How to decide?: collecting evidence for evaluations

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Introduction
This paper presents some initial thoughts on the surveys carried out by Colmar Brunton for the Retirement Commission, "an autonomous crown entity helping New Zealanders from age 5 to 105 to be financially sorted throughout their lives", and the ANZ Bank to evaluate the financial knowledge of New Zealanders. The definition of financial knowledge used for the survey was 'the ability to make informed judgments and take effective decisions regarding the use and management of money'[1]. Financial knowledge is a subset of financial literacy which also includes attitudes, confidence, decision-making, actions and behaviour. According to the Colmar Brunton report, (2009) in New Zealand the importance of knowing about financial matters was highlighted because of the approach taken to regulation of the insurance and banking sectors and the non compulsory nature of private provision for retirement. Therefore, the more that New Zealanders understand about financial management the more likely they are to be able to plan effectively to maximize their lifestyle choices throughout their lives including the time when they are no longer in the paid workforce. The ANZ Bank in Australia had first carried out a similar evaluation in 2003 and the questionnaire and method were taken as the starting point for the New Zealand work.

Research Objectives
There were some differences between the research objectives for the two surveys based on different partnerships with the Retirement Commission and ANZ in 2006 and 2009. Those common to both were

1. To identify areas of low financial literacy (either by topic or population) and therefore assist educators improve financial literacy in those areas;
2. to assist the financial services industry identify where products or services are misunderstood or confusing to consumers and thus be able to improve design or communication;

In 2006 there were two further objectives:
- to use the findings to develop law reform programmes that provide effective consumer protection and address real issues facing individuals
- to identify participation rates, investment behaviours, habits and level of sophistication of retail investors/consumers in New Zealand's securities market;

which in 2009 were replaced by:
- to measure any link between financial knowledge and financial behaviour, especially indebtedness; and
- to measure the link between financial knowledge and expectations related to longevity and financial knowledge.

And
- to provide a benchmark of financial literacy for the whole adult population and key segments in order that trends in literacy can be measured and programmes continually targeted at needy areas; (2006)

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[1] [1] *Source: Schagen, S. "The Evaluation of NatWest Face 2 Face With Finance": NFER, 1997.*

Also used in "ANZ Survey of Adult Financial Literacy in Australia" report by Roy Morgan Research, May 2003. This definition was adopted from UK and Australian research with a view to international consistency was replaced by

- to measure changes in financial knowledge levels since 2006 in order to adapt education programmes and the design or communication related to financial products and services. (2009);

These changes reflected both the nature of the evaluation, ie the move from a baseline to follow-up survey, and the different agencies partnering with the Retirement Commission and ANZ.

The method
The evaluation was originally conceptualised as a replication of the Australian study with adaptations being made to reflect the New Zealand rather than Australian context. However, though some of the original questions from the Australian survey remained, the questionnaire was changed substantially as was the method of data collection – from telephone to face-to-face interviewing. A multistage random sample was selected with 650 completed interviews. A response rate of 60% in 2003 and 62% in 2009 validated the data collection method. Participants were paid NZ$20 to take part which was in recognition of their time but could not be construed as a coercive incentive.

The study sought to measure knowledge and understanding, behaviour and attitudes. The Australian Study (2003) took as its starting point the UK framework for measuring financial literacy which was then substantially modified to reflect Australian conditions (Roy Morgan research p2). However, the same headings ie financial understanding, financial competence, and financial responsibility were kept and mathematical literacy and standard literacy were added. While retaining the same major headings for the New Zealand survey, further substantial alterations were made to the framework.

- **Mathematical and standard literacy** – essential mathematical, reading and comprehension skills
- **Financial understanding** – understanding of what money is and how it is exchanged; understanding of where money comes and goes from
- **Financial competence** – understanding the main features of basic financial services; understanding financial records; understanding which type of payment is best to use and why; understanding mortgages; attitudes to spending money and saving; awareness of the risks associated with some financial products and appreciation of the relationship between risk and return
- **Financial responsibility** – ability to make appropriate personal life choices about financial issues; understanding consumer rights and responsibilities (colman Brunton 2009 p7)

The Australian framework and resultant report suggested that the survey concentrated on skills and knowledge related to specific behaviours based on understandings about financial responsibility and appropriate financial decision making. According to a presentation in Wellington (February 2005) by Jane Nash (ANZ Head of Government and Regulatory Affairs) ANZ Australia commissioned the study to “better understand the needs and concerns of customers; use information in developing products, services and communications; and contribute to the development of public policy on these issues” all of which she indicated were being or had been achieved.

The framework developed for the NZ evaluation then guided the topics to be included in the survey. In deciding what should and should not be included, aspects such as values, culture and resource issues, ie the societal context, were considered to be of equal importance in addressing the issues around financial knowledge. Deciding what was acceptable as evidence and what was less relevant was the next decision point. A deliberate choice was made to place an emphasis on evaluating knowledge rather than literacy because of the difficulty of obtaining good data about behaviour and, to a lesser extent, attitudes. Having knowledge and acting on it may be two different things and this needed to be established as it is not necessarily a capability issue. People may well be aware of what they should be doing but do not behave in that way. Therefore, the final questionnaire contained 98 questions in total of which 25% covered demographics, 20% were on attitudes and behaviours and the remaining 55% explored personal financial knowledge including goal setting, financial planning, budgeting, debt management, saving, investing, and managing risk.

Survey questions were designed to capture the most important skills and knowledge under the categories on the framework. Some questions fed into the score of financial knowledge and some acted as filters to knowledge questions (e.g. Do you know the what 'equity' means?') or descriptors (e.g. demographic or behavioural information helping to describe the respondent).The majority of scored questions contributed to basic knowledge. Those identified as advanced were predominantly investment related questions for those who had money to invest (Colmar Brunton 2009).

The need to know determines knowledge to some extent. For example, those wanting to obtain a mortgage could be expected to know more about the subject in comparison to those who not considering buying a house. Thus it was agreed that, as financial knowledge reflects each person's circumstances and experiences, people should not be disadvantaged because they were not familiar with products and services they might never use or need (for example, those without the means to invest would not be expected to know about investing). Context specificity of financial knowledge can also have a gender bias. The gender pay gap means that women are still generally lower paid. If they have no or low earnings it may not be possible to operationalise their financial knowledge, particularly in partnerships where they do not have any decision making power around finance. Further, reporting on a study of senior secondary students and their financial knowledge (Morrell 2009) there was criticism of the instrument because of questions around concepts outside of the students' experience. Therefore, only the questions testing basic knowledge were used to determine the overall financial knowledge scores. Planning for the future, saving, understanding mortgages and budgeting were deemed the most important areas of financial knowledge. The advanced questions, relating primarily to investment, were scored separately (Colmar Brunton 2009)

Discussion

So what are some of the issues? The collection of baseline data assumes that subsequent iterations will measure the same things as a way of determining whether any change has occurred over the period under study.

There were some wording changes in the questions that contributed to the knowledge drivers which generally were considered to be minor changes such as clarification of wording or collapsed scales. For example, there were a series of statements about behaviours and attitudes to money such as *"I don't really plan for the future"* and *"Investing is a way to achieve financial goals."* In 2006 people were whether they strongly agreed, agreed, neither agreed nor disagreed, disagreed, or strongly disagreed with each of the 15 statements, while in 2009 this became a three point scale – *agree, neither agree nor disagree, and disagree* and there were 18 statements as well as wording changes to statements that were common to both iterations. This limited comparability to some extent but still provided very useful information especially in terms of reflecting what people understood about changes in the financial context. In the analysis by Colmar Brunton it was pointed out that in nine of the statements which were common to 2006 and 2009 with either no or only minimal changes there were significant decreases in the levels of agreement with five of them, suggesting that people are feeling more uncertain financially. A statement about KiwiSaver, a voluntary government supported retirement savings scheme introduced between 2006 and 2009 demonstrated that for a number of people this had lead to the misapprehension that contributing to the scheme was all that was required in terms of saving for retirement. Further analysis is to be carried out to establish which groups in the population believe this is the case. Such evidence will be very useful in planning future education campaigns and in the presentation of information about the scheme more generally. In future iterations of the survey the 2009 information on KiwiSaver will provide the benchmark data around this initiative.

One of the true/false questions that looked ways of minimising interest on a mortgage did have a wording change which created a significant difference in the results between 2006 and 2009. In 2006 65% of respondents agreed that to *Paying fortnightly rather than monthly* minimised interest on mortgages. As a result of representations from the finance sector suggesting this statement was not easily understandable, the 2009 statement was *Pay half your monthly payment every fortnight*. However, there was a significant decrease in the percentage of those recognising this was true, decreasing 12 percentage points to 53%. In this instance it is difficult ti tell whether the change represents evidence for lower understanding of the concept or of what the statement actually meant. There will need to be further work around this before the next iteration to establish whether the wording change did clarify the meaning and there were actually fewer people who understood the financial difference around making fortnightly payments rather than monthly payments, (ie 26 rather than 24 per year) or whether the wording change made the meaning less understandable.

Looking at investing, again the wording of the question was varied slightly as in 2006 it was *Which one of the following is likely to make you the most money over the next 18 years?* In 2009 it asked *Which one of the following is **generally** considered to make you the most money over the next 15 to 20 years?* The change in time frame was a result of the 2006 question tying more closely to the year 2024 and goal setting while the addition of ‘generally’ was to take acknowledge that there are market fluctuations. Under a third of those questioned in both 2006 and 2009 gave the correct answer “a range of shares”. It had been conjectured that as a result of the changing financial climate more people would have regarded “a range of fixed interest investments” as the correct answer. However, this went down significantly from 54% to 49% while those seeing “a savings account” as the best option went up significantly from 15% to 22%.

A number of aspects could possibly have had an impact on levels of financial knowledge when comparing the results from 2006 and 2009.

Possible impacts on levels of financial knowledge since 2006
People now know that house prices can go down
Investment in property will have changed.
Impact of fixed loans and break fees → enforced learning
The crash of the stock markets (reduced returns)
Collapse of finance companies (30 less)
KiwiSaver introduced. NZers should be more knowledgeable about saving
There have been lots of government messages about saving
Reduction in tax rates – what are you going to do with it?
Student loans. In 2006 there was interest on student loans. In 2009 there is no interest.
More media commentary re: the economy, KiwiSaver, budgeting, threat of unemployment
Increased use of budget advisers
Fluctuation in petrol process and the impact of exchange rates
Changes to commodity prices and associated affordability
Fluctuating exchange rates and currency fluctuations.
Banks working in the community

It was conjectured that the majority of factors identified would have lead to a heightened awareness sometimes through an adverse experience such as the collapse of a number of finance companies. As an example, one of the issues around managing financial risk is the recognition that an offer could be a scam. The changing financial situation definitely had an effect on the answers to the question: *Which of the following aspects about an investment would make you think that it might be a scam?*

a) Promise of very high returns with little risk
b) Being told the offer is only being made to a select few people
c) Being offered by a well known reputable financial organisation
d) The minimum amount they say you have to invest keeps reducing

As in 2006, the great majority of respondents in 2009 identified that a) and b) were indicators of a scam plus in 2009 there was a significant rise in those identifying d) as a possible scam. While there was still a high percentage of those seeing c) as not a scam, in 2009 this was significantly lower than 2006 suggesting more scepticism and less trust in financial institutions. The biggest drop was for those aged 65 years and over and those on lower incomes suggesting that these may have been groups caught up in the financial upheavals of the 1980s as well as the current volatility.

Conclusion

What is considered to be evidence does not necessarily remain constant over time and other factors come into play. Stakeholders play a key role both in the inclusion and exclusion of questions and the possibilities for analysis. Consideration of the ways in which different stakeholders influence what is included and how results are presented provides a useful check for evaluators (and commissioners of evaluations) who are undertaking evaluations to provide information for policy and practice in areas that are liable to be strongly influenced by the changing societal context. The broader social context, including financial upturns or downturns for this evaluation, nd the way in which government policy changes both in relation to external factors and .because of changes in government itself are also important. Such factors then have implications for a survey that is repeated over time in terms of whether the same concepts are being evaluated. (see also Appendix 1 for comment on the Australian experience.)

When the third iteration of the New Zealand survey takes place it may be necessary to have two versions of the questionnaire to see whether subsequent changes such as altering wording or adding some further questions and removing others results in a different conceptual measurement. It will also be important to look carefully at the international literature as at present we do not know how well New Zealand ranks in terms of financial knowledge or even if meaningful comparisons can be made – all this in the context of what do we consider to be evidence .

References

Colmar Brunton (2009) *2009 Financial Knowledge Survey*
Morrell, Anna (2009*) Generation debt* The Dominion Post, September 12 C7
Roy Morgan Research (2003) *ANZ Survey of Adult Financial Literacy in Australia*
The Social Research Group (2008) *ANZ Survey of Adult Financial Literacy in Australia*

Appendix 1
From **ANZ Survey of Adult Financial Literacy in Australia 2008**

1.2 Context of the survey (p15)
"In considering the results presented in this report, it should be kept in mind that the 2008 survey took place against a background of volatility in financial markets following the emergence of problems in the US sub-prime mortgage market in mid-2007. Share markets have experienced volatility and difficulties have been experienced by brokers such as Tricom, Lift and Opes Prime and organisations like Centro, Allco and ABC Childcare. In addition, 2006/2007 saw significant loss of investors' funds in the high profile failures of property developers Westpoint, Fincorp and Australian Capital Reserve. Interest rates have risen and prices for fuel and food increased during the survey period, reflecting global rises in prices for oil and food commodities. Consumer confidence as measured by the Westpac-Melbourne Institute Index of Consumer Sentiment was declining during the survey period, falling to a 16 year low in June 2008. While some difficulties were evident around the time of fieldwork for the 2005 survey (for example an interest rate increase of 0.25% just before fieldwork commenced in March 2005), the situation in 2008 appears somewhat less benign than it did for the earlier Surveys"

1.4 Research Design (p16)
"This study was a repeat measure of the 2002 and 2005 surveys and, given that comparative measures were required, the research methodology was kept as consistent as possible. … The questionnaire was very similar to that used in 2005 apart from the addition of a few questions to address new issues such as reverse equity loans, the increased use of mortgage brokers and further changes to superannuation and the deletion of several 2005 questions to allow for their inclusion… As in both the previous surveys, core questions were asked of all respondents while other questions were only asked of particular subgroups. Knowledge was tested against an individual's needs and circumstances rather than the entire array of financial products and services, some of which they would neither use nor need. To make sure no individual respondent was exposed to an excessively long interview, a number of questions which would have been appropriate to ask of all eligible respondents, were in fact only asked of a randomly selected subgroup. For example, many of the questions about financial planners were asked of 50% of eligible respondents. Sample size was sufficiently large to enable this to occur while still obtaining statistically robust results".