TERMINOLOGY IN FINANCIAL LEARNING

The purpose of this paper is to offer some comment and explanation on working definitions for various terms in use in the Financial Learning "market place" to help the process of elaborating and maturing this market place so that practitioners and the public can better understand what is going on and how they can benefit.

This is not meant to be definitive! This is an emerging discipline and this brief paper is meant as a commentary on how our lexicon is developing in response to our growing understanding and changing external landscape. The definitions are based on a discussion, developed within in NIACE, that personal finance as an area of public policy is largely growing from the ground up and that existing top-down approaches by the Government, the Financial Services Authority and others do have as their main focus the need to create a coherent intellectual framework for discussing the subject.

PERSONAL ECONOMICS – A DISCIPLINE

NIACE began promoting the use of the term Personal Economics in 2007 and it was first discussed in a public academic setting at a meeting of the European Debt Network (ECDN) on 8th June 2007 in Utrecht. The proposition put forward was that, as an emerging discipline, the personal finance learning and policy community needed to look for higher level definitions to help the growth of high level intellectual frameworks. Such frameworks are essential for the growth of an academic discipline and, in particular, the testing both of academic research and also of public policy usage.

Seeking to locate the "highest" discipline level that would be useful, we suggested that all the various aspects of personal finance should be seen as sub-sets of Economics, which, as they deal with the economic behaviour of individuals, should be called Personal Economics.

However, in the same way that Economics does not only deal with purely financial matters, so Personal Economics would also deal with other aspects of economic life at an individual level. These could include altruism and philanthropy, the social capital dimensions of family life. It could also include the economic and commercial aspects of working life as they impacted on the individual. In effect, this would be the widest heading that covered all types of financial, commercial and value exchanges that occur at an individual level.

PERSONAL FINANCE – A SUBJECT

Personal Finance can therefore be seen as a sub-set of Personal Economics that deals with the purely financial aspects of individual and household life. It would cover the two main things that individuals do with money, earning/getting and spending/saving. In this context, saving money is a precursor to spending so can be thought of as deferred spending. However, that deferral raises issues of protecting money until it is required for spending. At the level of the individual, this protective role is clearly a key function of the banking and finance industries.

Much of the attention paid to Personal Finance in public policy has been focused on the aspects of spending and saving. Until the recent policy focus on "Economic Wellbeing" (see below) little work has been done on the skills and learning associated with optimising personal and family income.

FINANCIAL CAPABILITY – A SKILL SET

The term Financial Capability has been brought into public usage by the Financial Services Authority (FSA), which was, in the Financial Services and Markets Act 2000, given a statutory remit to increase public understanding of the financial system in addition to its regulatory roles.

Prior to this, the term most in use by policy makers and professionals had been Financial Literacy which had been defined as follows:

"Financial literacy is the ability to make informed judgments and to take effective decisions regarding the use and management of money."

S. Schagen and A. Lines, in "Financial Literacy in Adult Life," for the National Foundation for Educational Research, Slough, United Kingdom, 1996, p. ii

Much has been said about the FSA's decision to choose the new term but it is probably fair to say that it was founded on the desire to stress an active, skills-based approach to personal finances rather than one that could seem to emphasise the importance of knowledge on its own, without any reference to practical action.

The FSA has defined Financial Capability in its Baseline Survey as comprising the following elements:

- Managing money – referring to day-to-day management
- Planning ahead – ensuring that one has resources to meet changing conditions
- Choosing products – refers specifically to instruments provided by third parties to assist management of finances
- Staying informed – referring to keeping abreast of developments in one's own financial environment, whatever that might be.

This clearly places it in a Personal Finance context and deals with the effective management of personal and household saving and spending. It stops short of considering the financial dimension of other aspects of Personal Economics, such as, for example, earnings maximisation or the moral dimension of personal finances.

This is not surprising as one very clear objective for the FSA national Financial Capability Strategy, articulated by the Government as well as the FSA, has been the importance for individuals' wellbeing of being able to engage successfully with the Financial Services Industry.

FINANCIAL LITERACY – A BODY OF KNOWLEDGE

So is there any useful place left for the term Financial Literacy? As a generic term, Literacy generally refers to the knowledge required to understand and navigate a particular subject. The implication from the FSA's preference for the term Capability is that its statutory role requires them to concentrate more on the skills and behaviours needed to be active and successful in Personal Finance, rather than just understanding it.

So how might we characterise the difference between Financial Literacy and Financial Capability in a practical context? It might be useful to differentiate between, on the one hand, the ability to understand the concept of interest (in the financial sense) and how it works, which might be thought a function of Financial Literacy, and, on the other hand, the ability to use this knowledge and understanding to seek out and secure a suitable savings account with a good rate of interest, which might be thought more an expression of Financial Capability.

In the context of formal learning this distinction has become harder to sustain in recent years as learning has increasing focused on functional skills rather than "pure" knowledge.

In the world of Financial Learning, this has received an added twist in the Government's Adult Literacy and Numeracy strategies, where Financial Literacy has not been afforded the status of a "basic skill' in its own right but, through the work of the Basic Skills Agency and others, has nevertheless been used to add a wealth of contextual material drawn from everyday personal finances to enrich the teaching of Literacy and Numeracy.

So, as yet, it could be argued, we have no real lexicon of Financial Literacies *per se* although we can assume that they exist – rather like dark matter! The Adult Financial Capability Framework (AFCaF) was designed to be a curriculum framework guide for Financial Capability rather than Financial Literacy although it linked closely to the Adult Literacy Curriculum and the Adult Numeracy Curriculum. If we are to maintain a distinction between Financial Literacy and Financial Capability, there would appear to be still a great deal of work to be done on identifying what the components of Financial Literacy, per se, might be.

ECONOMIC WELLBEING – AN OUTCOME

Economic Wellbeing is an example of how quickly terminology can develop. The first high-profile usage in the public arena was in the Government's "Ever Child Matters" policy as the fifth objective of the policy, namely, that every child should "achieve economic well-being". So at that stage it was an *outcome* to be achieved from taking a series of policy steps, co-ordinated across Government Departments.

Within DCSF this was interpreted as "Learning to Achieve Economic Wellbeing" which is explained by QCA as follows:

"Learning to achieve economic wellbeing is about much more than knowing how money works - it's about helping learners to envisage a positive future for themselves and their families.

"Educational achievement remains the most effective route out of poverty. Young people need to leave school able to earn a living and make the most of their income. From the employment perspective this means learning how businesses work and developing the skills and qualities that employers need - literacy, numeracy, creativity, leadership, problem solving, teamwork, the ability to work independently and an enterprising spirit. From the personal perspective it means learning how to manage their own money and be questioning and informed consumers of financial services."

This clearly assumes a wider sphere of interest than either Financial Capability or Financial Literacy and comes closer to the notion of Personal Economics. However the term Economic Wellbeing is best understood as a policy outcome rather than a field of study itself.

FINANCIAL INCLUSION/EXCLUSION – AN UNINTENDED CONSEQUENCE OF MARKET ACTIVITY

These terms can have a very specific meaning but it is probably fair to say they have been stretched by some to the point where the original, very valuable meaning may be at risk.

These terms are based on the social policy premise that modern financial services such as banking, borrowing, savings and insurance have become crucial for the enjoyment of a contemporary civilised existence. Being unable to access these services puts the citizen at a distinct disadvantage both socially and financially.

The argument continues that changes in the Financial Services Industry over the last 20-30 years, in the pursuit of efficiency and increasing shareholder value, have meant that many individuals and households have become unable to access these services. In the main, the reasons for these changes have been to move banks and insurance companies away from low income/low asset customers towards those with more money to use in the products and services of the industry.

So the "exclusion' refers to the fact that some people are unable to participate in these goods and services. The term Financial Inclusion has been used to describe policy initiatives, from Government, the Financial Services Industry itself and from the Voluntary Sector to help people gain access to these goods and services.

At the same time as helping people to gain access (Inclusion) to these goods and services, those working with them frequently also engage in learning activities to increase their clients' understanding of how these products and services work (Literacy) and how they use them effectively, choosing the best individual products for their own needs and making best use of their features (Capability)

WHY DO WE NEED ALL THESE TERMS

A sophisticated lexicon of terminology is one of the main hallmarks of a mature discipline, helping it to increase the value it provides to society. We only need to look at other more mature knowledge areas to see the truth of this. Could medicine make any valuable contribution if its professionals were compelled to refer to all the constituent small "bits" of the body with one word, say, "cells"? In some respects, the Personal Economics world is at this stage. We need to ensure that our lexicon increases but not randomly. There needs to be proper academic and democratic influence on this process to help avoid the unstructured proliferation of terminology. The term "economic wellbeing" may well have a useful meaning but it is arguable that the process by which it became a secondary school subject would not have passed muster in the advanced intellectual world of medicine.

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