

Malaysia-OECD Global Symposium on Financial Well-Being - September 30, 2015



LOOKING FORWARD – RESEARCHER VIEWS

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The growing importance of financial literacy

A new economic landscape

Major changes in many markets and institutions

➤ Changes in pensions

- More individual and private accounts

➤ Changes in labor markets

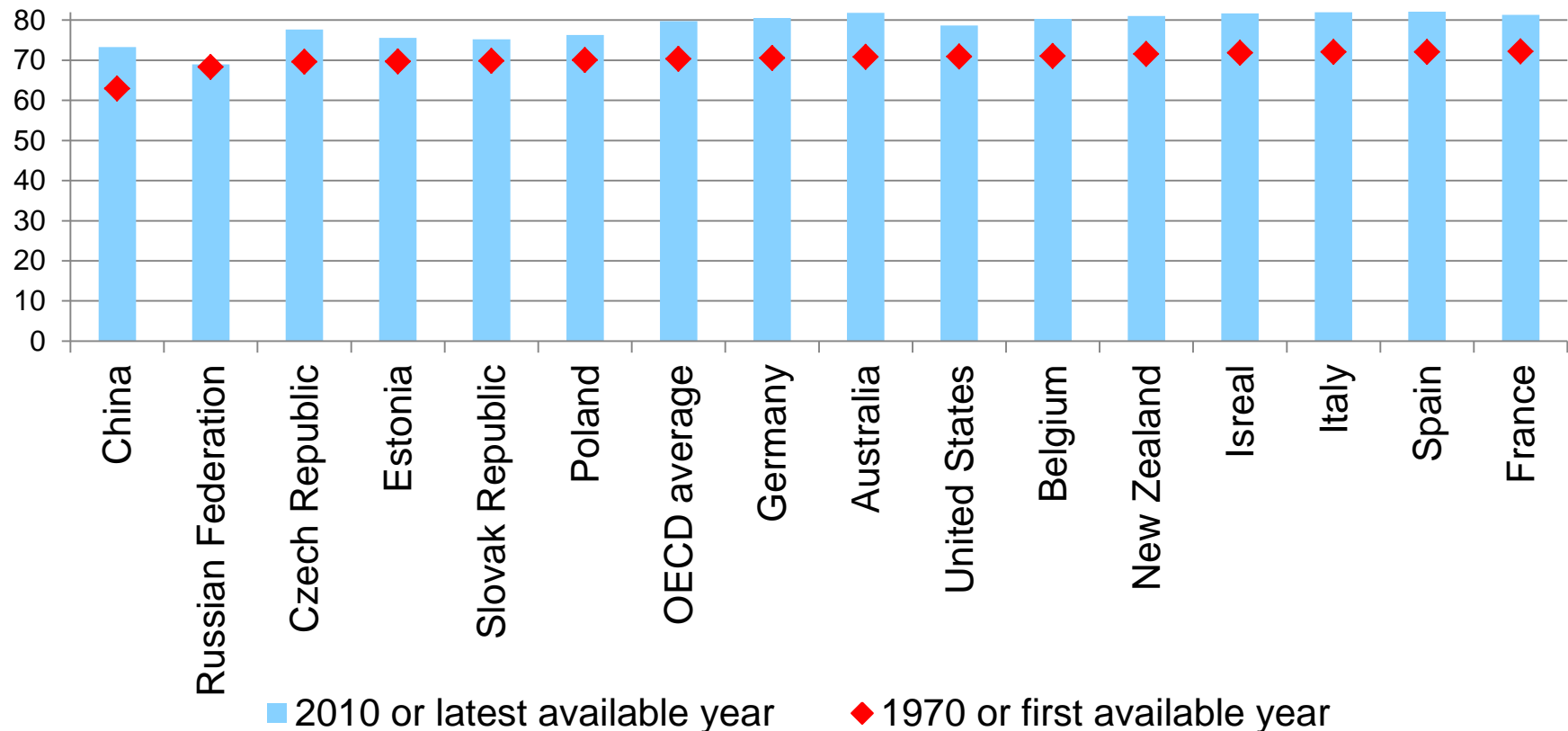
- Divergence in wages – skills are critical

➤ 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.

Many questions

Given these changes:

1. How well-equipped are people to deal with this new economic environment?
2. Are there vulnerable groups?
3. Does financial literacy matter?
4. What can be done to promote financial well-being?

A large amount of research on these topics

We can answer some of these questions

1. New data, thanks in particular to OECD-INFE
2. New initiatives and field work
3. Many researchers contributing to the emerging field of financial literacy/personal finance
4. A lot of new findings that are important for policy

OECD-INFE Research Committee

New committee

1. Members are from many countries and bring many different competencies
2. Provide most up-to-date relevant research
3. Provide information and expertise
4. Help looking forward

Topics I will cover in my presentations

Data – Research – Lessons learned

1. Data: PISA
2. Research : Examples of field work
3. Some lessons we have learned so far

Programme for International Student Assessment (PISA)

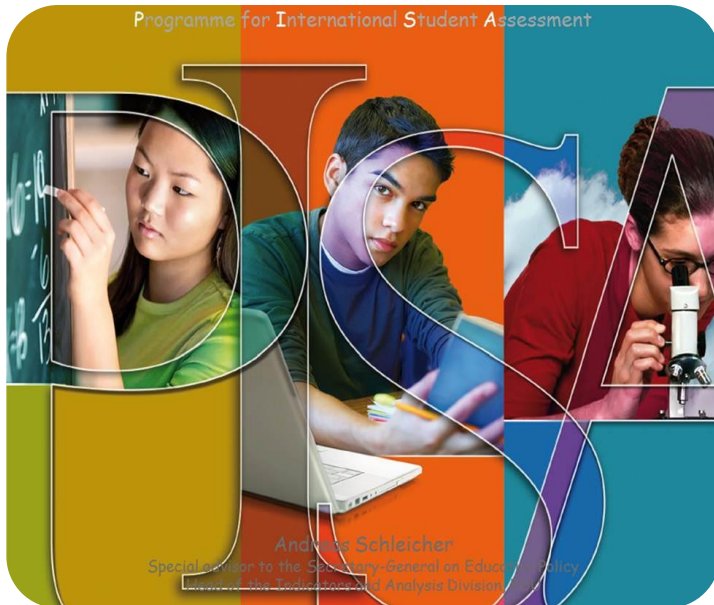
Are students well prepared for future challenges?

Can they analyze, reason and communicate effectively?

Do they have the capacity to continue learning throughout life?



Every three years the OECD Programme for International Student Assessment (PISA) answers these questions and more. It assesses to what extent students near the end of compulsory education have acquired some of the knowledge and skills essential for full participation in society.



New module on financial literacy in 2012

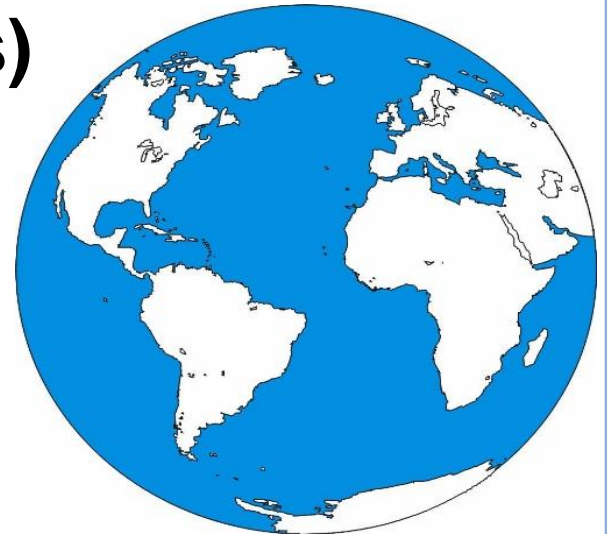
- This is the first large-scale international study to assess the financial literacy of 15-year-old students
- Financial literacy assessment framework

The framework was the first step in constructing a financial literacy assessment of international scope by providing an articulated plan for developing items, designing the instrument and providing a common language for discussion of financial literacy.

Financial Literacy Assessment Framework

A multiple-year project

- A group of experts was put together by the OECD to design the 2012 module on financial literacy
- They represented many countries and many stakeholders (Treasury departments, central banks, regulators, practitioners, academics)
- Experts worked on the assessment for about two years



Definition of financial literacy

*“Financial literacy is **knowledge and understanding** of financial concepts and risks, and the **skills, motivation and confidence** to **apply** such knowledge and understanding in order to make **effective decisions** across a range of financial contexts, **to improve the financial well-being** of individuals and **society**, and to enable **participation in economic life**.”*



PISA 2012 Results: Students and Money

FINANCIAL LITERACY SKILLS
FOR THE 21ST CENTURY

VOLUME VI



Participating countries-economies

18 countries-economies participated in the 2012 Financial Literacy Assessment (13 are OECD countries-economies)

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

Data was released on July 9, 2014

Mean score

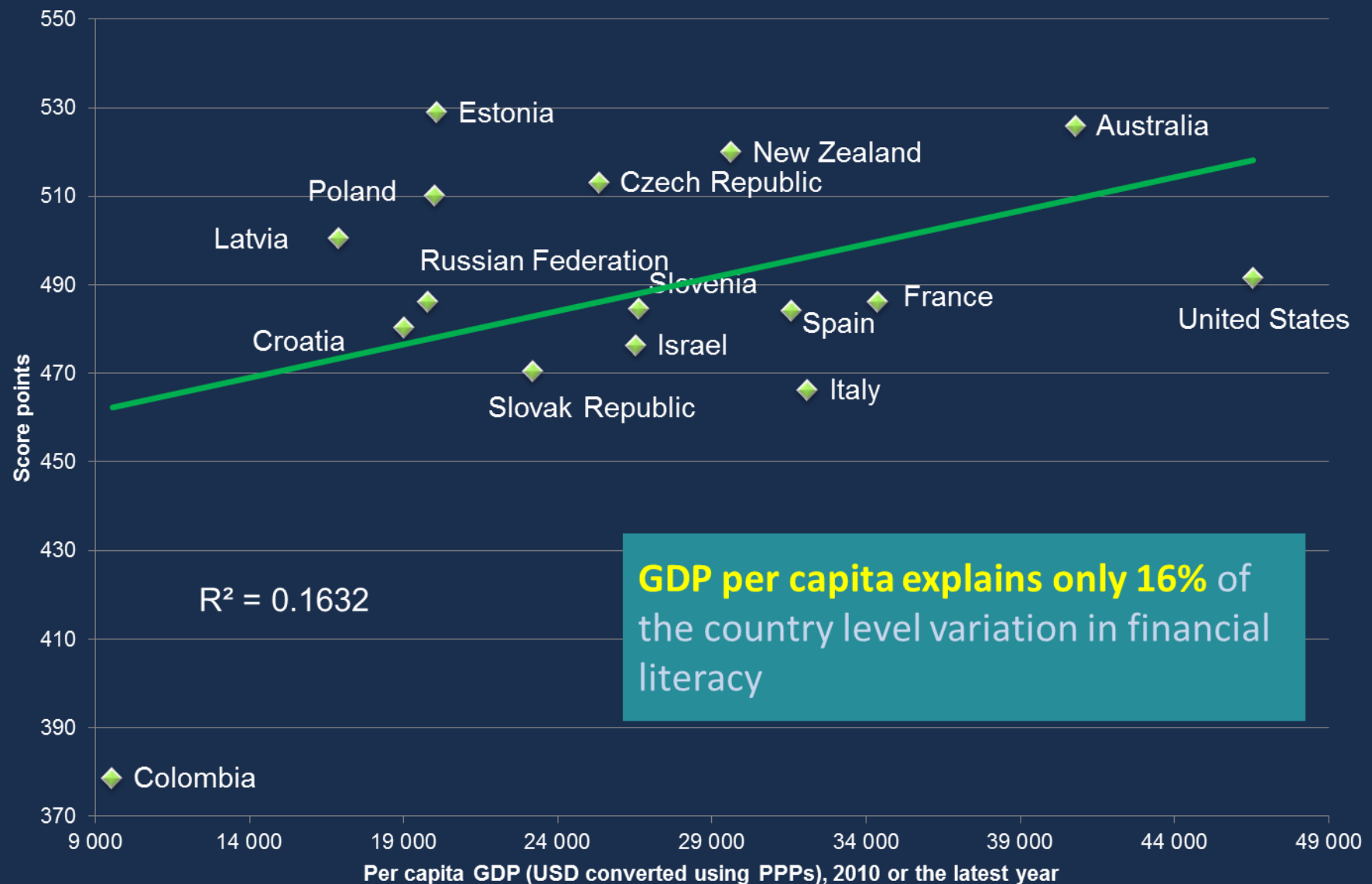
Strong performance in
financial literacy

Average performance
of 15-year-olds in
financial literacy

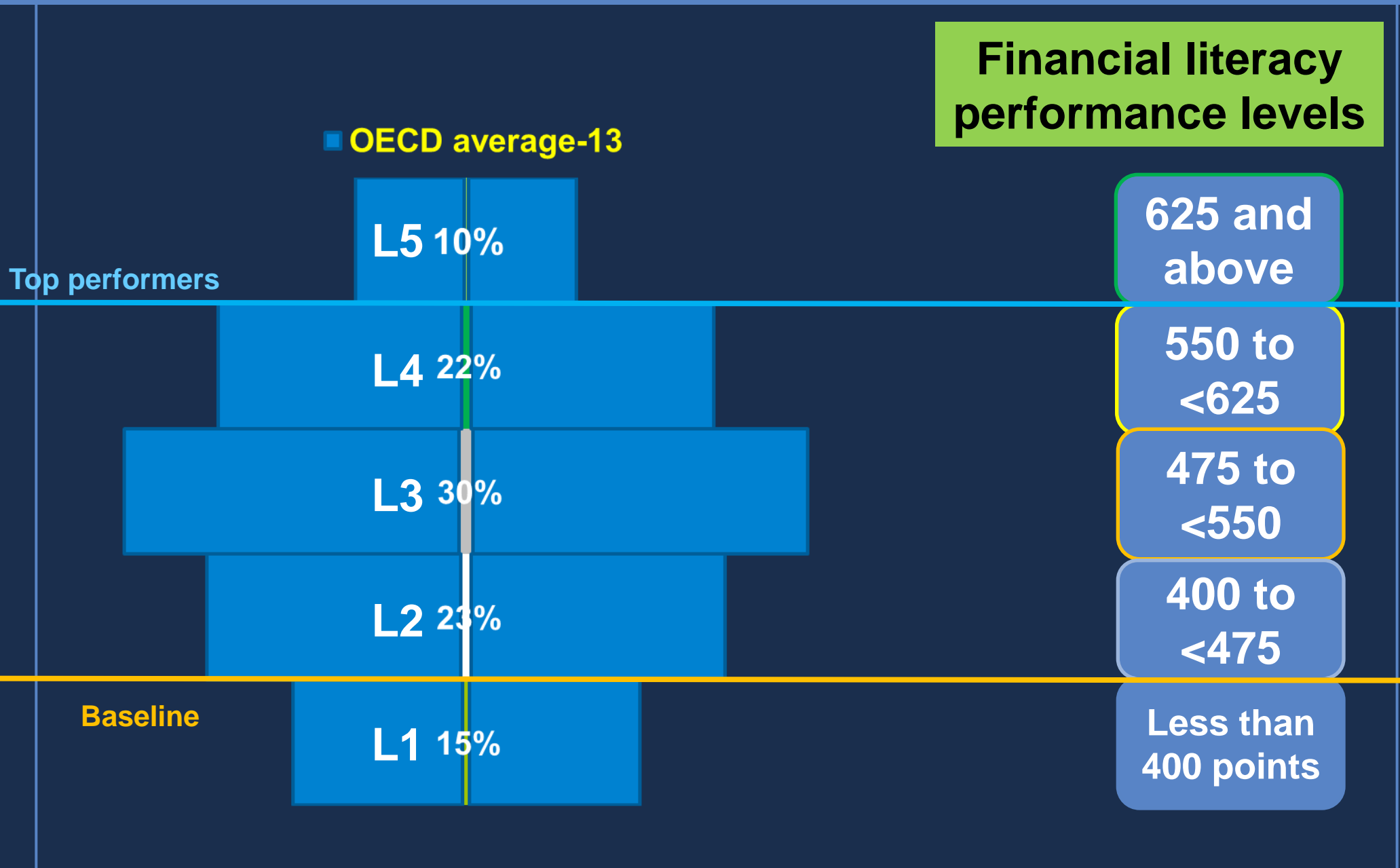
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Differences only partially explained by GDP per capita

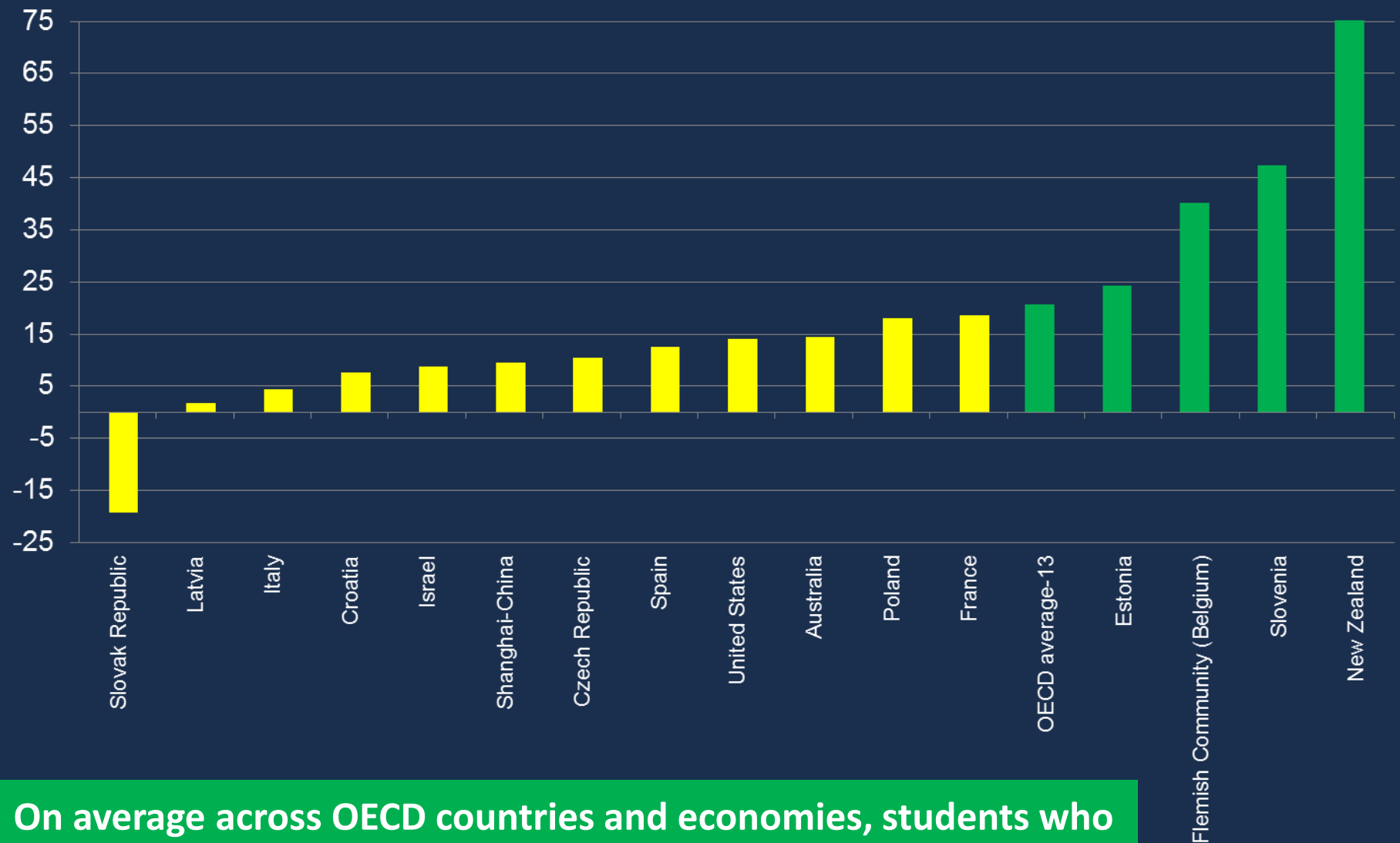


Distribution of student performance



Financial Literacy and Financial Inclusion

Relevance of bank account holding (accounting for socio-demographics)



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.

There is a lot to learn

Very rich data

- **There is so much we can learn from PISA**
- **A lot research can be done both within and across countries**
- **Rich set of information about schools, teachers, parents, etc.**
- **It is possible to compare data not just across countries but also over time. Data will be collected in 2015, and 2018 is in the planning stage**

New data on financial literacy around the world



GALLUP®

THE GLOBAL FINANCIAL LITERACY SURVEY



The Global Financial Literacy Survey



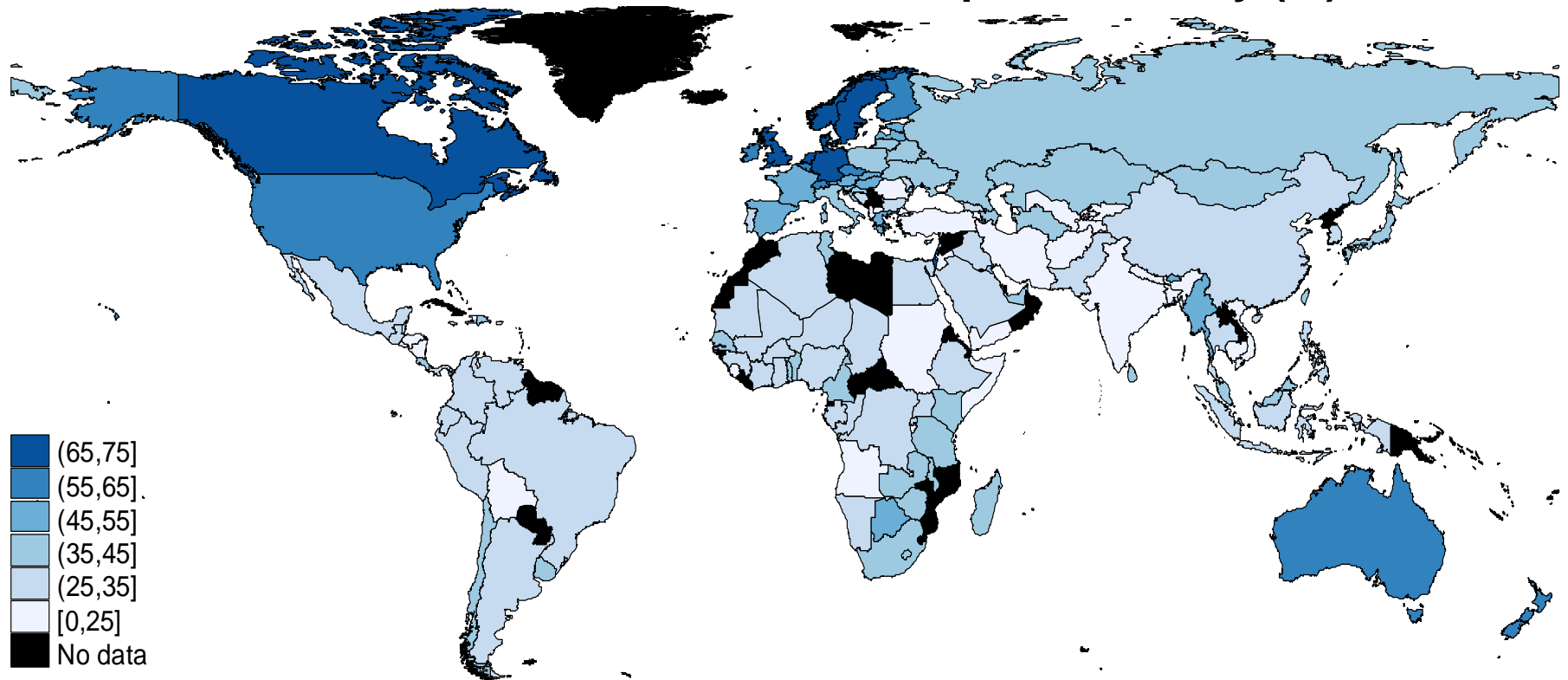
In 2014, Gallup interviewed 1,000 people per country in more than 140 countries around the world about their level of financial literacy.

**The survey covers 4 topics:
Numeracy, interest
compounding, inflation, and risk**

**The data will be released in
November 2015.**

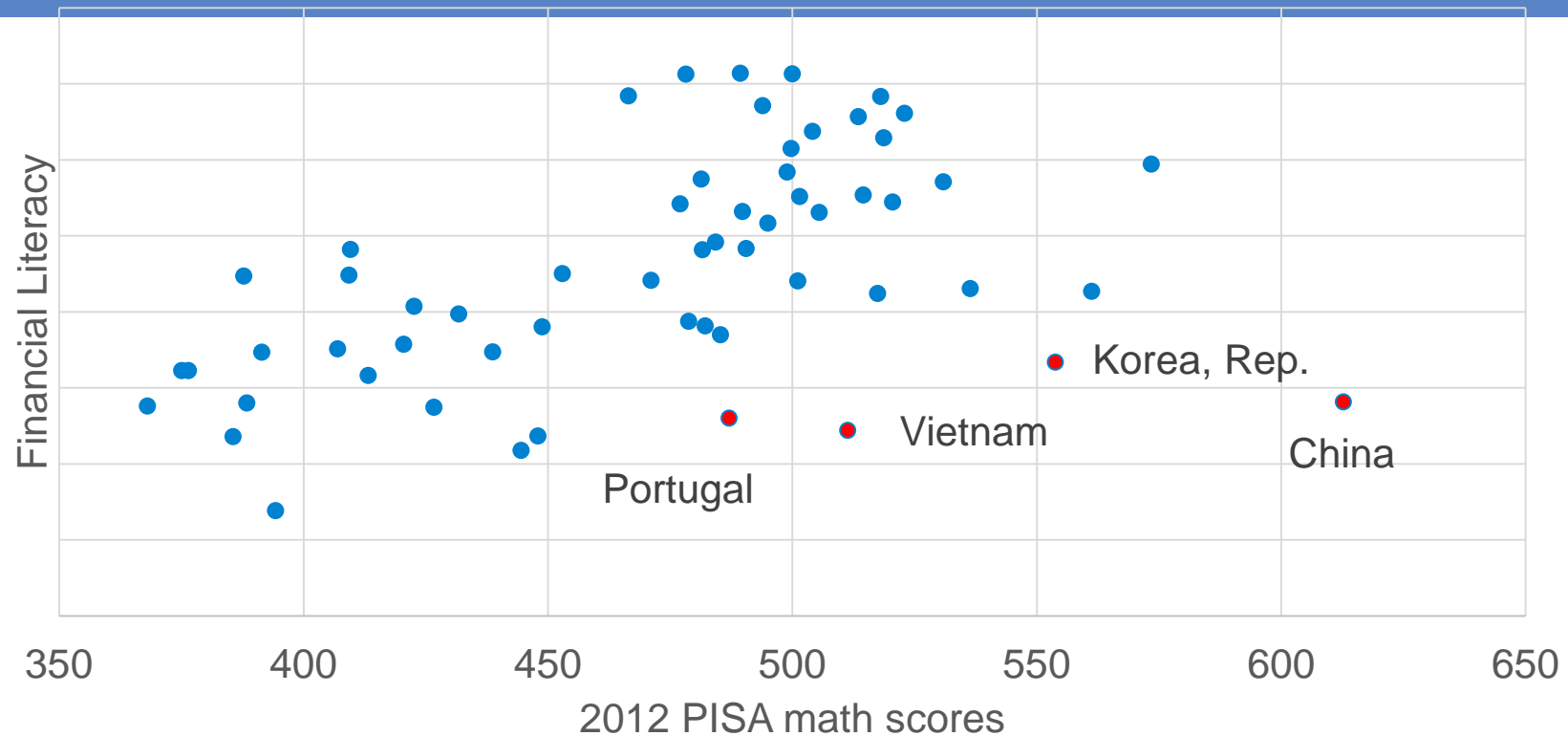
Financial Literacy Globally

Adults that answered 3 out of 4 topics correctly (%)



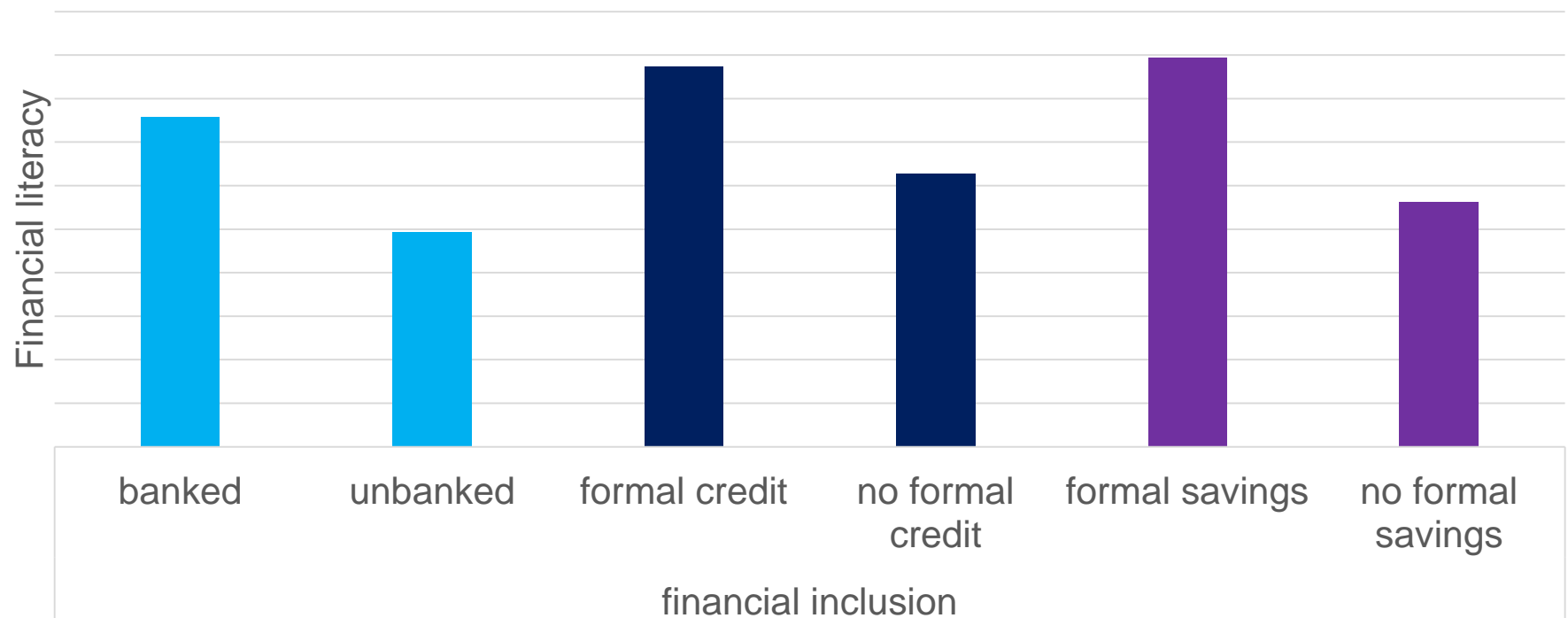
- **1 in 3 adults worldwide answered 3 out of 4 topics correctly**
- **Globally, risk is the concept people know the least**

Combining data from PISA (math) and Gallup Survey



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

Financial Literacy and Financial Inclusion



Several findings

Findings hold true across countries

- **Financial illiteracy is widespread in the population**
- **Some groups are particularly vulnerable, in particular the young**
- **Risk diversification is most difficult concept to grasp**
- **There is a link between financial literacy and financial inclusion**

Improving financial literacy among the young

Evidence from adding financial literacy in high school curricula

- Brown, Collins, Schmeiser, and Urban (2014). *State Mandated Financial Education and the Credit Behavior of Young Adults*
 - When exposed to rigorous programs and trained teachers, students do well and are less likely to have problems with debt
- Bruhn, de Souza Leao, Legovini, Marchetti, and Zia (2013). *The Impact of High School Financial Education: Experimental Evidence from Brazil*
 - Financial education had an impact on both students and parents

Field work: Five steps to planning success

Building a more robust pension system starting with the young

- **Focused on young workers**
 - They are the ones with low financial literacy
- **Covered concepts, such as risk diversification**
 - This is the concept people know the least
- **Kept the message free of economic/finance jargon**
 - Research shows it matters, in particular for women
- **Teaching using videos *and* narratives**

Short video about risk

Risk diversification = don't put all your eggs in one basket



<http://www.rand.org/labor/centers/financial-literacy.html>

We measured whether it worked

- Tested interventions using a set of respondents to an Internet panel
- Baseline questions on risk diversification
- Randomly assigned
 - Intervention group
 - ◆ Video only, narrative only, video & narrative
 - Control group
 - ◆ No intervention
- Repeated the concept questions

Findings

- After being exposed to videos and narratives, the performance on financial literacy questions (general knowledge and hypothetical choices) improved
 - Video worked best
- While young were targeted, the intervention affected all age groups

Take-aways from research

Review of financial literacy research published in the Journal of Economic Literature, 2014

- **When financial illiteracy is so widespread, it cannot be cured with very limited interventions**
- **One size does not fit all, we need targeted programs**
- **The young are an ideal group for financial education programs, in particular in school**
- **We need more experimental work so to continue to improve**

Conflicting evidence on the effectiveness of financial education?

Learning from meta-analyses

- Fernandes, Lynch and Netemeyer (2014). *Financial Literacy, Financial Education, and Downstream Financial Behaviors*
 - Interventions to improve financial literacy explain only 0.1% of the variance in financial behaviors
- What this paper shows is that the *dosage* we have used in financial education is wrong
 - Programs are very limited (an average of 10 hours)
 - Quality of material and teachers is rarely available
 - Financial knowledge, like every knowledge decays over time, which is good otherwise the data would be suspicious

Final thoughts

➤ **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

Quote

**“Knowledge is in every country
the surest basis of public
happiness.”**

***George Washington, First President of the
United States (1789–97)***

Quote

“(Financial) knowledge is in every country the surest basis of public happiness.”

George Washington, First President of the United States (1789–97)

Final quote

“If you think education is expensive, try ignorance”

***Derek Bok, Former President of Harvard
(1971-1991)***

Contact and further information

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