# Financial literacy

## An necessary ingredient for financial robustness

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*Financial Information*

*Catalyst for Integration*

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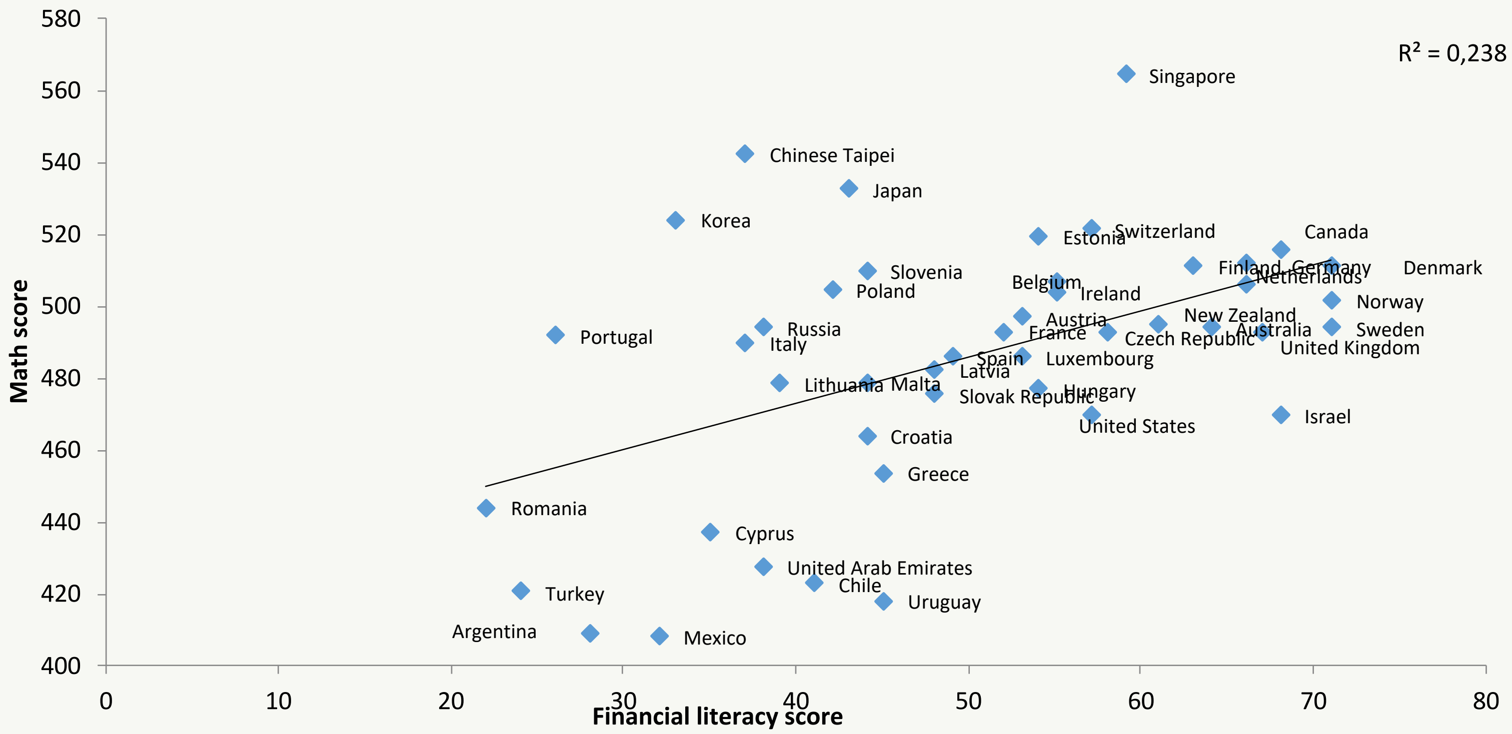
# Financial literacy other than numerical literacy

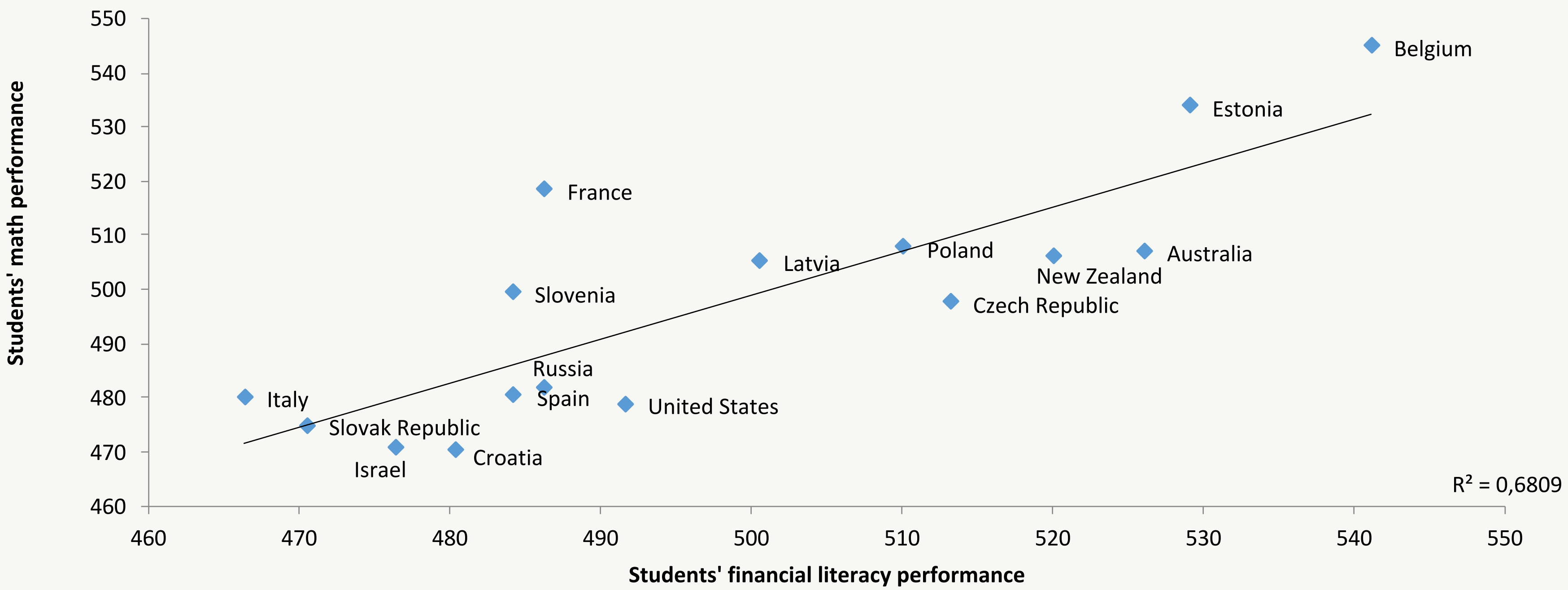
## Population financial literacy score vs. Students’ PISA Math score




Source: OECD Pisa 2015 and Global FinLit Survey of Standard and Poor’s.

# Financial literacy other than numerical literacy

## PISA special module on financial literacy and students' math scores, 2014




Source: OECD Financial Literacy Pisa 2012 and Global FinLit Survey of Standard and Poor's.

# Defining Financial literacy

"Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow:

- more than $102,
- exactly $102,
- or less than $102?
- {Do not know; refuse to answer} "

# The S&P Global FinLit Survey

**The survey covers four topics:**

- Numeracy
- Interest compounding
- Inflation
- Risk diversification

*Being financially literate*:
How many can answer 3 out of these 4 topics correctly

# The S&P Global FinLit Survey

- *The S&P Global FinLit Survey* is the largest, most comprehensive measure of financial literacy.

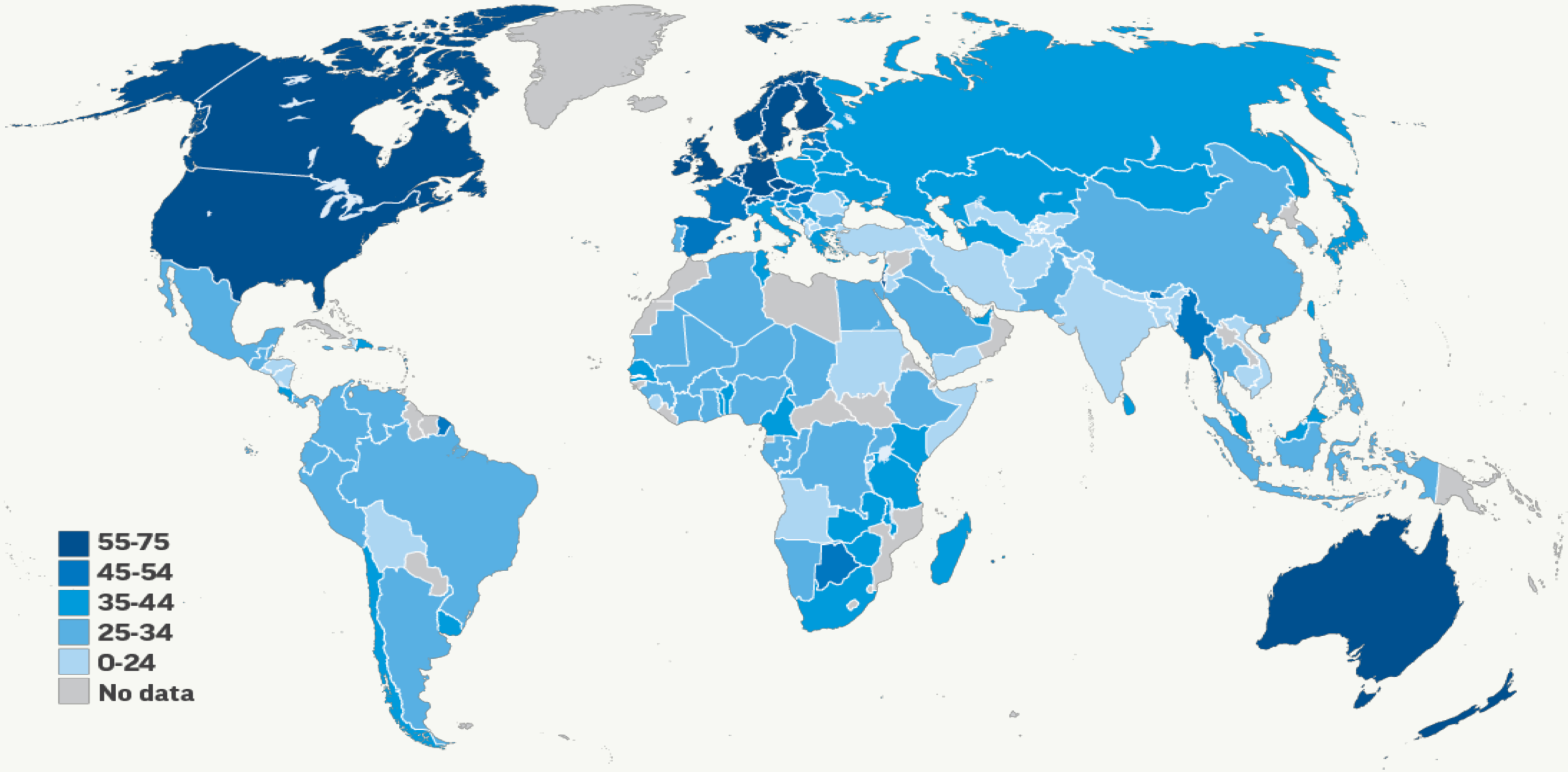
- Interviewed more than 150,000 adults age 15+ in 148 countries

- The survey provides key information to policy makers, regulators, the private sector, and academics


With thanks to prof Lusardi, GFLEC

# Financial literacy globally

% of adults who are financially literate

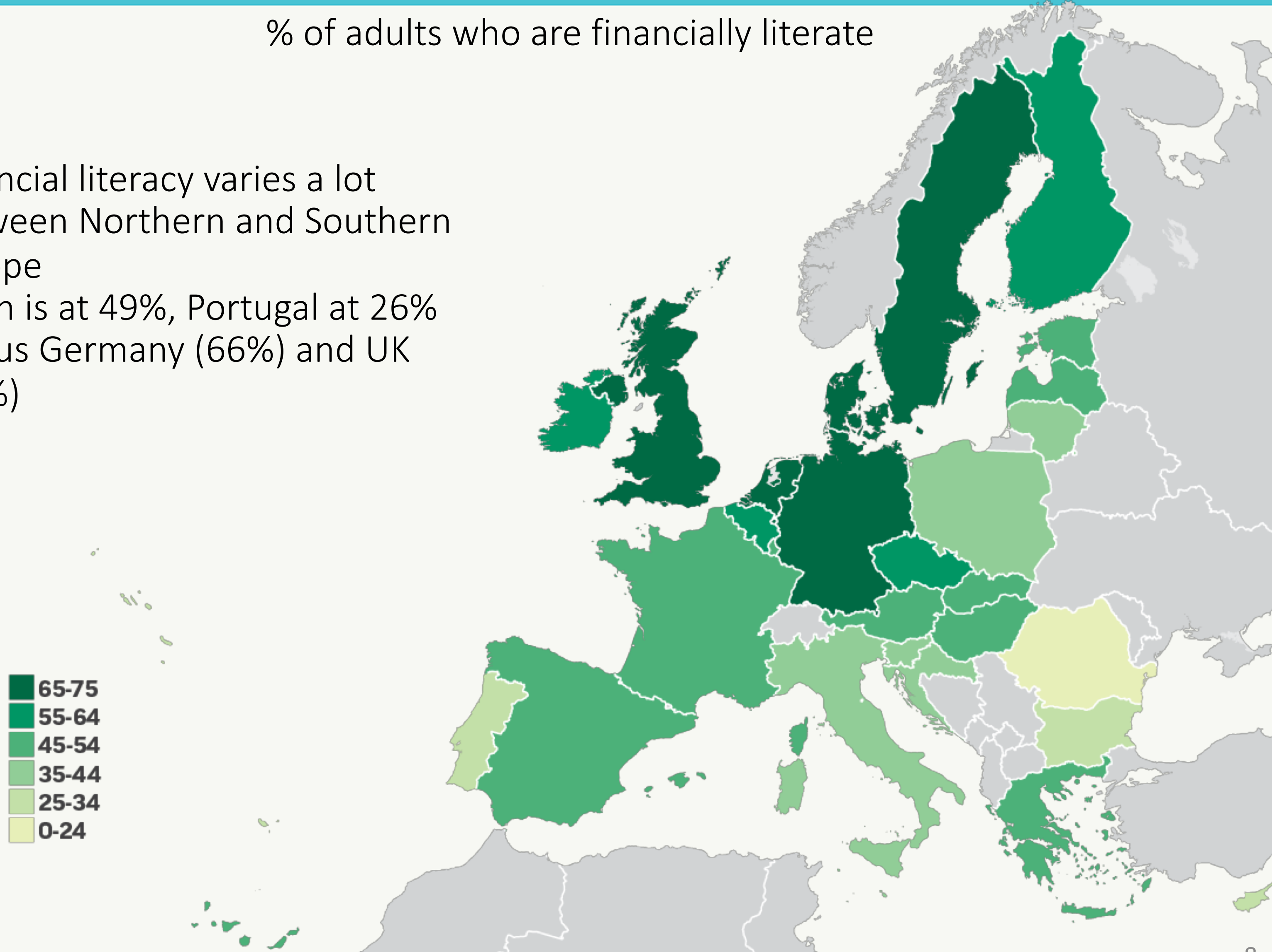



- Only 1 in 3 adults worldwide responded correctly to three out of four topics.

# Financial literacy in Europe

% of adults who are financially literate

- Financial literacy varies a lot between Northern and Southern Europe
- Spain is at 49%, Portugal at 26% versus Germany (66%) and UK (67%)

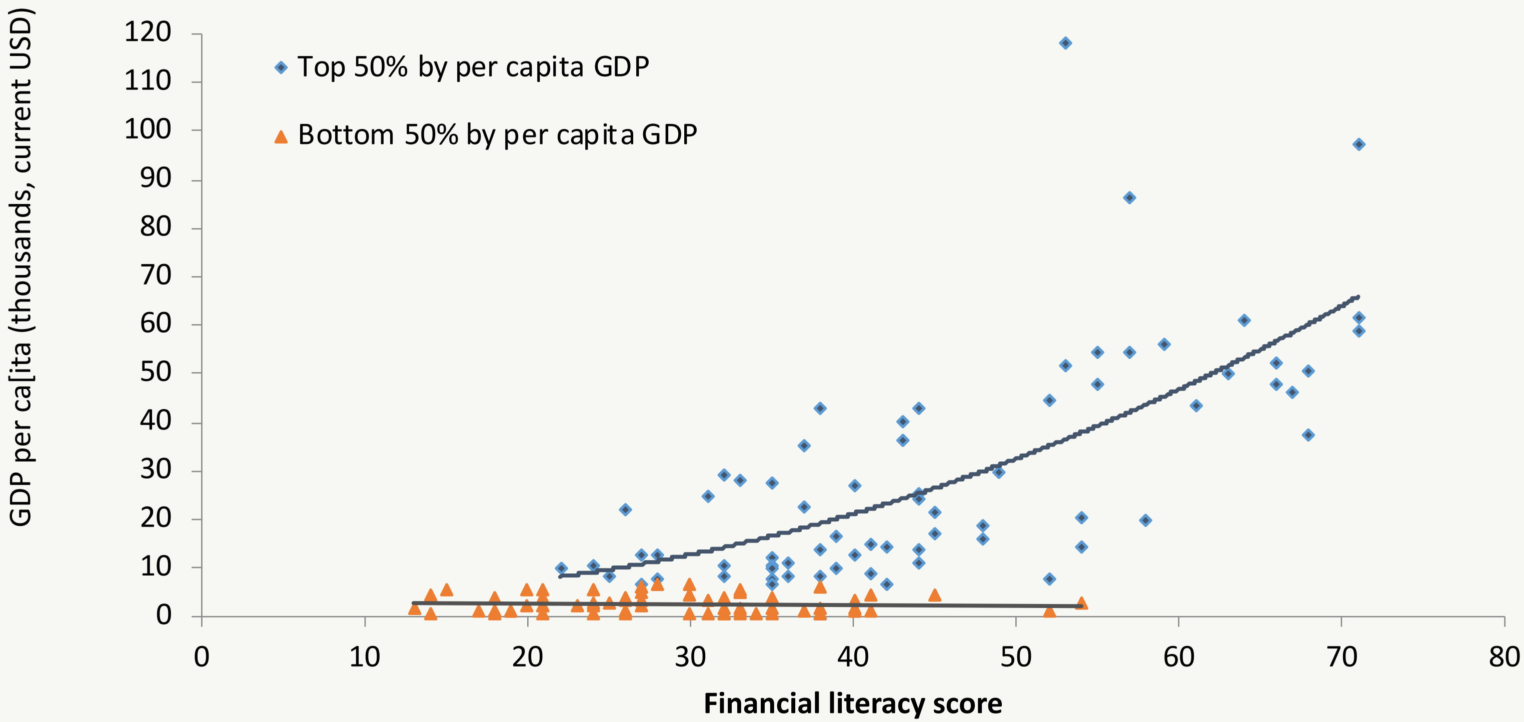





With thanks to prof Lusardi, GFLEC

# Financial Literacy matters

## Financial literacy and per capita GDP by countries, 2014




*Source: World Bank World Development Indicators and Global FinLit Survey of Standard and Poor's.*

# Financial Literacy matters

## Financial literacy and Inequality

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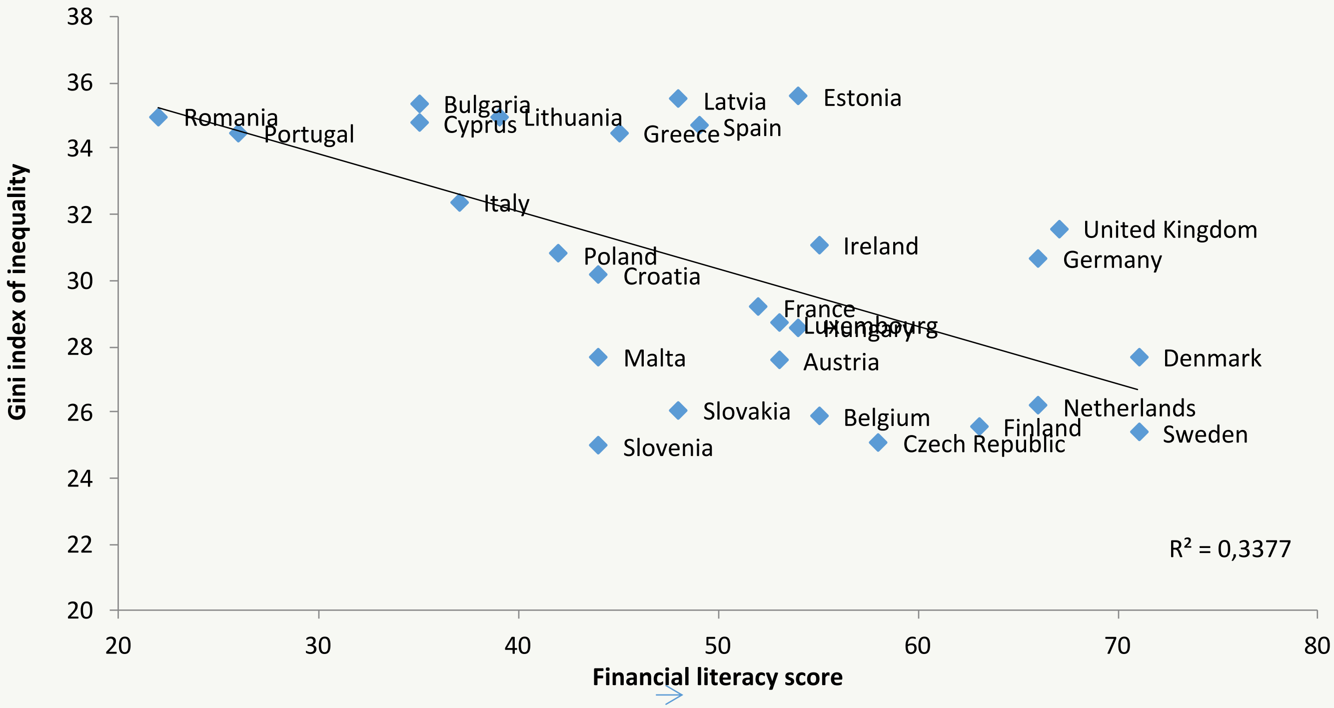
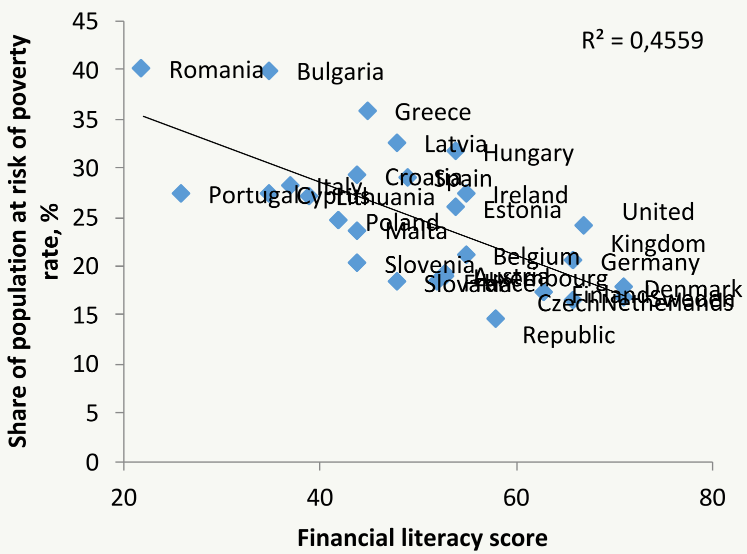



Source: S&P Global FinLit survey and Eurostat.

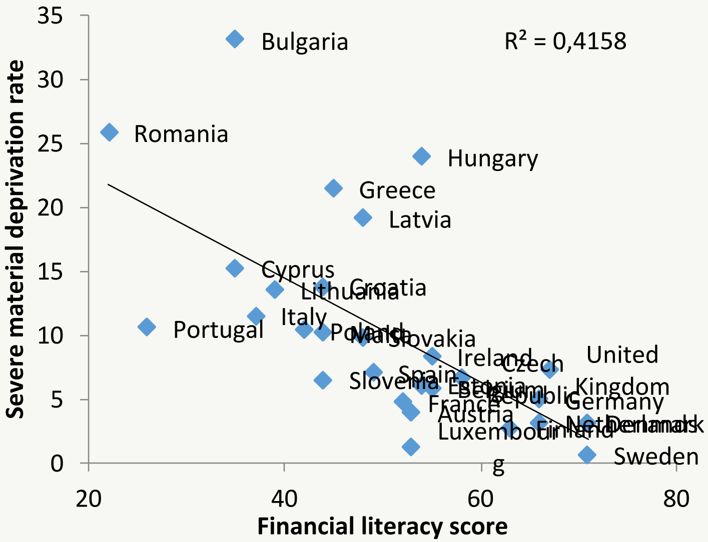
# Financial Literacy matters

## Financial literacy and vulnerability and social exclusion

**Financial literacy and at risk of poverty rate (AROP)**



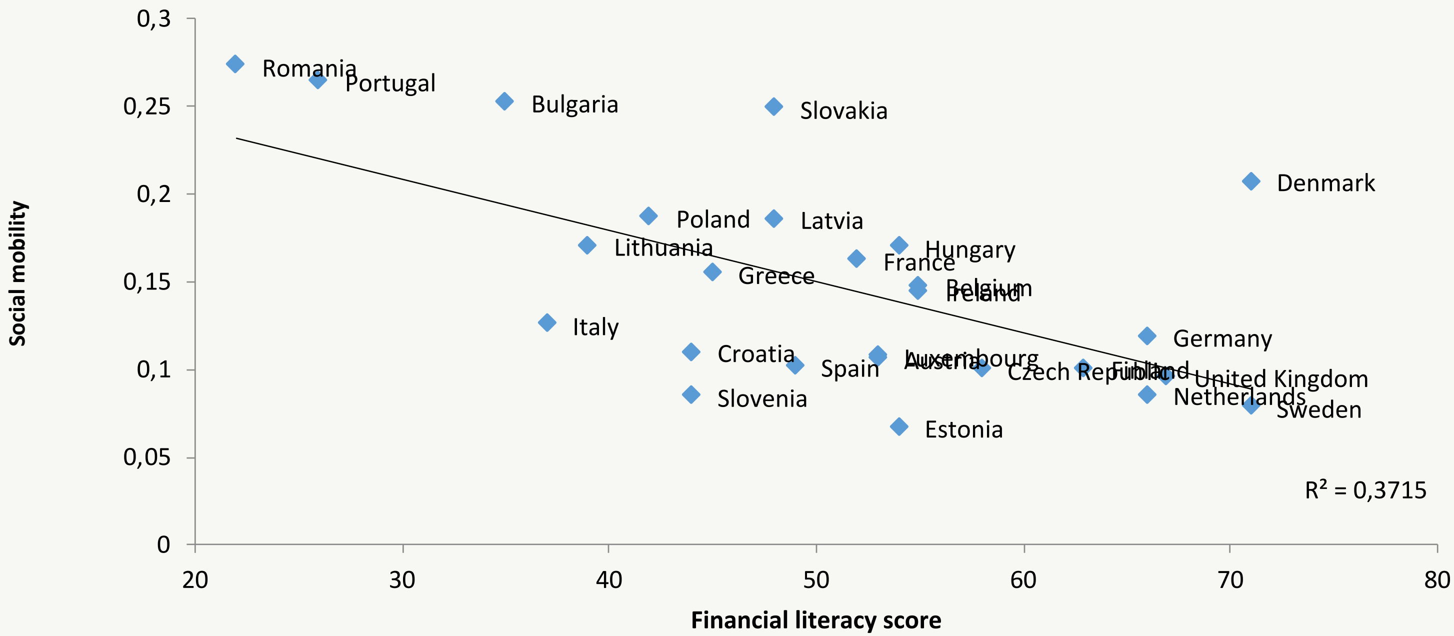

**Financial literacy and Severe material deprivation**




Source: S&P FinLit survey and Eurostat. Note: ‘At risk of poverty’: people with a disposable income below 60 percent of the national median equivalised disposable income. ‘Severely materially deprived’: people unable to afford at least four of the following: 1. rent, mortgage or utility bills 2. adequate home heating 3. a reserve against unexpected expenses 4. regular meat or proteins 5. a holiday 6. a television set 7. a washing machine 8. a car 9. a telephone.

# Financial Literacy matters

## Financial literacy and social mobility




Source: S&P FinLit survey and Sandefur (2015) for social mobility. Note: Social mobility is measured as the correlation between students' Math test scores and socio-economic background.

# The risks in the digital age

The risks of ease of digital access:

*digital savviness is NOT financial savviness*

1. 20% of students asked used their student loans to purchase bitcoins (US dept of education)
2. Fintech and financial literacy

“Millennial Mobile Payment Users: A look into the Personal finances and financial Behaviours” GFLEC New Insights Report

# Policy recommendations

1. <u>Start early as possible.</u> Integrate it into the school curriculum.

- Flemish Community in Belgium (best European performer in financial literacy), financial curriculum was introduced and made mandatory in the secondary school curriculum in 2010-2011.

# Policy recommendations

2. Move away from “one-size fits” all programs and design programs tailored to the needs of a specific community.
3. Financial education is a life-time learning process.
4. Provide tools to better evaluate financial literacy.
5. Increase private sector involvement.
6. More is not necessarily better.
7. Need for data!

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# Thank you!

**“Big Three” questions on financial literacy**

Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow: more than $102, exactly $102, or less than $102? {Do not know; refuse to answer}

Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, would you be able to buy more than, exactly the same as, or less than today with the money in this account? {Do not know; refuse to answer}

Do you think that the following statement is true or false? “Buying a single company stock usually provides a safer return than a stock mutual fund.” {Do not know; refuse to answer}