Cultural Competence in Financial Counseling and Coaching

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Cultural competence is critical for effective financial counseling and coaching, especially with financially vulnerable and minority households. The importance in practice cannot be understated: Respect for and understanding of cultural differences are critical in the practitioner–client relationship, and necessary for building trust about often sensitive financial matters. Cultural competence is the ability to act on understanding of "specific cultural, language, social and economic nuances of particular people and families".[1] It is increasingly necessary as the United States becomes a majority-minority nation.[2] Although human service professionals and financial planners recognize cultural competence as a core professional skill,[3,4] it also must become part of national professional standards.

Cultural competence involves the acquisition and career-long cultivation of knowledge about human diversity and cultural bias based on race, ethnicity, socioeconomic status, and other differences. Historical and cultural influences shape the beliefs, experiences, and financial practices of population groups. Combining self-awareness with understanding of these influences enables practitioners to guide client interactions.

There are several dimensions of culturally competent practice. First, such practice requires a self-awareness that reflects the practitioner's identity and experiences. Awareness of one's values and beliefs about finances is particularly important. They influence how people earn, spend, and save money. For example, cultural beliefs about autonomy and interdependence can influence financial decisions. Cultural beliefs about the trustworthiness of financial institutions affect saving and investment practices.

Self-awareness also entails understanding of personal experiences with group identity, privilege, and discrimination. For example, a White, middle-class practitioner may have knowledgeable financial mentors, a privilege not enjoyed by everyone. In another example, experiences of discrimination in mainstream financial services may lead people to use alternative, non-bank cash management, savings and lending mechanisms.[5] Recognizing one's own privilege facilitates the development of empathy for people who lack such privilege and of understanding about how discrimination limits life opportunities.

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Second, culturally competent practice requires that practitioners understand how institutions and history have profoundly shaped current financial situations and cultural perspectives. Several examples apply. The forced loss of land and removal to reservations continue to influence the financial positions of Native Americans. Current wealth holding among African Americans cannot be understood without appreciating property relations under slavery and the historical exclusion of African Americans from property ownership. In the 1930s, Mexican Americans—many of them U.S. citizens—were forcibly repatriated to Mexico. The loss of assets has affected the wealth of subsequent generations of Hispanics. In contrast, White families received free land through the Homestead Act of 1862, which has been the largest asset distribution policy in U.S. history. Homestead lands laid a foundation of wealth for contemporary White families, an economic advantage denied to minority families.[6]

Third, cultural competence requires that practitioners understand the contemporary financial reality of particular groups. For example, growing income and wealth inequality,[7] disparities in rates of financial inheritance,[8] and lack of access to bank products[9] disproportionately affect minority groups. Within financial counseling, understanding clients' perspectives entails situating individual financial experiences within these current realities. Acknowledging clients' financial context helps practitioners develop empathy, prevent victim blaming, and avoid value judgments that interfere with client relationships.

These three dimensions of cultural competence are essential for conducting financial counseling practice with "cultural humility"[10] that is, intentional efforts to communicate openness to learning about clients' backgrounds. Cultural humility also entails deep respect for clients' experiences, perspectives, history, and cultural strengths. Practitioners demonstrate cultural humility by approaching the helping relationship as a partnership; they ask questions about clients' experiences, communicate respect, avoid assumptions, and reject stereotypes.

For maximum effectiveness, financial counselors must develop trusting professional relationships with their clients. Culturally competent practice that acknowledges forces that have shaped current financial situations and demonstrates respect for client decisions based on their perceptions of available resources and options assists in this goal. Practitioners should validate client experiences and express understanding. For instance, if a client who tried to open a bank account believes that she was discriminated against because of her accent, acknowledging that belief is the starting point for addressing her banking needs and creating a plan that reflects her priorities. Including cultural competence in national standards for financial counseling and coaching will serve to professionalize the field, and position it to serve the increasingly diverse population in the United States.

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