



Financial Literacy: A Global Perspective

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The growing importance of financial literacy

A new economic landscape

Major changes in many markets and institutions

➤ Changes in pension systems

- More individual and private accounts

➤ Changes in labor markets

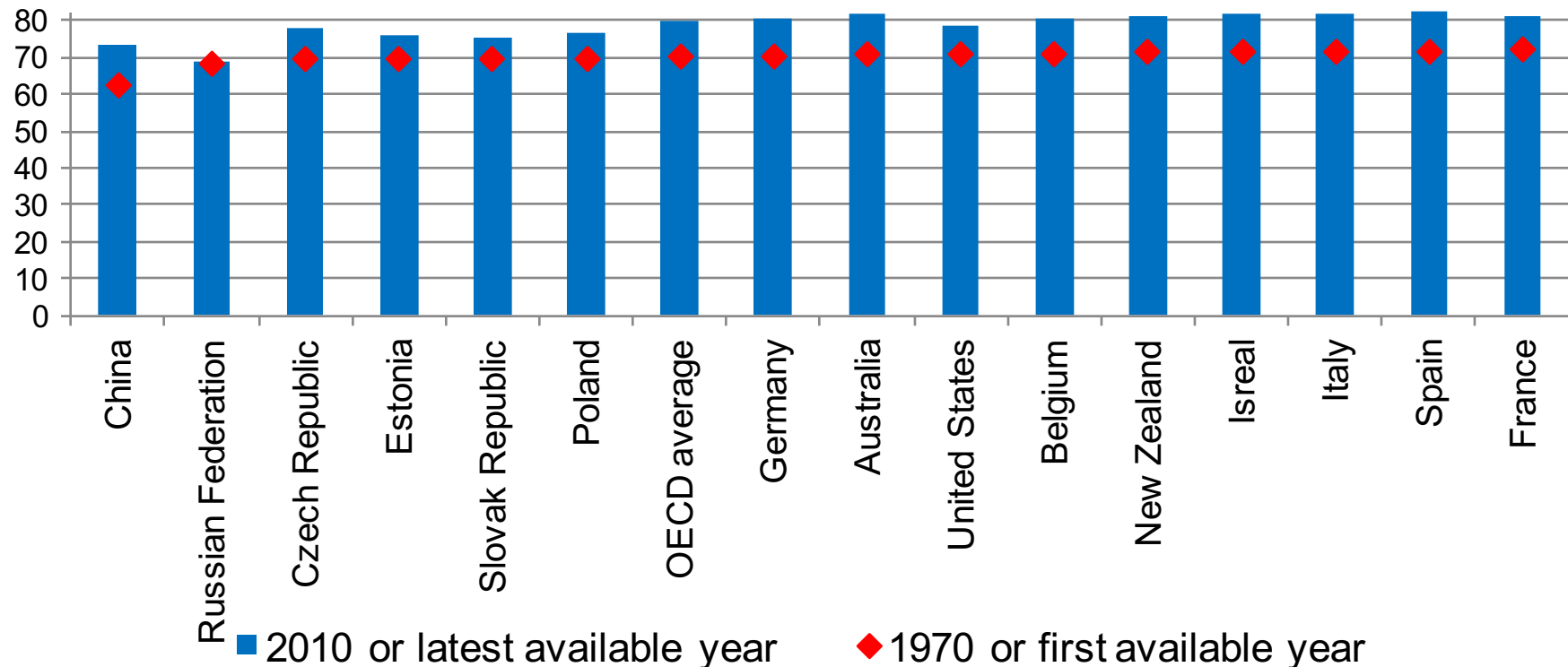
- Divergence in wages – skills are critical

➤ Changes in financial markets

- Greater complexity
- More opportunities to borrow & in large amounts



Increase in life expectancy changes everything



Source: OECD Factbook 2013: Economic, Environmental and Social Statistics © OECD 2012

- Life expectancy is high, and has kept growing.
- Young people today will need to be able to support themselves for many years.
- These changes are happening globally

Financial literacy: An essential skill for the 21st century

Why essential

1. Decisions are inter-related
2. Decisions are made starting at a young age, ex: investment in education
3. There is a lot of heterogeneity in individual behavior
4. The final objective is well-being, not a single behavior



Many questions

Given these changes:

1. How well-equipped are people to deal with this new economic environment globally?
2. How does the US compare with other countries?
3. Are there vulnerable groups?
4. What can be done to improve financial literacy?

Measuring financial literacy across countries

How well-equipped are people?

Long term project:

- 1. Financial Literacy around the World (FLAT World) project**
- 2. OECD' Programme for International Student Assessment (PISA)**
 - Finlit among the young (15 year olds)
- 3. S&P Global Financial Literacy Survey**

Financial Literacy around the World (FLAT World)

Evidence from 15 countries:

- ❖ USA
- ❖ The Netherlands
- ❖ Germany
- ❖ Italy
- ❖ Russia
- ❖ Sweden
- ❖ New Zealand
- ❖ Japan
- ❖ Australia
- ❖ France
- ❖ Switzerland
- ❖ Romania
- ❖ Chile
- ❖ Canada
- ❖ Finland



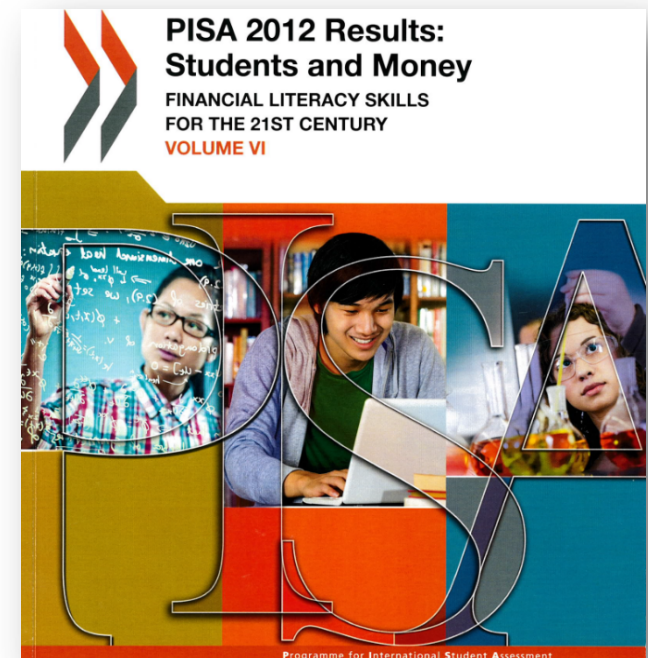
Programme for International Student Assessment (PISA)

Measuring financial literacy among the young

- **This is the first large-scale international study to assess the financial literacy of 15-year-old students**
- **18 countries-economies participated in the 2012 Financial Literacy Assessment**

The countries-economies are:

Australia, Belgium (Flemish Community), Shanghai-China, Colombia, Croatia, Czech Republic, Estonia, France, Israel, Italy, Latvia, New Zealand, Poland, Russia, Slovak Republic, Slovenia, Spain, and the United States



New data on financial literacy around the world

MHFI partnered with Gallup, GFLEC, and the World Bank Research Group to create the **S&P Global FINLIT Survey** – the largest, most comprehensive, global measurement of financial literacy yet.



GALLUP®

Jon Clifton
Managing Director
Global Analytics



GFLEC
GLOBAL FINANCIAL LITERACY
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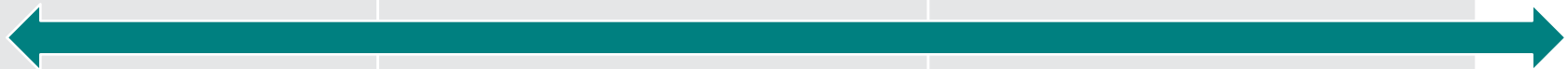
**THE
WORLD
BANK**

Leora Klapper
Lead Economist
Development Research
Group



**McGRAW HILL
FINANCIAL**

Louise Raymond
*Vice President, Corporate
Responsibility*
McGraw Hill Financial



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



Measuring financial literacy

What questions to ask

- **Theory: Saving (borrowing) and investing**
 - **Life-cycle model of saving**
 - **Portfolio choice**

Concepts:

- *Interest compounding*
- *Inflation*
- *Risk diversification*

These theories/concepts apply everywhere (work of Nobel Prize Winner Angus Deaton)

Measuring financial literacy

Big Three (three financial literacy questions)

1. Numeracy/interest compounding
2. Inflation
3. Risk diversification

The Big Three are used in the FLAT World project

Being financially literate: How many can answer these 3 questions correctly, and how many can correctly answer 2 out of the 3 questions

Measuring financial literacy globally

A global measure

1. **Core concepts**
2. **Universality**
3. **Generalizability**

The measure has to be applicable to every country, irrespective of economic structure and financial market development

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

Measuring financial literacy

Numeracy/ simple Interest

Suppose you need to borrow \$100. Which is the lower amount to pay back: \$105 or \$100 plus three percent? [*105 US dollars; 100 US dollars plus three percent; don't know; refuse*]

Interest Compounding

Suppose you put money in the bank for two years and the bank agrees to add 15 percent per year to your account. Will the bank add more money to your account in the second year than it did in the first year, or will it add the same amount of money in both years? [*more; the same; don't know; refuse*]

Suppose you had \$100 in a savings account and the bank adds 10 percent per year to the account. How much money would you have in the account after five years if you did not remove any money from the account? [*more than 150 US dollars; exactly 150 US dollars; less than 150 US dollars; don't know; refused*]

Measuring financial literacy

Inflation

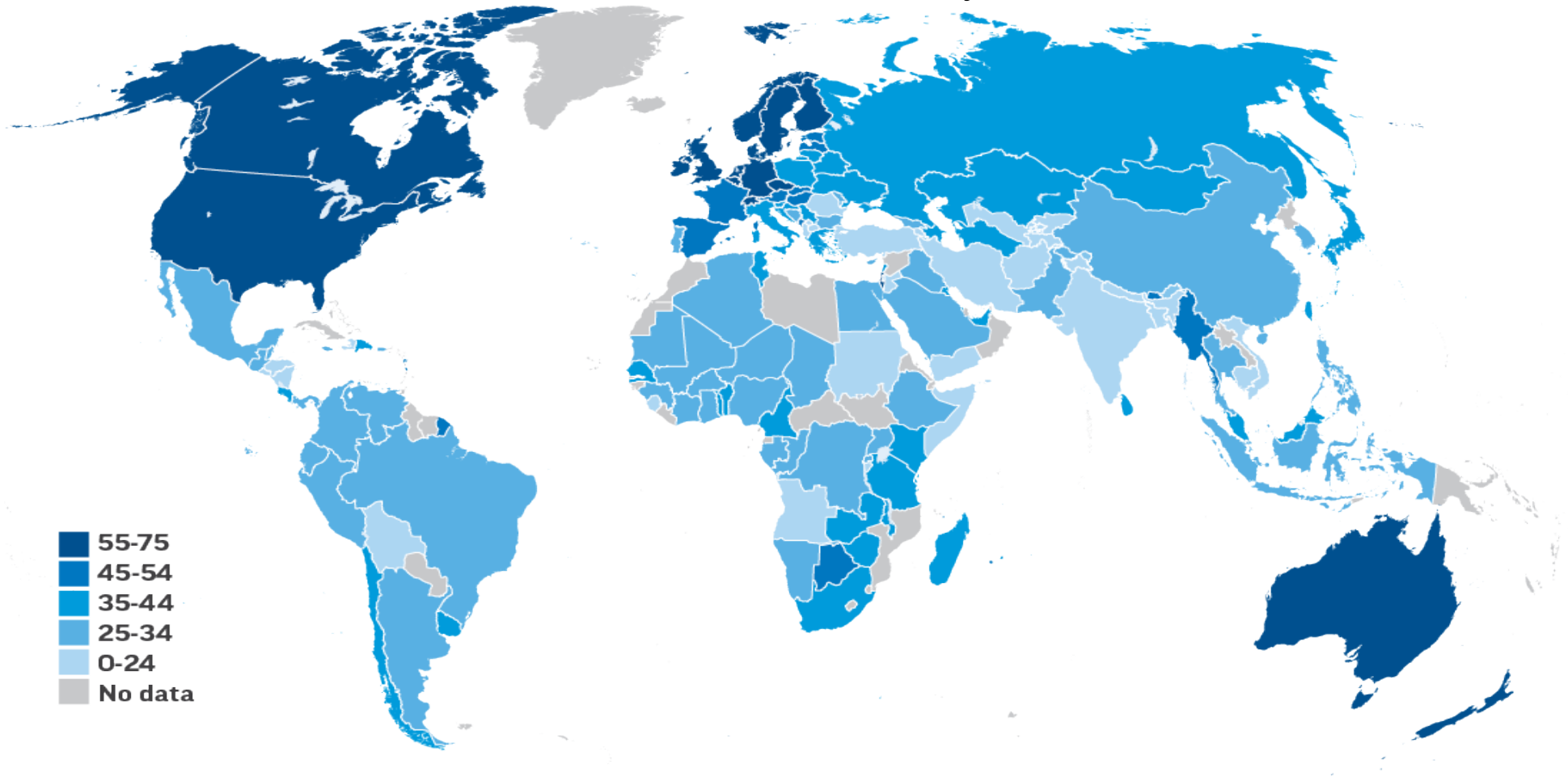
Suppose over the next 10 years the prices of things you buy double. If your income also doubles, will you be able to buy less than you buy today, the same as you can buy today, or more than you can buy today?
*[less; **the same**; more; don't know; refuse]*

Risk Diversification

Suppose you have some money. Is it safer to put your money into one business or investment, or to put your money into multiple businesses or investments? *[one business or investment; **multiple businesses or investments**; don't know; refuse to answer]*

Financial literacy globally

% of adults who are financially literate



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

How countries score

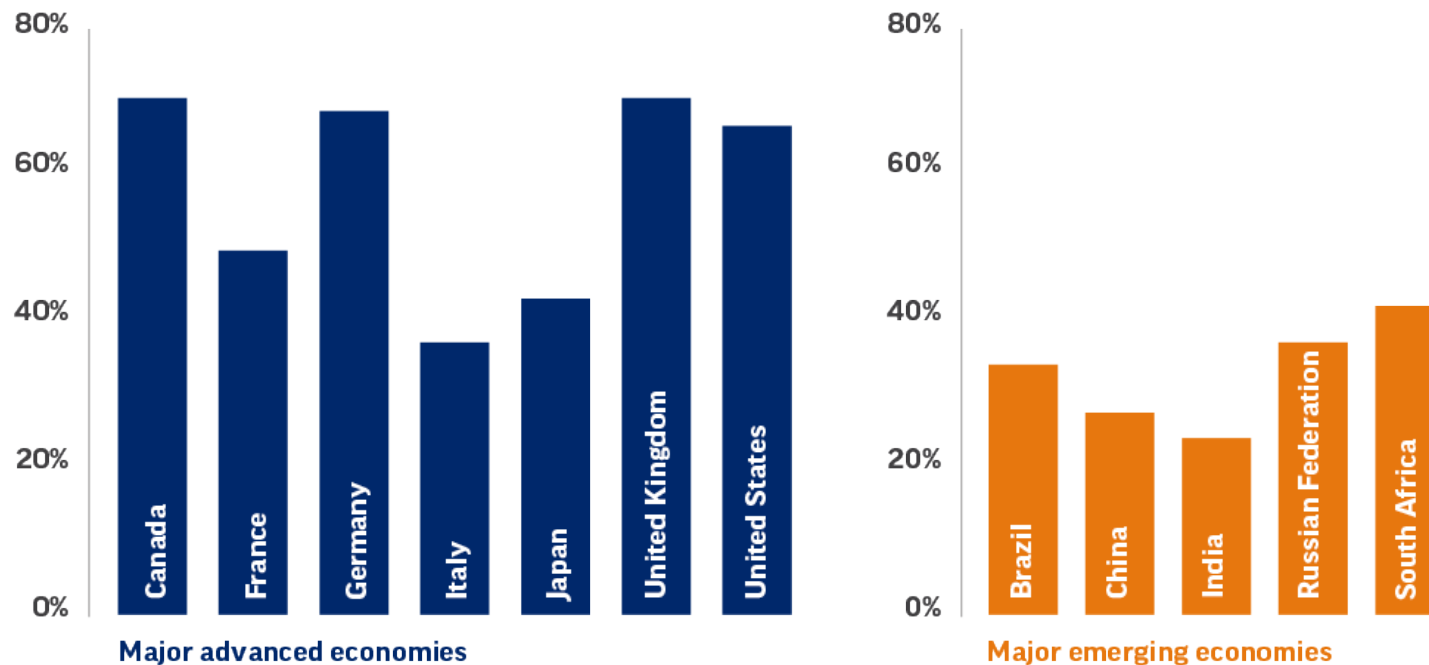
Norway, Denmark, and Sweden lead the world with 71% of adults answering three out of four topics correctly.

In the US, 57% answer three out of four topics correctly.

| Country | at least 3 out of 4 topics answered correctly (%) |
|---------------|---|
| Norway | 71% |
| Denmark | 71% |
| Sweden | 71% |
| Israel | 68% |
| Canada | 68% |
| UK | 67% |
| Bulgaria | 35% |
| Côte d'Ivoire | 35% |
| Angola | 15% |
| Somalia | 15% |
| Afghanistan | 14% |
| Albania | 14% |
| Yemen | 13% |

Financial literacy in advanced countries and in emerging economies

% of adults who are financially literate

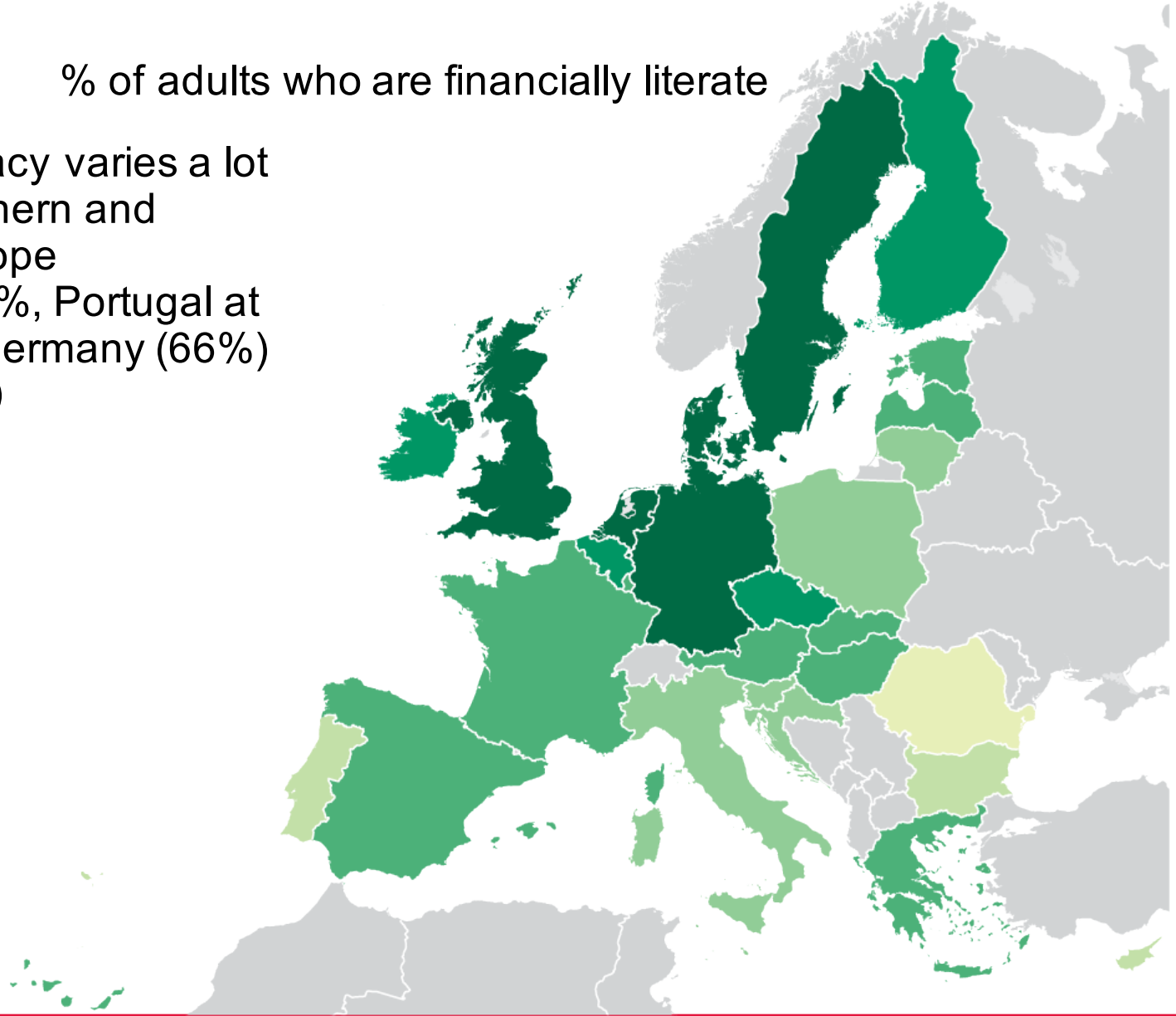
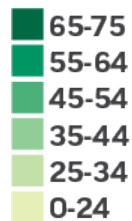


- Financial literacy is low even in advanced countries (e.g. Italy)
- Financial literacy is low among BRICS countries

Financial literacy in Northern and Southern 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%)



Financial literacy across countries

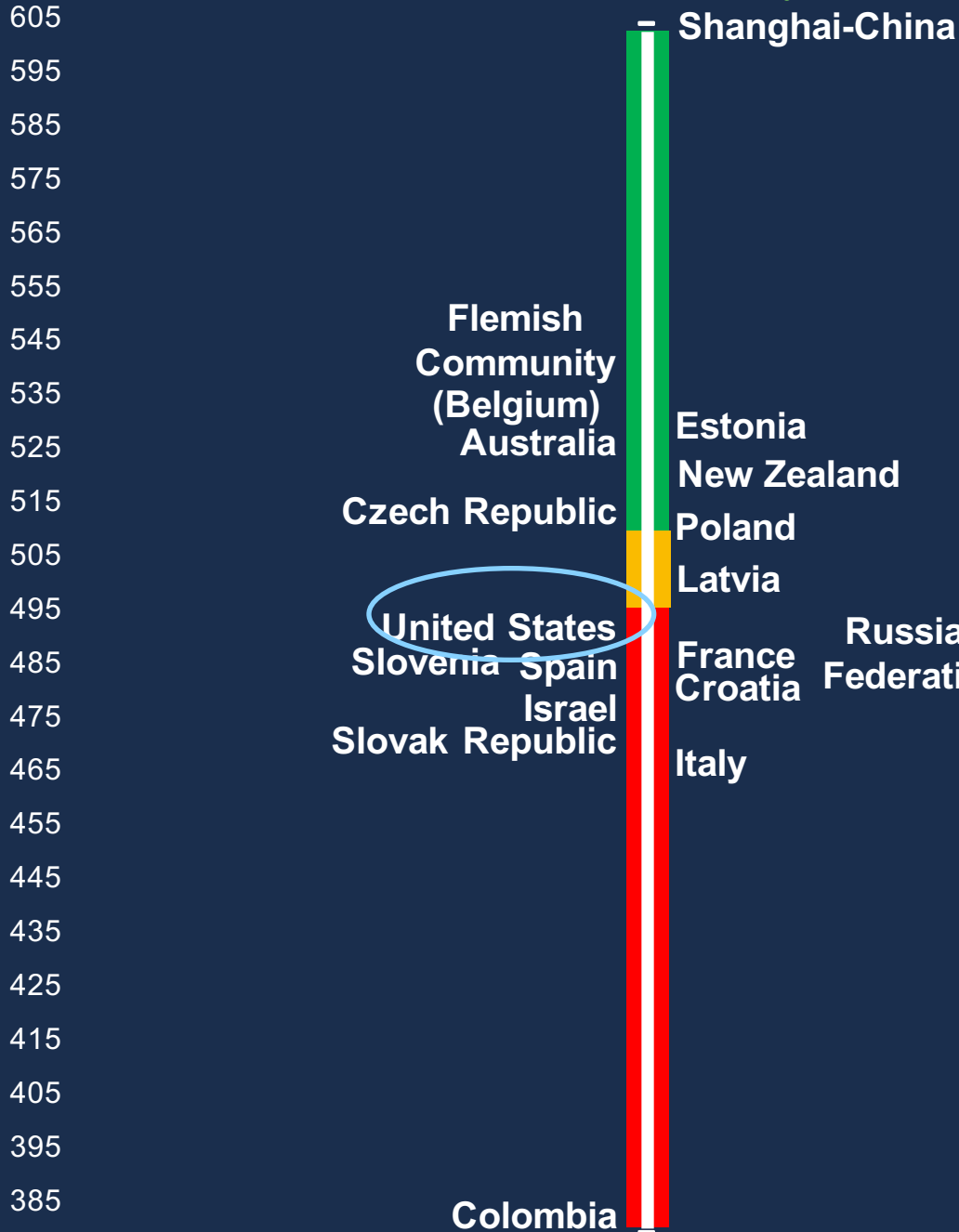
Findings are similar in other surveys

- 1. FLAT World) project report similar findings**
- 2. OECD' Programme for International Student Assessment (PISA)**
 - Findings are similar

Mean score

Strong performance in financial literacy

Average performance of 15-year-olds in financial literacy

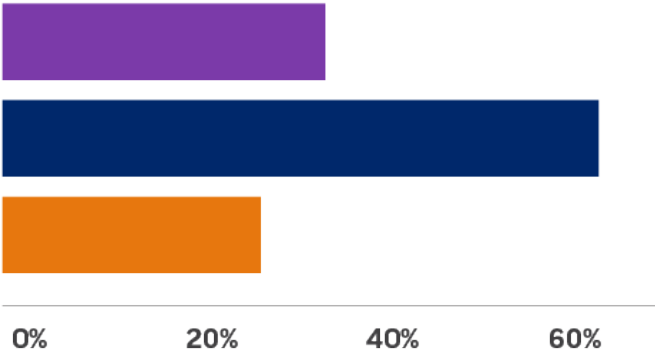


Low performance in financial literacy

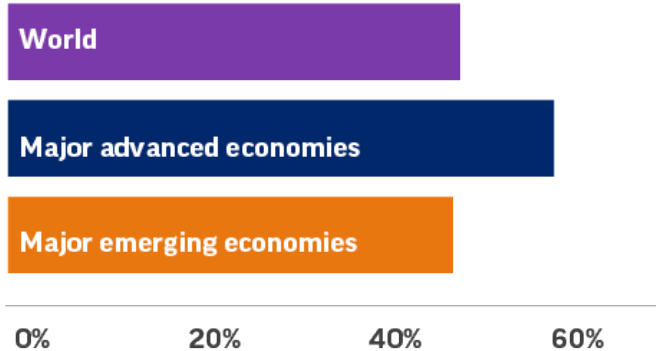
Financial literacy around the world: Which topics do people know?

% of adults who are financially literate

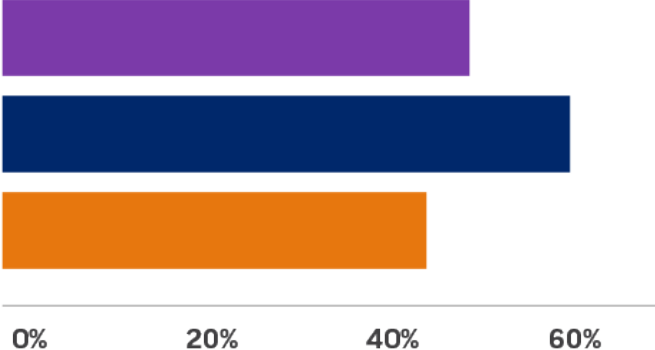
RISK DIVERSIFICATION



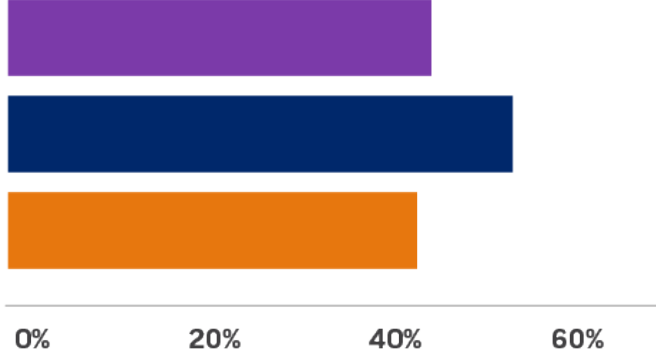
NUMERACY (INTEREST)



INFLATION

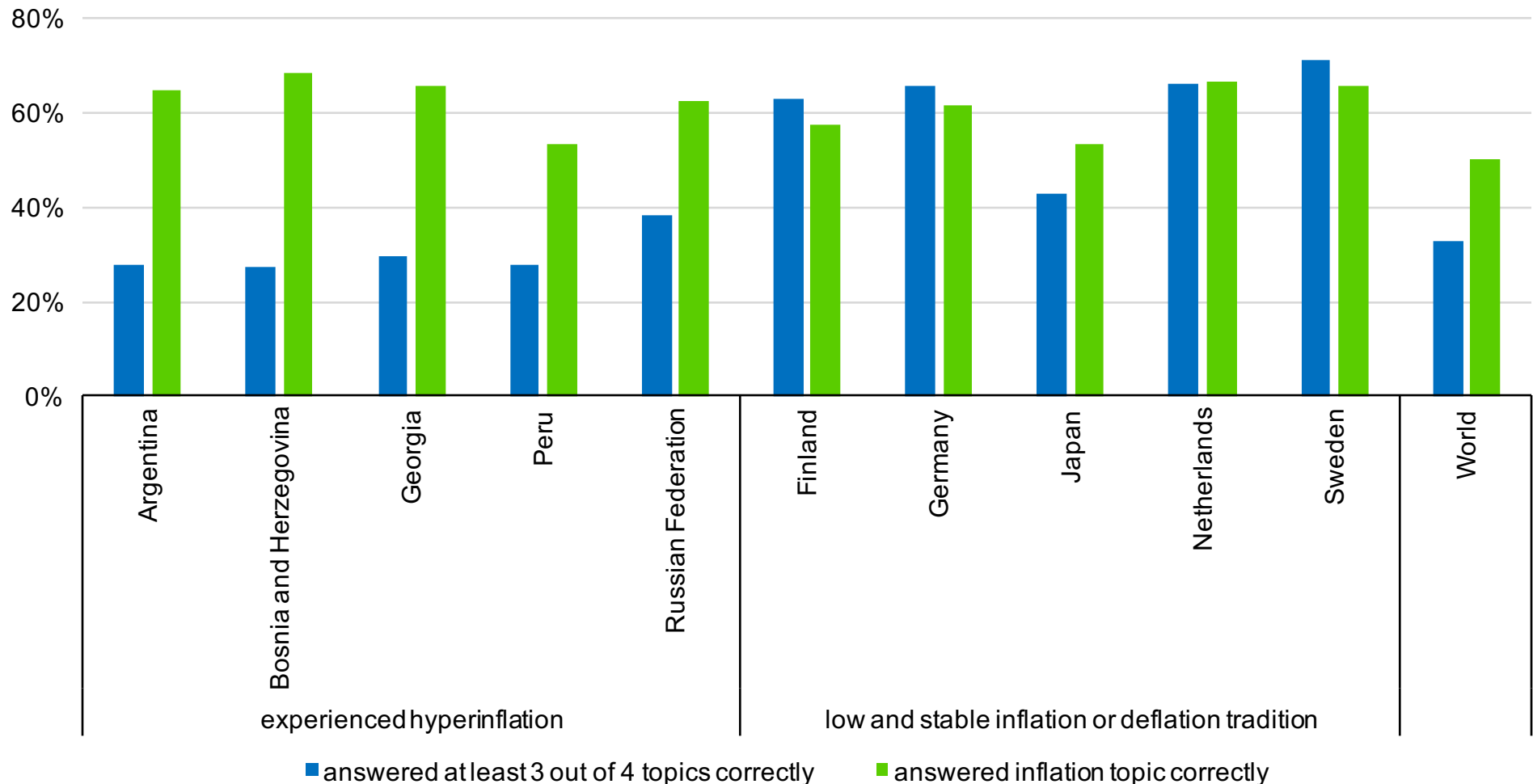


COMPOUND INTEREST



Financial literacy globally: knowledge of inflation

% of adults who answer the financial literacy questions correctly



Digging deeper in the financial literacy measure

➤ Inflation and simple interest/numeracy is what people know most across countries

- There are differences across countries

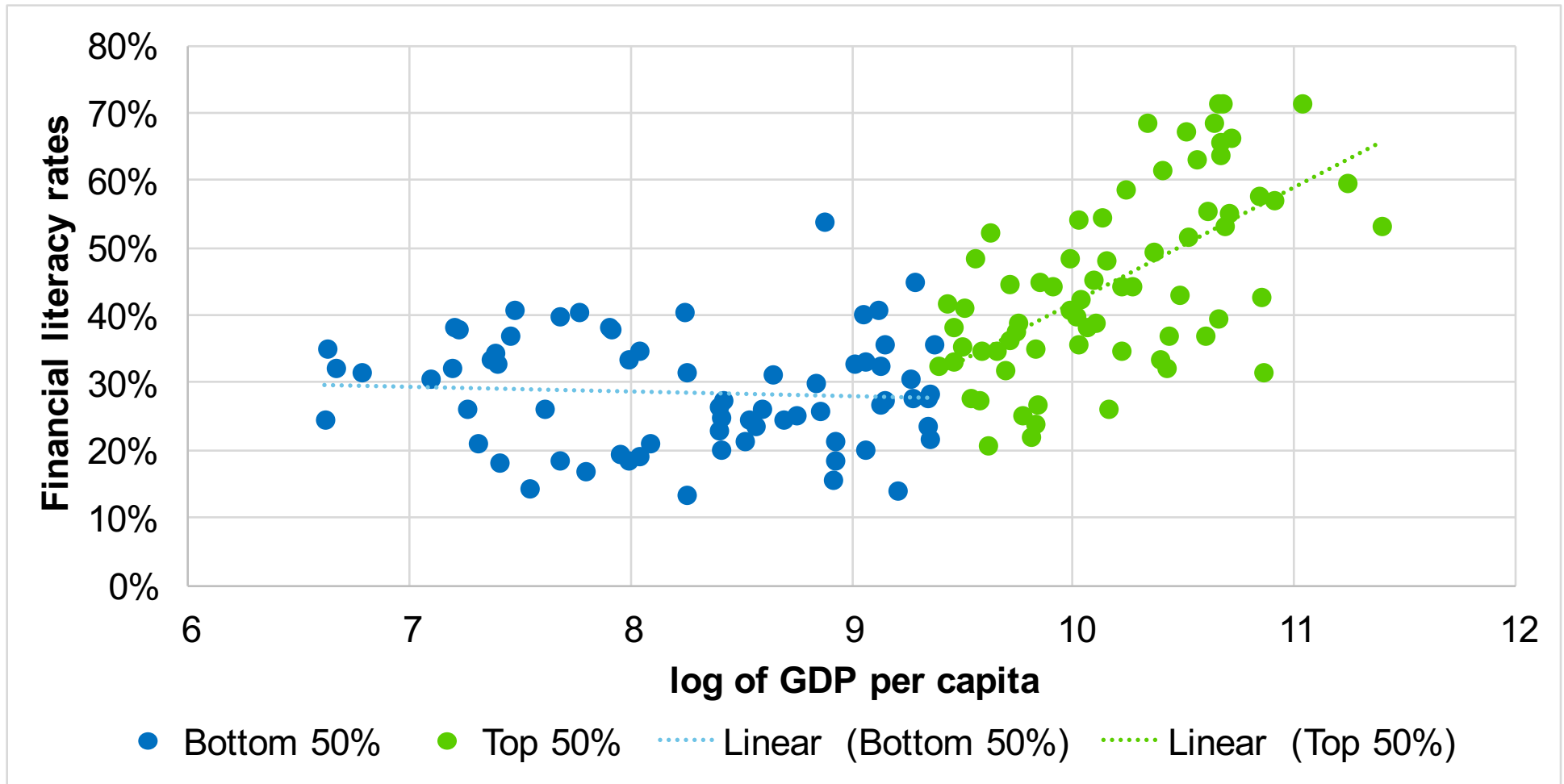
➤ Risk diversification is what people know the least

- Largest differences across countries
- Similar result in FLAT World Project

➤ Evidence of learning by experience

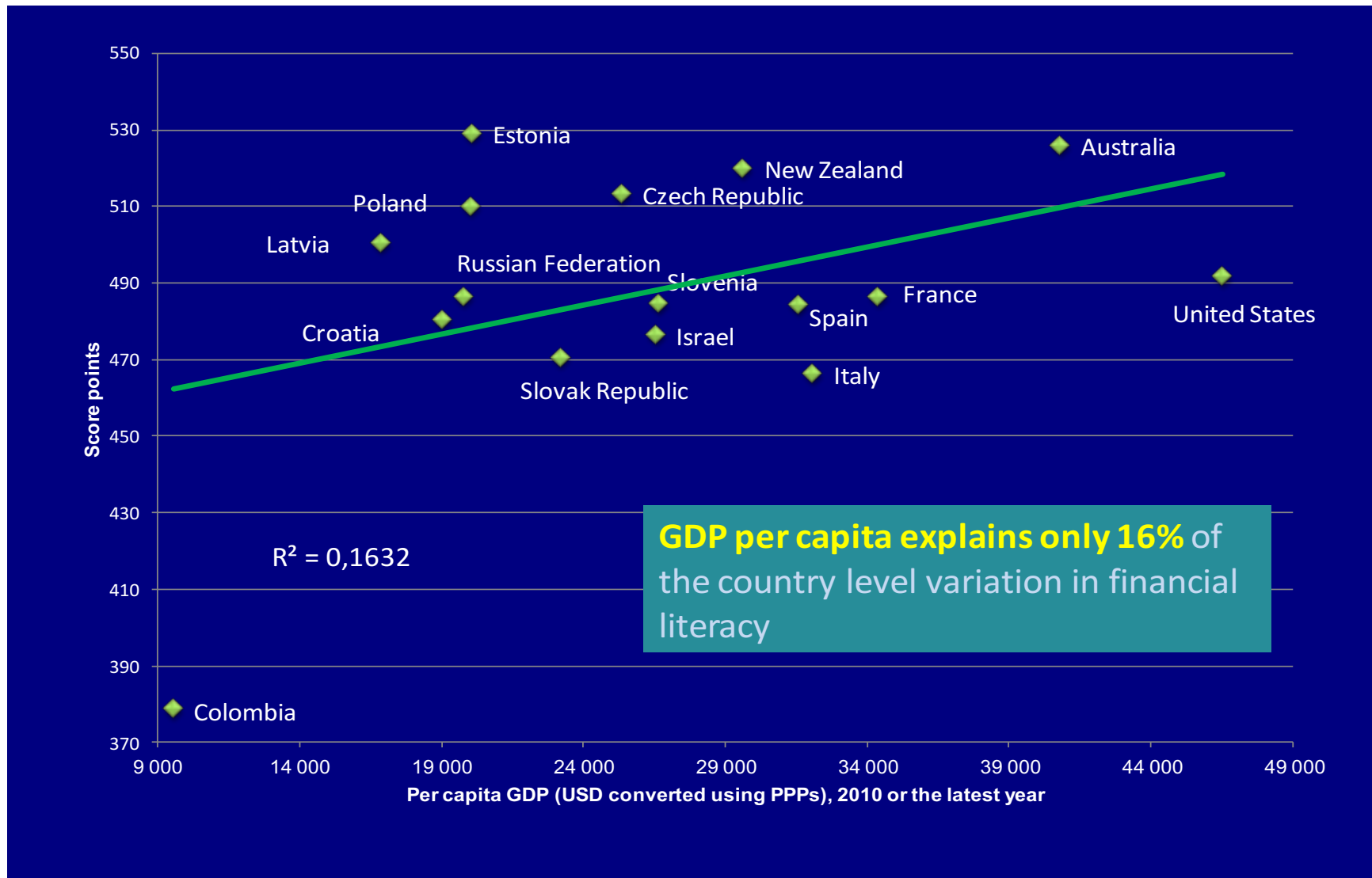
- Respondents in countries that experience hyperinflation know more about inflation

Financial literacy and log of GDP per capita



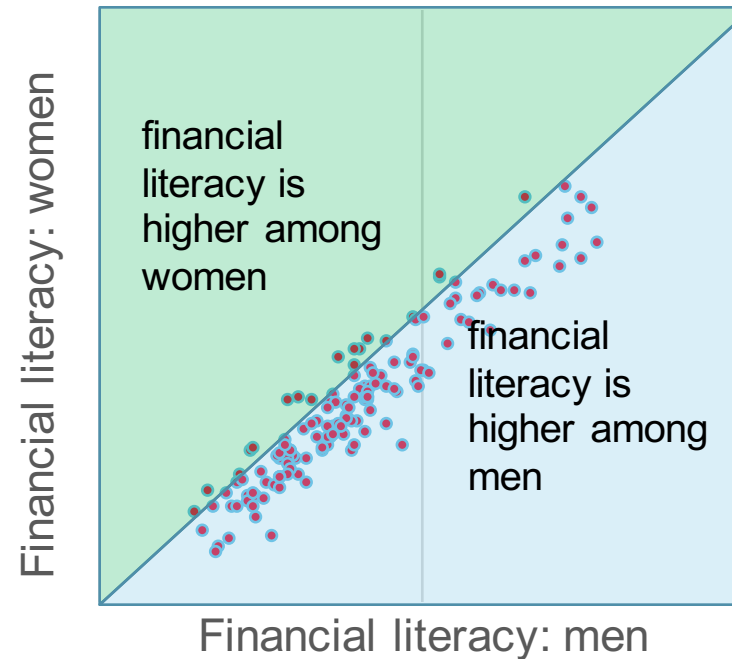
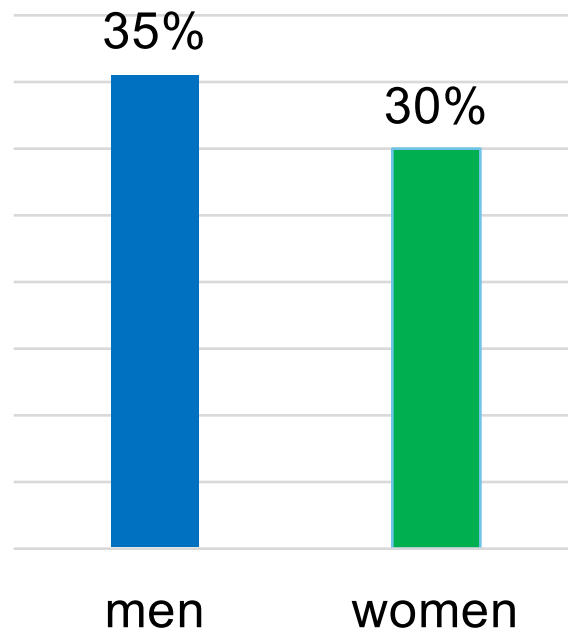
- Positive relationship in higher income countries

Financial literacy and GDP per capita in PISA



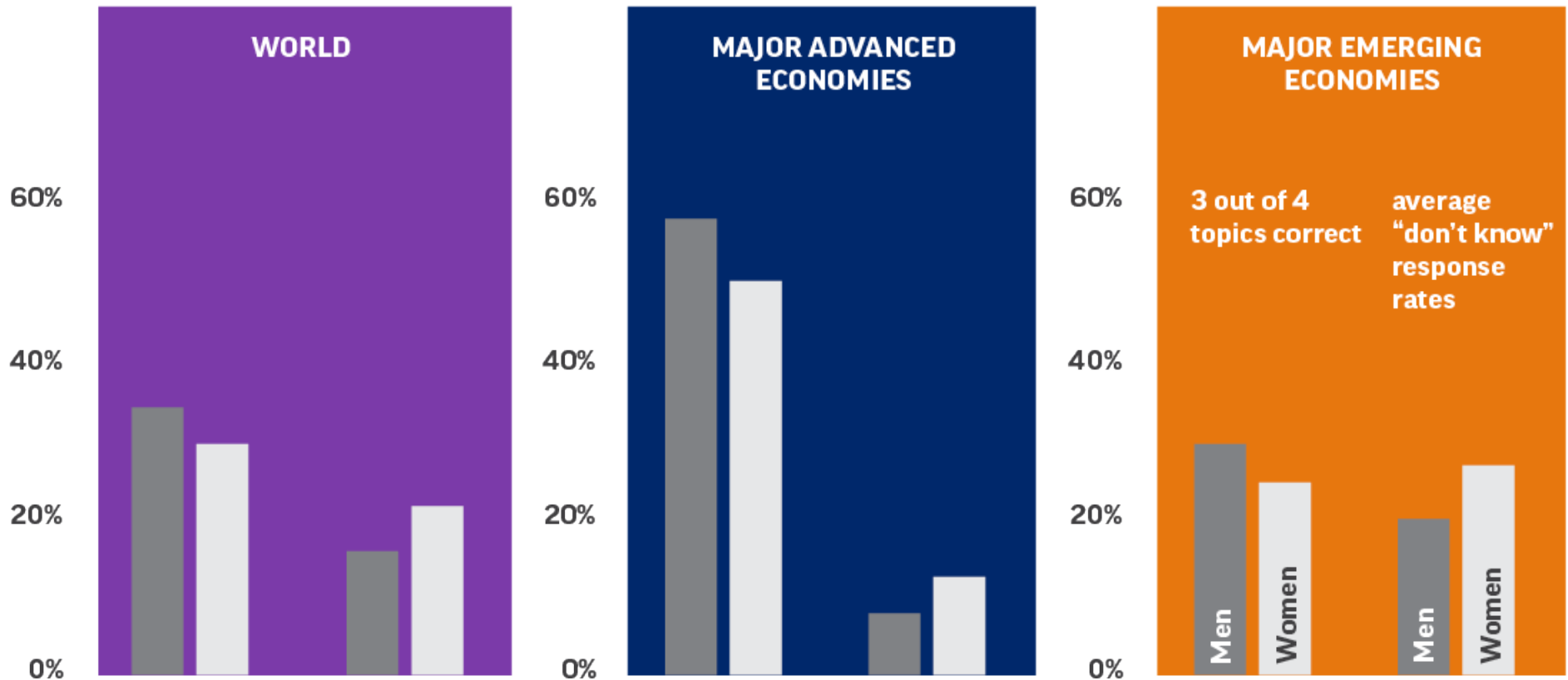
The gender gap in financial literacy

% of adults who are financially literate



- The average gender gap in financial literacy is 5 percentage points
- The gender gap in financial literacy is present in most countries

The gender gap in financial literacy

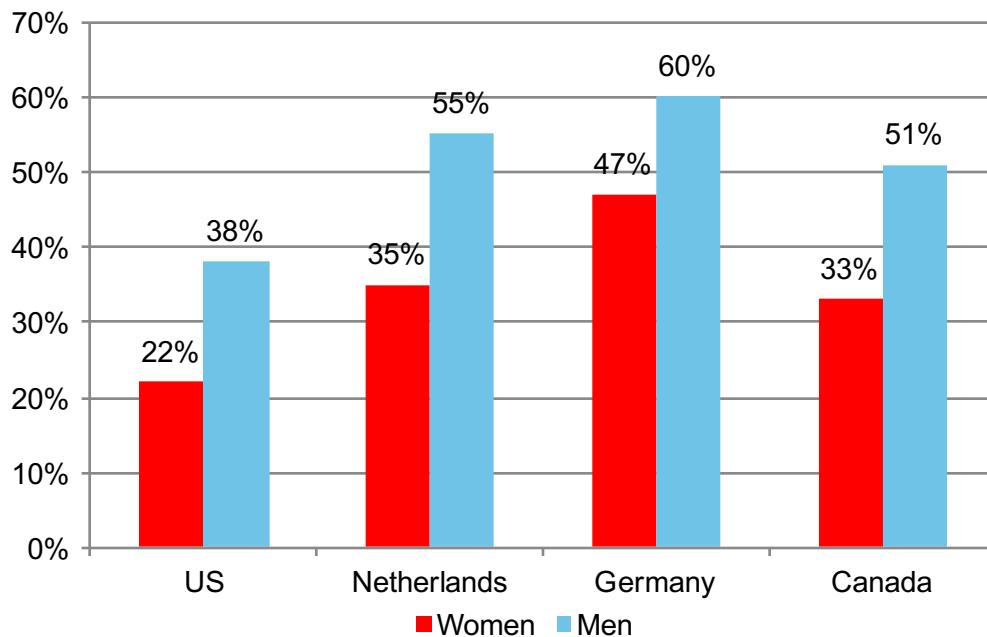


- The average gender gap in financial literacy is 5pps
- The gender gap in financial literacy is present in most countries
- Women are more likely to answer “I do not know”

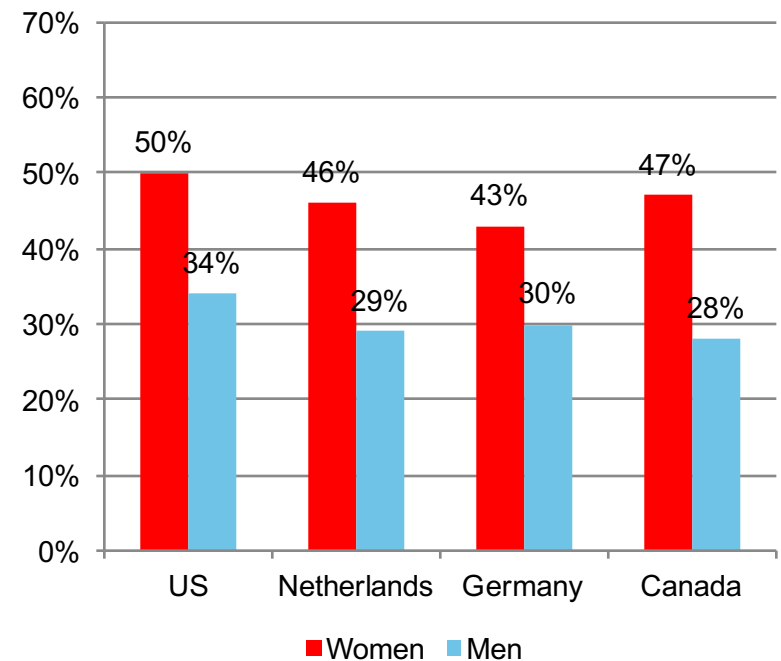
Gender differences in financial literacy

FLAT World

Financial knowledge by gender
(% answering 3 Qs correctly)

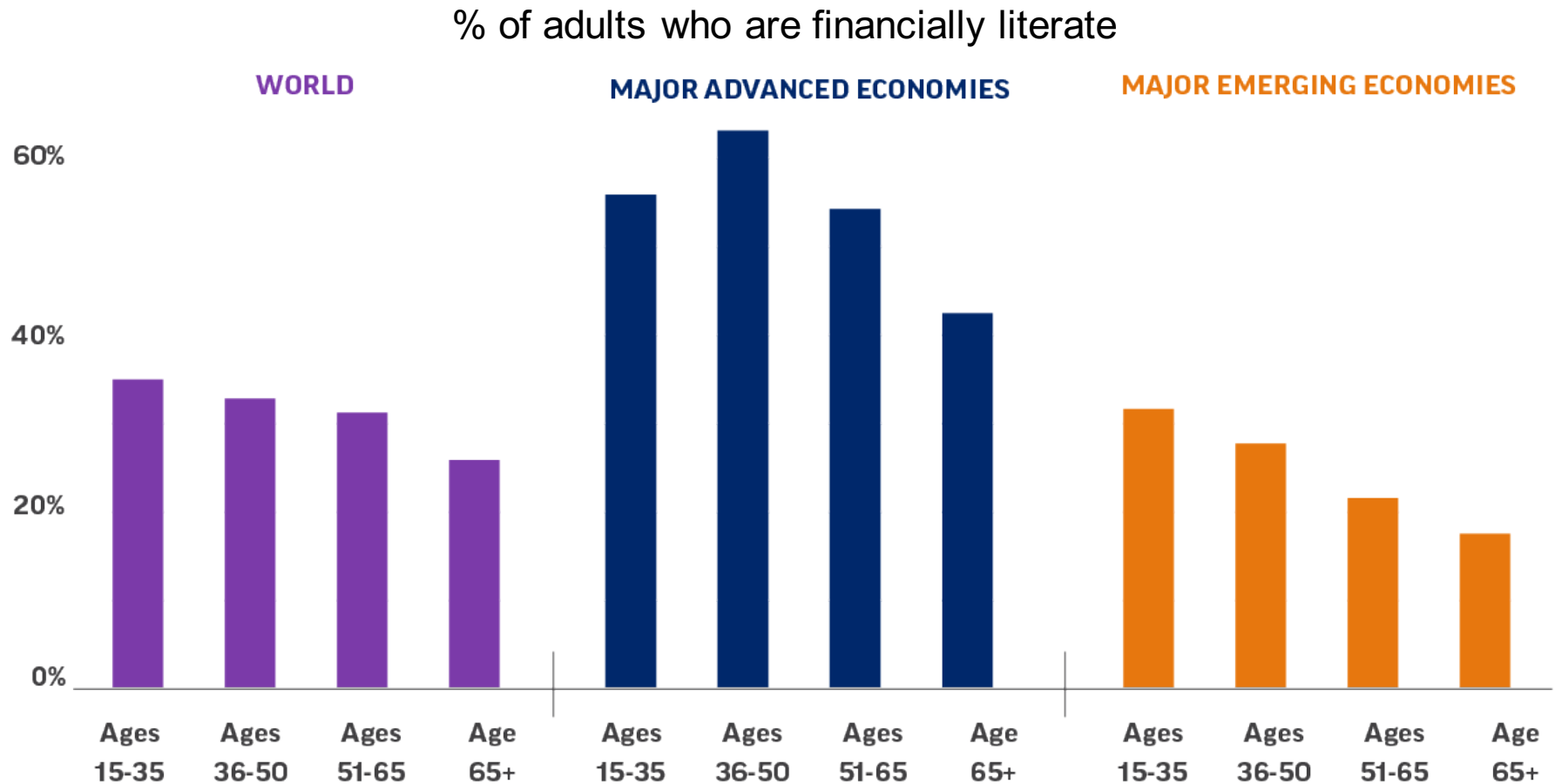


At least one "don't know" answer, by gender



- Very robust findings of large gender differences in financial knowledge
- Women are much more likely to say "I do not know"

Financial literacy over the life cycle

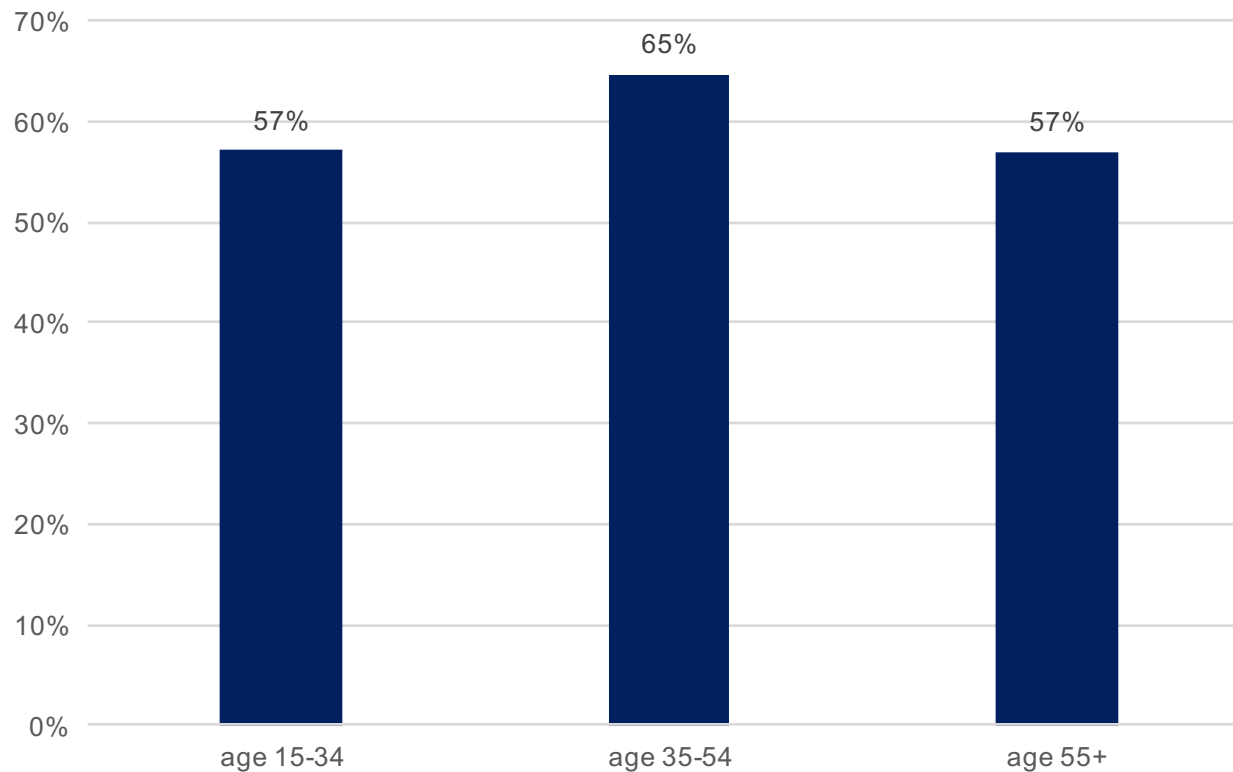


- Different life cycle profiles of financial literacy across countries
- Young adults in major emerging countries are more financially literate than older respondents

Financial literacy over the life cycle

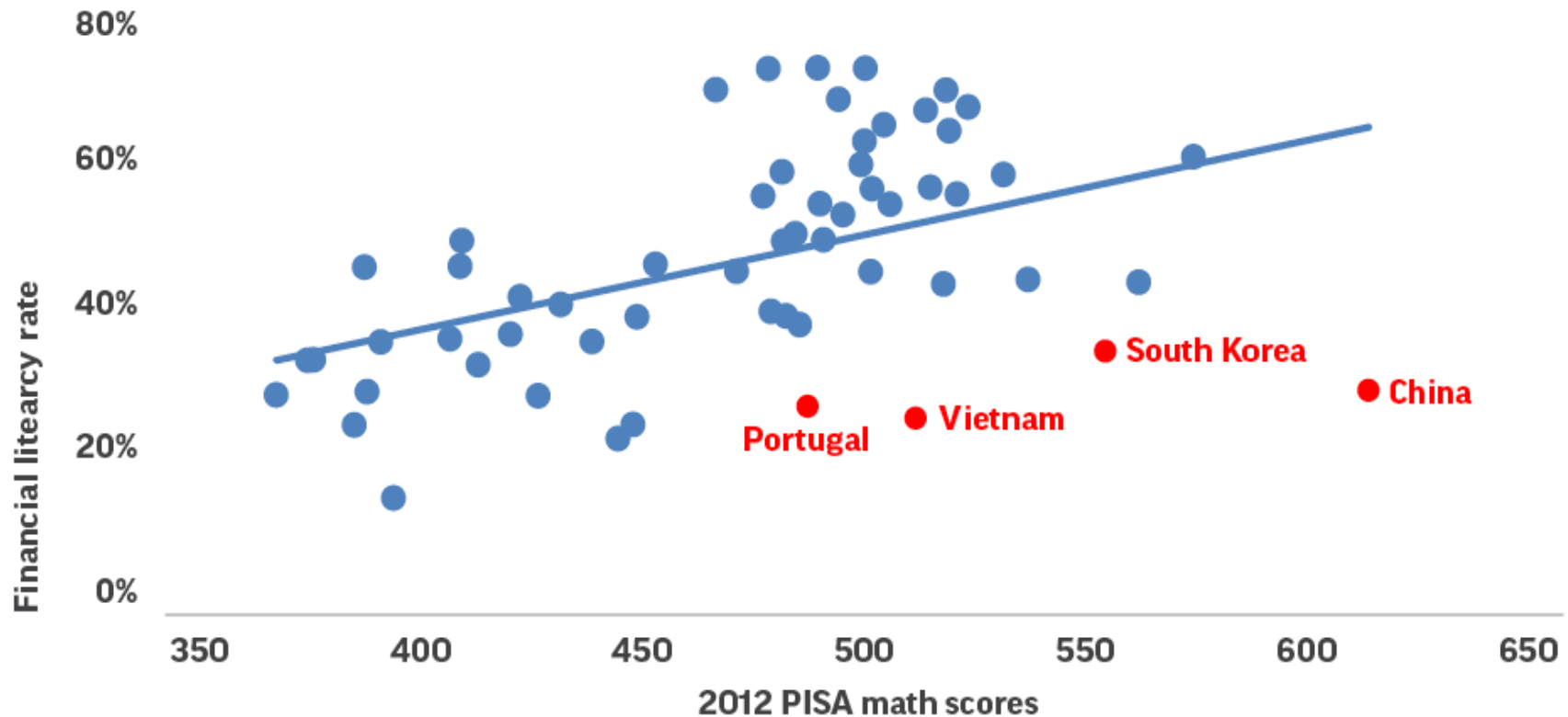
% of adults who are financially literate

United States



- Inverse-U age pattern in the US

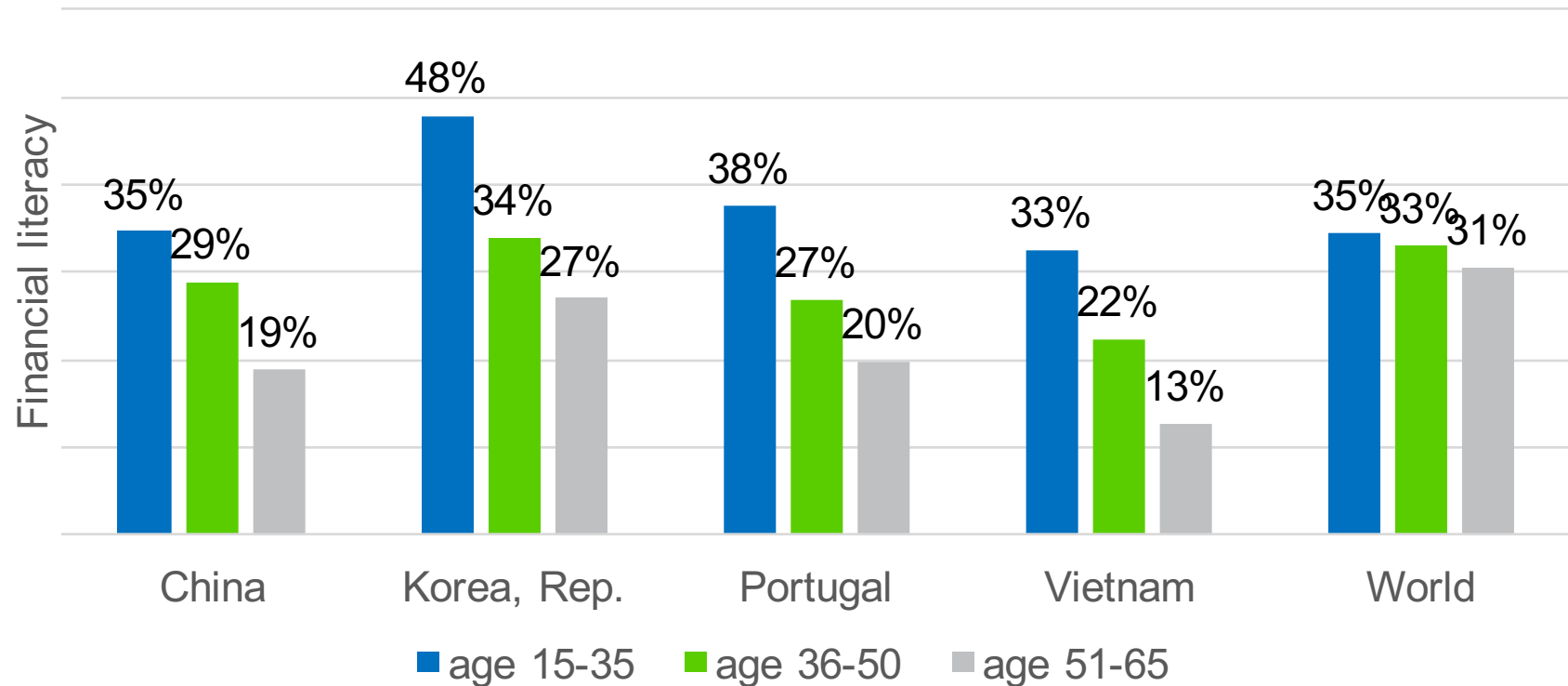
Combining data from PISA (math) & Global Survey



- Positive relationship between knowledge of the young and the general population
- The young are doing well in some countries

Financial literacy among the young in selected countries

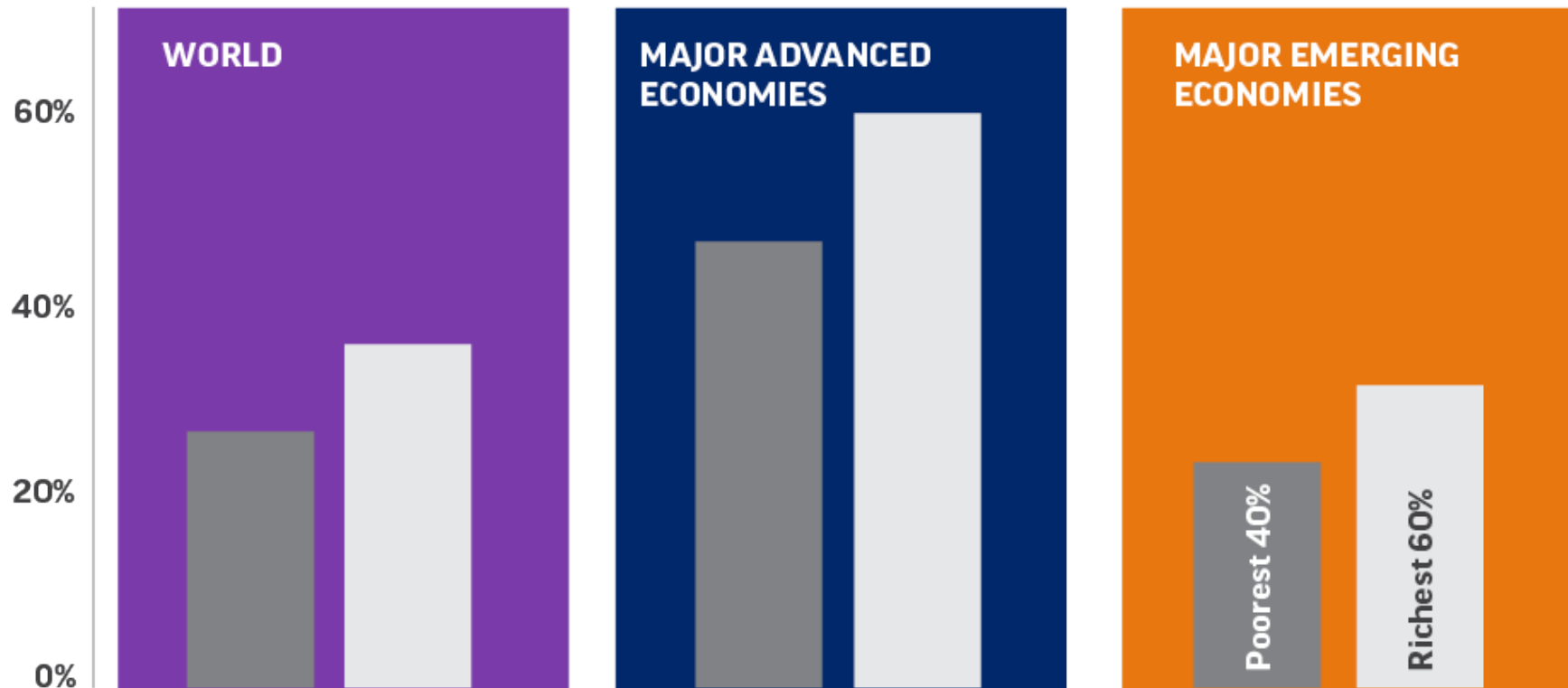
% of adults who are financially literate



- Financial literacy is relatively high among the young in these countries

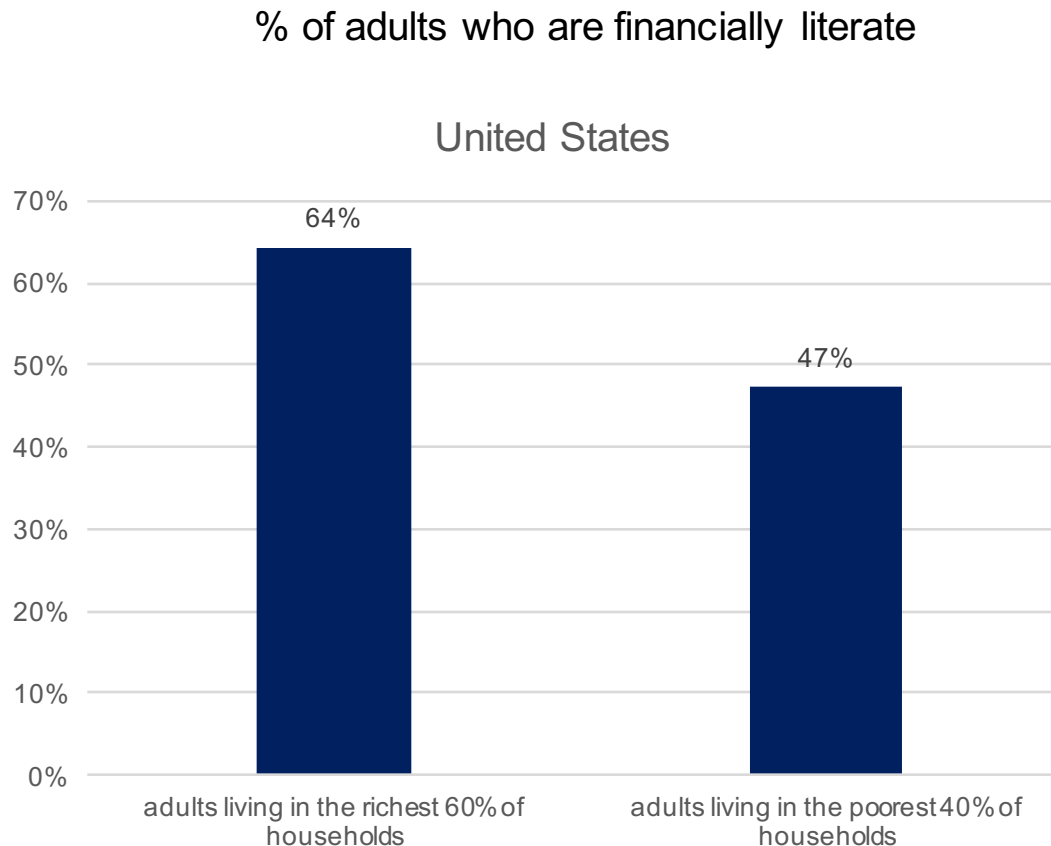
Financial literacy and income inequality

% of adults who are financially literate



- Of adults in the richest 60% of households in the major emerging economies, 31% are financially literate, against 23% of adults in the poorest 40% of households.

Financial literacy and income inequality



- Of adults in the richest 60% of households in the US, 64% are financially literate, against 47% of adults in the poorest 40% of households.

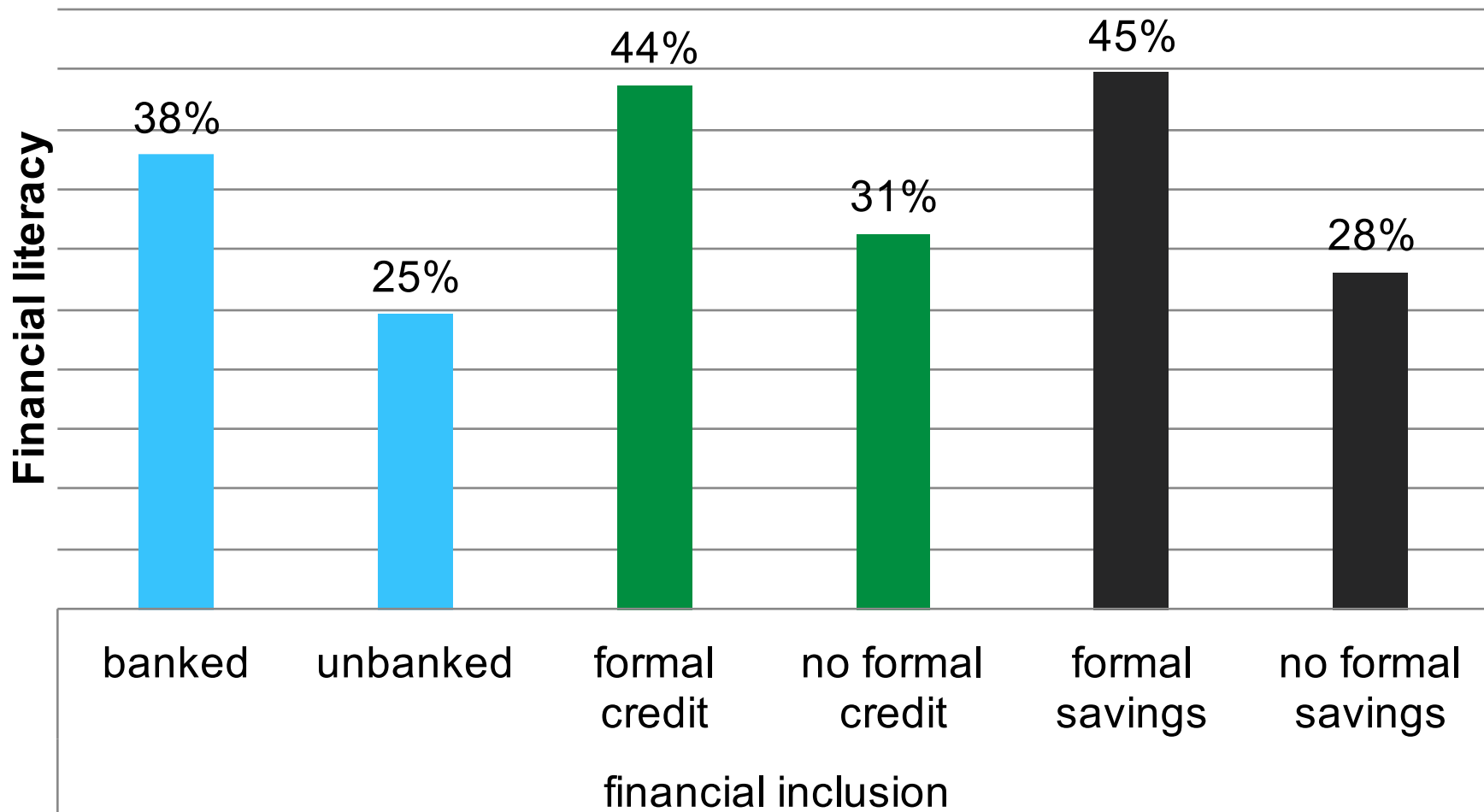
Differences in financial literacy around the world

Very rich data to understand differences in finlit

- **Differences in financial literacy are large across countries and within countries**
- **Gender differences in financial literacy in all countries**
 - Women are more likely to know that they lack knowledge!
- **The young are a vulnerable group, but not in all countries**
- **Differences across income groups**

Financial literacy and financial inclusion

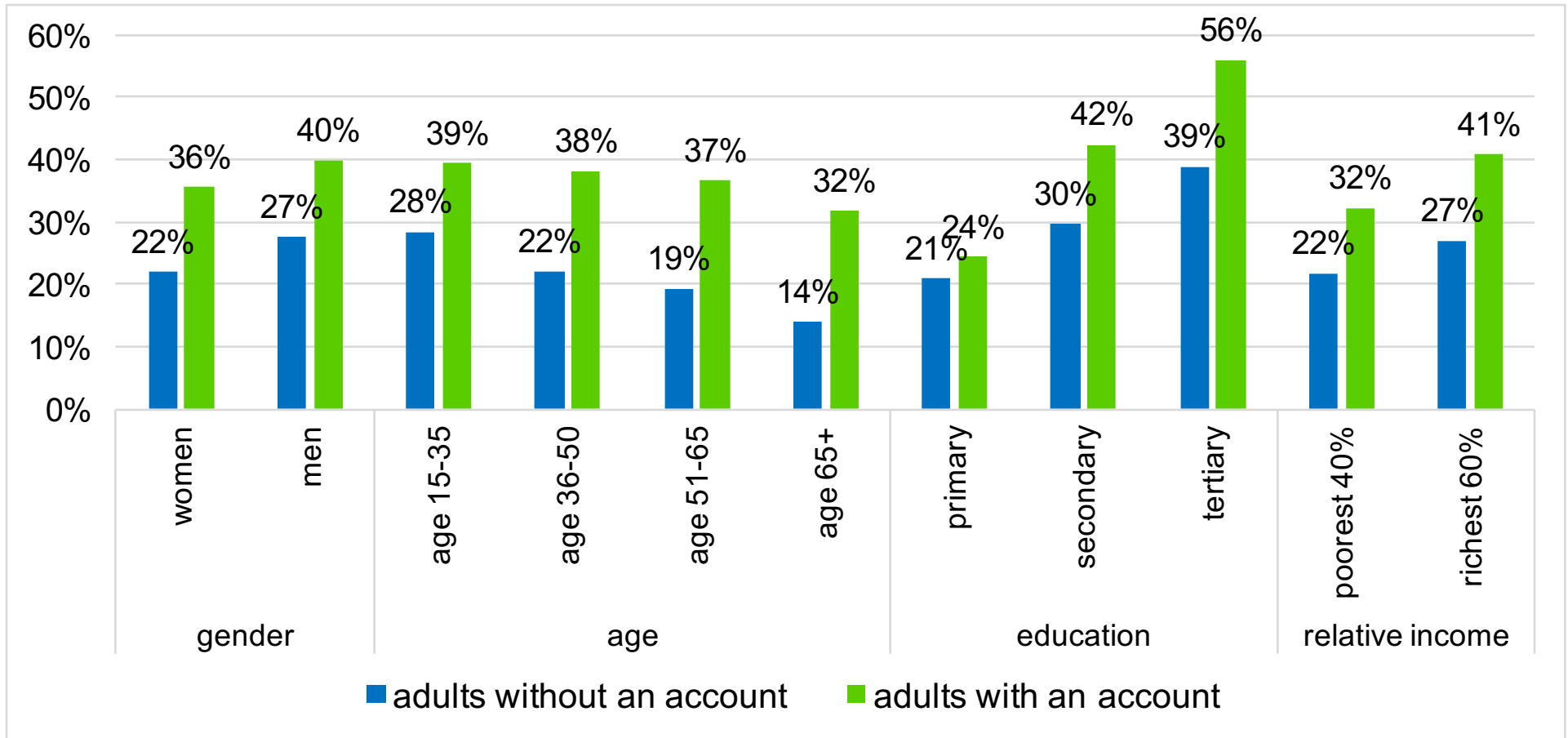
% of adults who are financially literate



Source: GFLS & Global Findex database

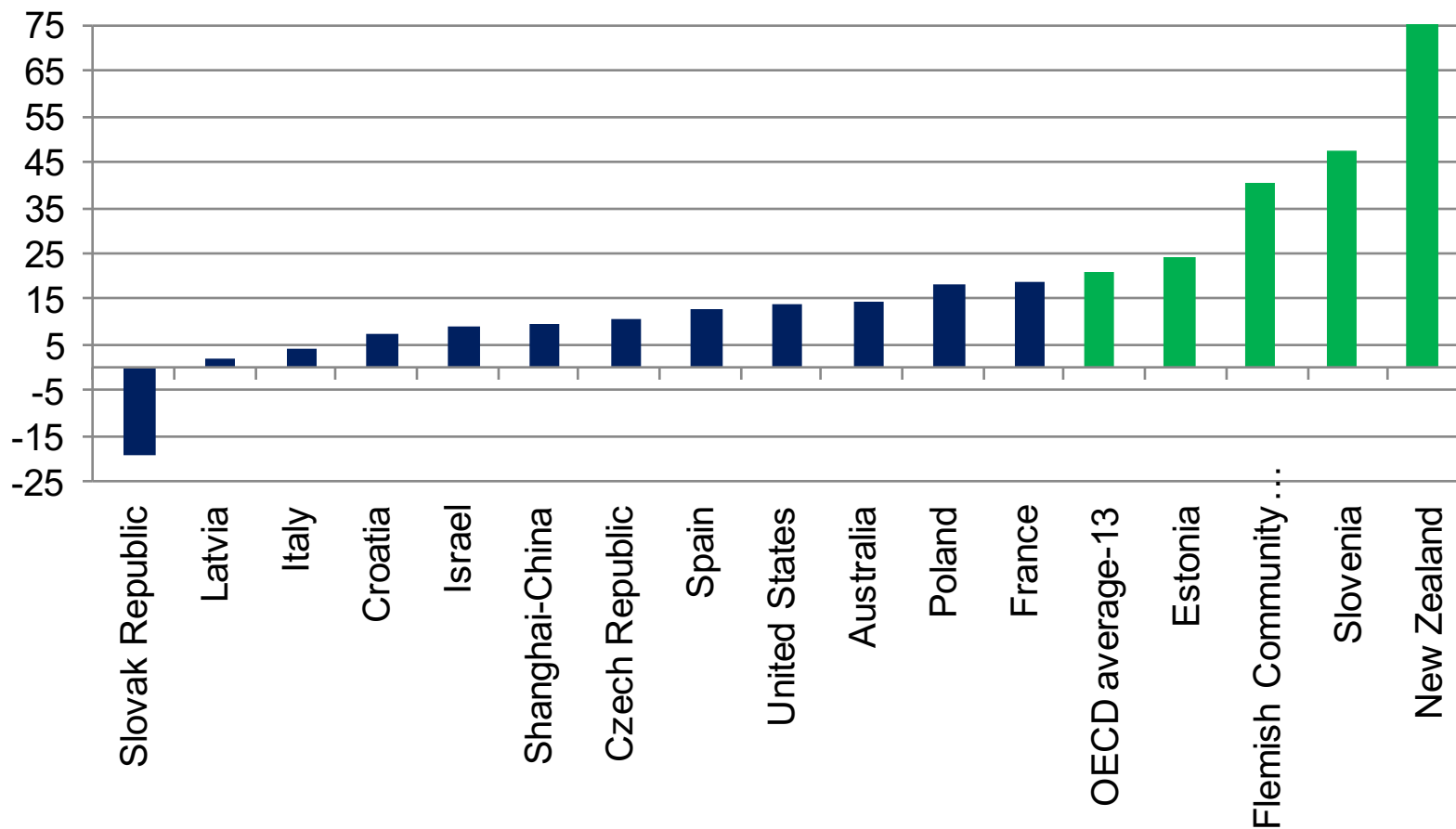
Financial literacy and bank accounts

% of adults who are financially literate



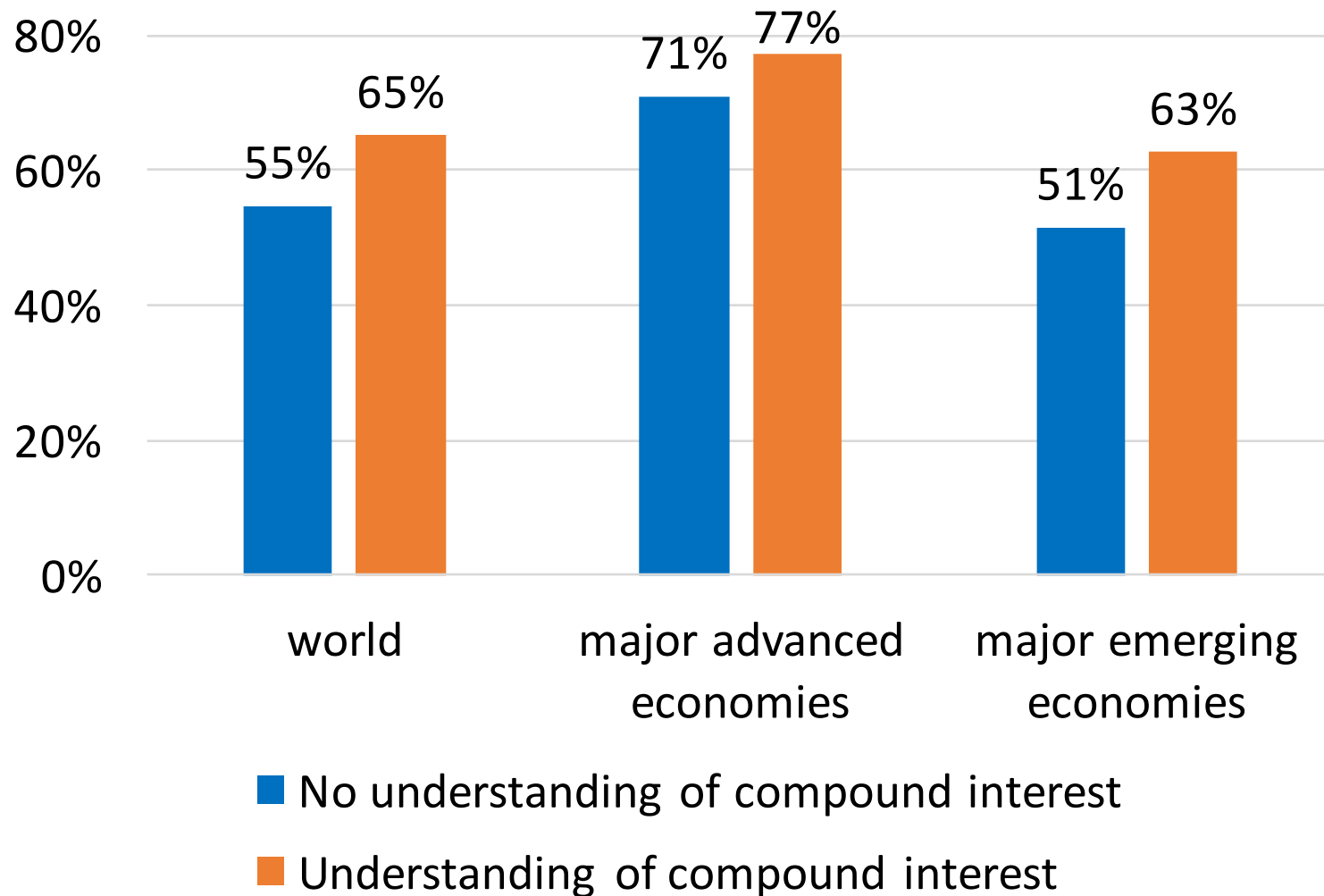
- Positive links between financial literacy and financial inclusion

Financial literacy and bank account holding (accounting for socio-demographics) in PISA



On average across OECD countries and economies, students who hold a bank account score 21 points higher than students with similar socio-economic status who do not.

Account use among account holders who save



Source: GFLS & Global Findex database

Several findings

Summary and take-aways

- Financial illiteracy is widespread in the population
- Risk diversification is most difficult concept to grasp
- Differences in financial literacy are very large across demographic groups
- There is a link between financial literacy and financial inclusion

What can be done to improve finlit

How these data can inform policy and programs

- **High levels of financial illiteracy**
 - We are at a crisis level
- **One size does not fit all**
 - Need for more targeted programs, particularly for vulnerable groups
- **Women are ideal targets for financial educ. programs**
- **Limited (one-time) financial education programs are not going to be effective**
 - Widespread financial illiteracy requires robust interventions



What can be done to improve finlit, cont.

How these data can inform policy and programs

- **Communication should be done in simple ways**
 - Little knowledge of basic finance jargon
- **We need large and scalable programs**
 - Financial education in school
 - Financial education in the workplace
 - Financial education in the community (libraries, museums, other places where people go to learn)

Beijing Financial Literacy Manifesto



“... the International Federation of Finance Museums (IFFM) is committed to promoting financial literacy globally, raising awareness that every individual in every country is in need of financial literacy.”

Final thoughts

Shifting paradigm

➤ **Financial literacy is like reading and writing**

- As it was not possible in the past to participate in society without being able to read and write, so it is not possible to thrive in today's society without being financially literate

➤ **Building human capital for the 21st century**

- Everyone deals with finance and finance is sufficiently complex that we cannot leave it to the individual to learn by himself/herself

Contact and further information

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