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BankThink The problem with Financial Literacy Month

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Fifteen years ago, the Senate passed a resolution recognizing the month of April as a time to "highlight the importance of financial literacy and teach Americans how to establish and maintain healthy financial habits." Yet the research is conclusive: Financial literacy programs don't work. Financial education rarely leads to lasting knowledge gain, and it does nothing to change behavior.

Moreover, the idea that we need to teach people to be more financially healthy suggests that they don't know enough, aren't trying hard enough and it's all their fault. In this era of extreme inequality, increased income volatility and frayed safety nets, it is borderline insulting to suggest that knowledge and behavior alone are the main causes of people's financial challenges.

The reality is, people who have money woes — and there are 180 million of them, according to the U.S. Financial Health Pulse — tend to be keenly aware of their problems. It's why seven out of 10 workers report that financial matters are their most common source of stress. Uplifting content telling them to make a budget, cut back on lattes and cut up their credit cards isn't going to help.

What financially vulnerable people need is access to high-quality products and experiences built to help them succeed by people who truly understand their financial situations and foibles. They need real-time advice and guidance, tailored to their specific situation and immediately actionable. They need to be able to trust that financial institutions have their best interests in mind and are working with policymakers to eliminate systemic barriers that prevent them from achieving financial health.

Since the early 2000s, banks and their partners have spent hundreds of millions of dollars on financial literacy programs, largely as part of their Community Reinvestment Act responsibilities and philanthropic activities, with few if any meaningful outcomes to show for it other than positive ratings from the regulators. No other business unit of a bank would ever be allowed to operate this way.

In recent years, a growing number of financial services firms have broadened their vocabulary and their thinking, emphasizing financial health outcomes over financial education curricula and classes. Indeed, in a new survey of C-suite leaders by my organization, more than two-thirds said that improving customer financial health was an important strategic priority, and that it was both profitable and a way to increase customer loyalty.

Still, a gap remains between buzzwords and real business models. A forthcoming Center for Financial Services Innovation study also shows that only half of executives said that they have launched at least one product or service to improve customer financial health. Just over a third said their institutions provide digital financial health management or budgeting tools. And only 35% responded that their institutions are tracking financial health outcomes.

Yet some banks are developing promising new products and features that speak directly to the most critical financial health challenges consumers face. Fifth Third Bank recently launched its Dobot app, which connects to users' checking accounts and uses artificial intelligence to identify small amounts of money that can be squirreled away into savings. U.S. Bank built a new mobile app designed to provide personalized, actionable insights to help consumers better manage their money. A customer could, for instance, receive an alert warning of a potential future overdraft based on the timing of a bill payment and suggesting she shift the timing of the payment. (*Editor's note: Both banks are CFSI network members, but the group was not involved in the development of these products.*)

These and other recent efforts have a few things in common. They are generally digitally led, they are part of a broader business strategy and early results suggest that they are more likely than financial education to lead to positive outcomes.

So let's stop preaching to financially struggling consumers about how to behave better. Instead, let's refocus the energies of the nation's bankers to invest their resources in products and experiences designed to improve the financial health of their customers.

Actions speak louder than resolutions.

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