

- Assist in buying or selling financial products
- Compensation often contingent on a client's choice to buy or sell a specific asset
- May create a conflict of interest
- Clients are often uncertain about which advisors are subject to fiduciary duty (the duty to act in the interest of the client)



### Financial Counseling

- Specific personal financial issues
- Often an attempt to remedy a serious financial problem or crisis (for example bankruptcy counseling)
- Counselor is rarely a personal finance expert
- No commission-type compensation; Costs often subsidized by public or private sources.

### Financial Coaching

- Coach is not an expert
- Focus on monitoring self-defined financial goals
- Focus on goal formation, planning & future actions
- Clients are not in crisis – rather working on improving on baseline behaviors
- External monitoring, self control and executive attention

## Who Uses Advice?

Using the FINRA National Financial Capability Study we estimated the take-up of these forms of financial advice: (1) debt advice (2) investment advice (3) loan advice (4) insurance advice and (5) tax advice. Take up was estimated controlling for income, education financial literacy and other factors as shown in the figure below using a regression model.

### Findings:

Overall lower income people are among the *least* likely to receive any form of financial advice. However people who have experienced a recent drop in income are *more* likely to seek all but loan advice. Males are *less* likely to report using investment, loan or insurance advice than females. Higher educated people are *more* likely to use investment and insurance advice. Race or ethnicity has mixed effects. Financial literacy—perhaps a potential substitute for advice—turns out to be related to *more* take up of investment, insurance and tax advice.

Factor	Debt Advisor	Investment Advisor	Loan Advisor	Insurance Advisor	Tax Advisor
Gender	–	Male ↓	Male ↓	Male ↓	–
Income	↑	↑	↑	↑	↑
Education	–	↑	–	↑	–
Race	–	Asian ↓	–	African American ↑	Hispanic ↓
Financial Literacy Score	–	↑	–	↑	↑
Income Drop	↑	↑	–	↑	↑
Homeowner	↓	–	↑	–	–

Source: Tabulations of FINRA National Financial Capability Survey

### Implications:

- If expanding access to advice is a policy goal, more efforts may be needed to increase the availability of low-cost, objective, and high-quality advice for households with low levels of educational attainment and low incomes.
- There is a high correlation between advice seeking and financial literacy. As such, the demand for financial advice may increase if financial literacy levels increase across the population.
- Overall, more research is needed to better define, quantify, and measure the impact of each of the advice models presented.
- More robust evidence on the costs and benefits of various forms of financial advice can help inform policy decisions and guide consumers regarding the value of professional advice

## Financial Coaching

A Financial Coach provides regular one-on-one sessions with clients in order to 'coach' performance improvements to meet goals mutually set by the coach and client. Coaching is differentiated from counseling in that coaches are not "experts," but instead they provide monitoring or accountability, and do so in a process largely driven by the client's intended goals.

Coaching is not designed to be a therapeutic relationship. Coaching supports to *adherence* to positive financial behaviors. Coach potentially reinforce self-control over time.

### Based on a review of more than two dozen programs nationally, financial coaching:

- Focuses on improving long-term financial behavior;
- Facilitates clients to set and achieve financial goals largely on their own;
- Helps clients practice new behaviors and monitors those behaviors over time; and
- Targets clients with a minimum level of financial skills and experience.

### Goals of Coaching:

- ✓ Achieve client-defined goals
- ✓ Planning specific actions towards goals
- ✓ Change financial behaviors
- ✓ Self-actuated decision-making
- ✓ Promote information seeking



### Typical Coaching Activities:

- ✓ Establish baseline behaviors
- ✓ Set goals
- ✓ Develop action plan
- ✓ Monitor client progress

### Most Common Models:

**Professional Model:** Professionals adopt coaching strategies into their work – includes financial planners, counselors and human services professionals.

**Volunteer Model:** Adult volunteers are recruited from the community and trained in the skills of financial coaching.

**Student/Clinic Model:** College students are trained as coaches, meeting with coaching participants from the community often in a "clinic" setting. Supervision by a professional advisor or coach provides support and oversight to the student coaches.

### Training:

Coaching is a skill used in a variety of settings, including career coaching and life coaching. Financial coaching is a relatively new innovation in the financial capacity building field. Coaching may be easier for those who are not financial "experts" since coaching is led primarily by the participant, and the coach is there to plan, motivate and monitor—and often have to "bite their tongue" to keep from giving advice or directing the process. There are a number of emerging financial coaching training programs, but as of yet no one standard



### Evaluation:

Financial coaching has not been evaluated. The model shows promise based on early pilots and anecdotes but deserves further evaluation relative to other approaches. Currently programs do not share common metrics. Further, because coaching relies on self-motivated clients, selection effects make randomized experiments a challenge.



See: <http://fyi.uwex.edu/financialcoaching> for more information on coaching research, tools, training and models.