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**EUROPEANS AND FINANCIAL LITERACY: WHEN WILL THE PENNY DROP?**

Nearly a decade after the global financial crisis highlighted the importance of financial literacy, Europeans shows little improvement in their financial knowledge and capacity to make savvy financial decisions, finds a comprehensive survey by Allianz across 10 countries in Europe. Within the continent, Austria, Germany and Switzerland top the ranking in financial and risk literacy, while France, Portugal and Italy are the worst performers, according to the report “When will the penny drop: Money, financial literacy and risk in the digital age,” released on January 30, 2017.

The survey by Allianz—the first conducted by the company—shows how financial and risk literacy improves individuals’ ability to make correct financial decisions *above and beyond the effect* of education. While it seems obvious that people with a better understanding of financial concepts would be able to make better saving, investment and financial product decisions, this has not been tested before. The results show that people with a good grasp of financial and risk concepts are twice as likely as those without to make better financial decisions.

Professor Annamaria Lusardi, academic director of the Global Financial Literacy Excellence Center at the George Washington University, supervised the survey and report. She says, “Few existing studies provide a comparison of financial literacy among European countries. So I am happy to be a part of a study that not only includes an extended measure of financial literacy, including knowledge of risk and concepts related to risk, but also links financial literacy to decision-making.”

Risk literacy at disturbing lows.

The survey also revealed that, despite the attention devoted to financial topics in the aftermath of the financial crisis, Europeans have worryingly low levels of financial and risk literacy. The share of correct answers matched closely to the results of studies conducted over a decade ago.

Across countries, risk-related concepts proved the most difficult to grasp. On average, less than 50% of respondents answered these questions correctly, although there were many cross-country differences. The least understood was risk diversification, a concept most of us are familiar with in the saying - “Don’t put all your eggs in one basket.” Only 28% of the respondents across Europe could identify the most suitable financial product in a real-life saving scenario based on risk diversification.

“Diversification is important in today’s low-yield environment as the default private savings strategy – just leave the money in the bank – yields next to nothing,” says Brigitte Miksa, the head of Allianz International Pensions. “Positive future saving outcomes depend upon people being capable of making investment decision that involve risk and understanding that, ultimately, risk can benefit them in the long term.”

The possibility, given increased longevity, that an individual may outlive their savings was the easiest risk decision to deal with, and elderly respondents performed better than younger ones. Overall, women still lag behind men in terms of financial literacy, particularly in risk-related questions, while millennials (those under the age of 35) have the lowest financial and risk literacy, though this may change later in life.

“It is unsettling to see no improvement in these groups,” says Ingo Mainert, chief investment officer at Allianz Global Investors. “It is also a concern that the groups more likely to perceive professional financial advice as useless are those that would benefit most from it.”

According to the survey, Germany ranks second after Austria in terms of financial and risk literacy. Around 63% of German respondents answered all basic financial literacy questions correctly and 19% – equal to Austria – answered the risk questions correctly – the highest results recorded.

It is still disturbing, however, that only one person in five in Germany was fully risk literate and able to answer all risk questions correctly. This was reflected in the three scenarios where only 13% were able to match the correct solution to a financial challenge. More than 17% were unable to even correctly answer one of the scenarios.

Allianz conducted the survey in November 2016 and interviewed 1,000 people each in Austria, Belgium, France, Germany, Italy, the Netherlands, Portugal, Spain, Switzerland and the United Kingdom. For the full report, go to [www.projectm-online.com/research](http://www.projectm-online.com/research)