

# Financial Literacy Around the World and Among the Youth

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## Need for financial education in the global context

- Structural changes in the labor market and education
  - Divergence in wages
  - Labor mobility
  - Investment in/cost of education
- Changing retirement systems
  - Employers are shifting from benefit to contribution plans
  - State welfare provisions have also fallen over time
  - Employees must plan and save for their future
- Longevity
  - Increased life expectation has raised the time spent in retirement with fewer sources of income
  - Creating need for more planning by individuals

## Need for financial education in the global context (cont.)

- Changing financial market landscape
  - Financial markets have expanded
  - Creating new credit and including more clients – boosting access to finance
- New technology frontiers
  - Technology has made markets more complex
  - Creating a diverse range of products but also generating new issues of security and financial awareness

## What comprises financial literacy

As framed by PISA

- Financially literate individuals not only know and understand basic financial concepts, but also have the motivation, skills and confidence to *make informed and effective decisions* about personal finances
- Sound decisions promote the *financial well-being* of individuals
- Through improved investments and personal finances, financial literacy has a direct *impact on the society*



*The structural components reflect the need to look to the future and plan with a long-term horizon.*

## Today's blueprint to discuss financial education and literacy

<b>S&amp;P/GFLEC – Global Financial Literacy Survey (GFLS)</b>	<b>Allianz/GFLEC – When will the penny drop?</b>	<b>OECD/GFLEC – Programme for International Student Assessment (PISA)</b>
<p>Assessing financial literacy <i>globally</i>:</p> <p>More than 150,000 adults in more than 140 economies were interviewed in 2014.</p>	<p>Assessing financial literacy <i>across Western Europe</i>:</p> <p>1,000 people in each of 10 West European countries were surveyed by Allianz in late 2016.</p>	<p>Assessing financial literacy for <i>the young</i>:</p> <p>Approximately 48,000 15-year olds in 15 countries/economies were surveyed in 2015.</p>

## The S&P Global FinLit Survey (GFLS)



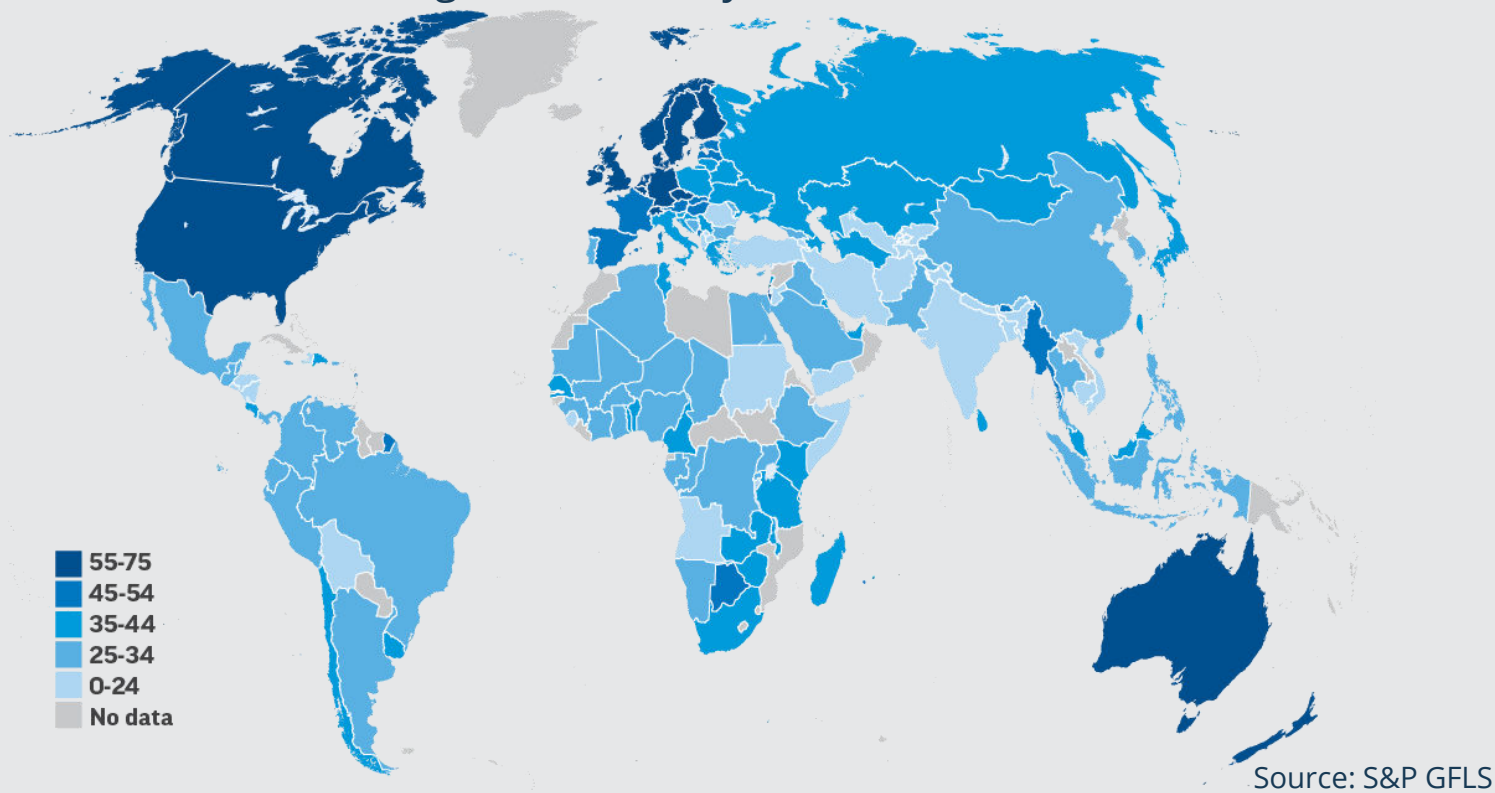
The survey covers four topics:

- Numeracy
- Interest compounding
- Inflation
- Risk diversification

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

## Financial literacy across the globe

Percentage of financially literate adults

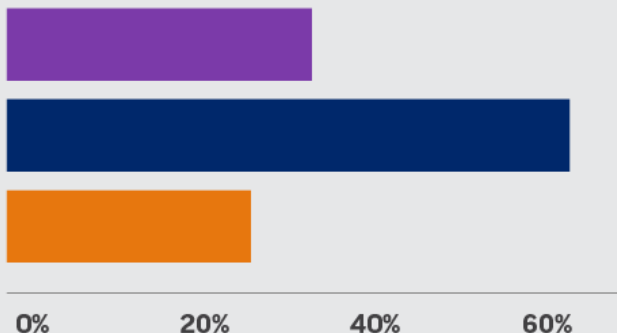


Only 1 in 3 adults worldwide responded correctly to three out of four topics.

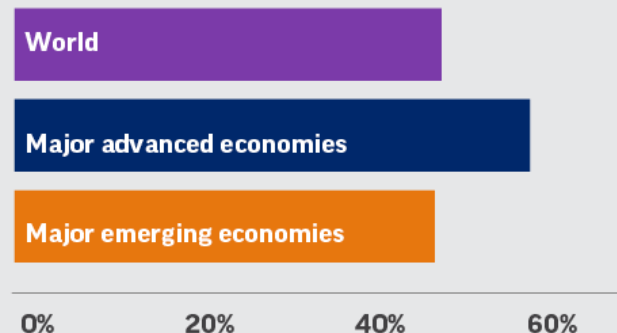
## Financial literacy by topic

Percentage of adults answering correctly

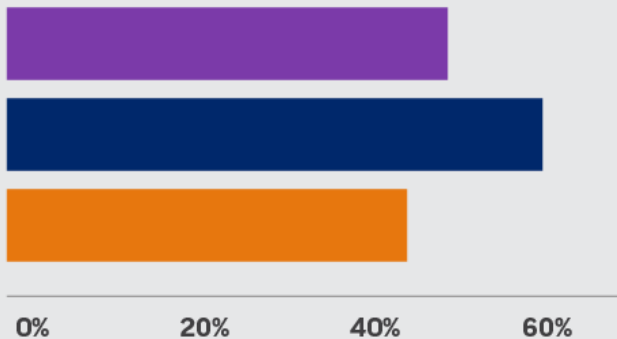
### RISK DIVERSIFICATION



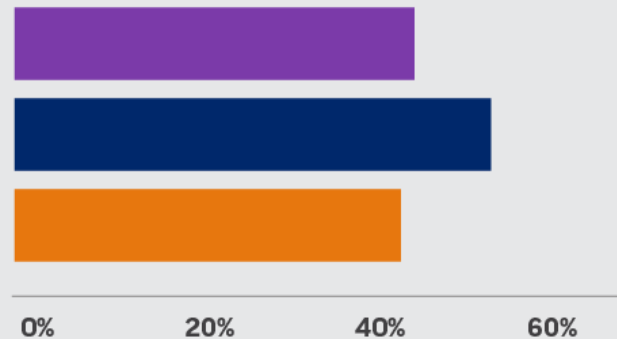
### NUMERACY (INTEREST)



### INFLATION



### COMPOUND INTEREST

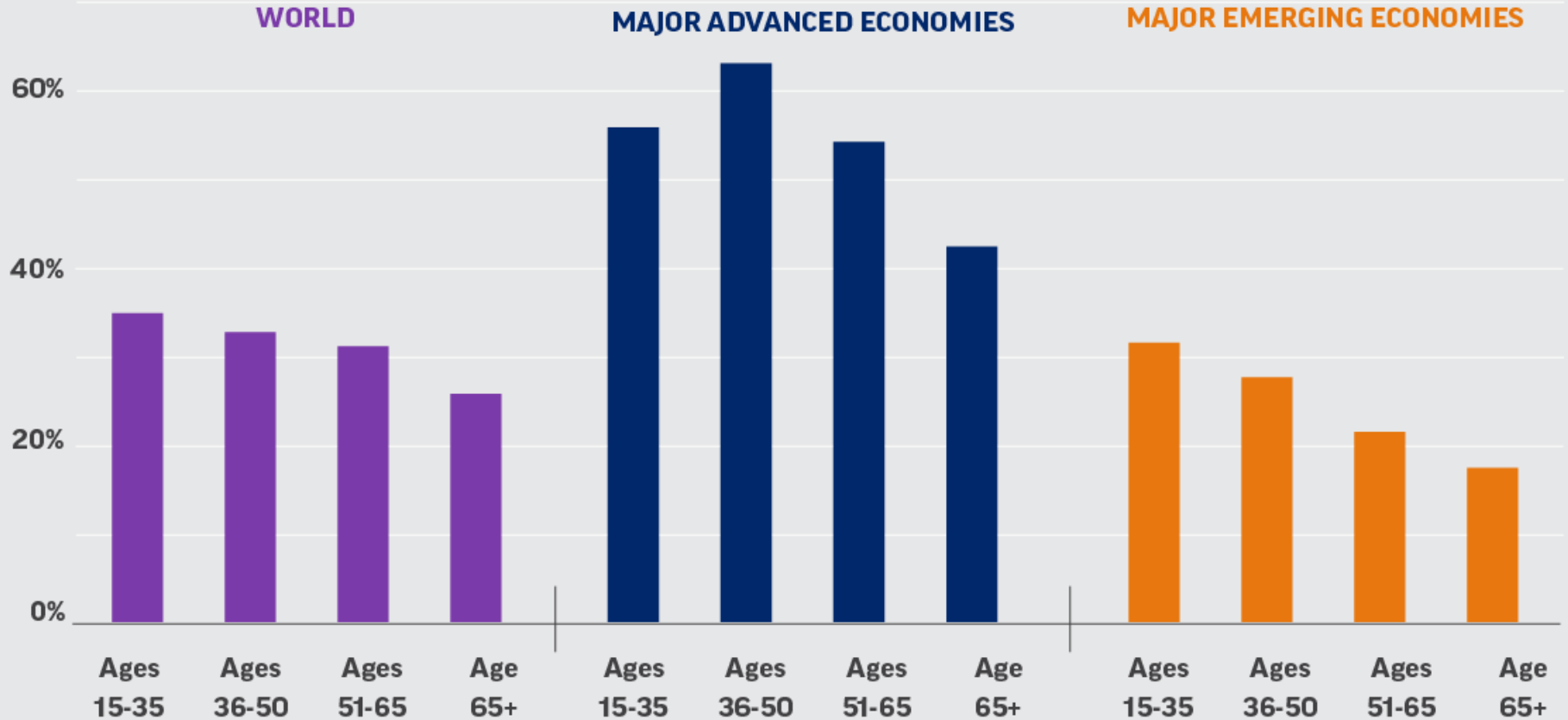


Source:  
S&P GFLS



## Financial literacy over the life cycle

Percentage of financially literate adults



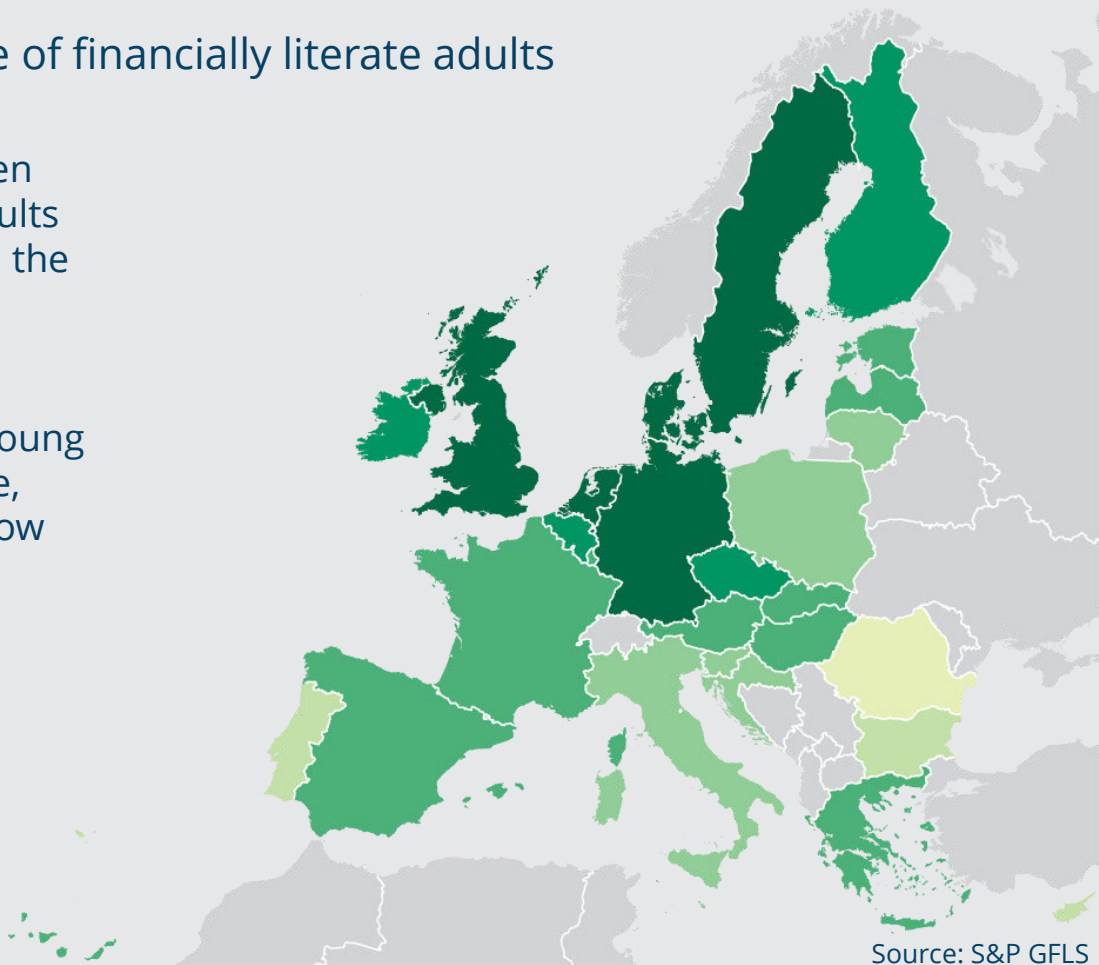
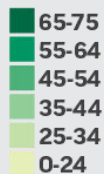
Source: S&P GFLS

## Financial literacy in Northern and Southern Europe

### Percentage of financially literate adults

In each of Denmark, Germany, Sweden and the Netherlands, at least 65% adults are financially literate—the highest in the European Union

Across Central and Eastern Europe, young adults are under-saving for the future, while old people are struggling with low financial skills in retirement



## Understanding financial and risk literacy with Allianz

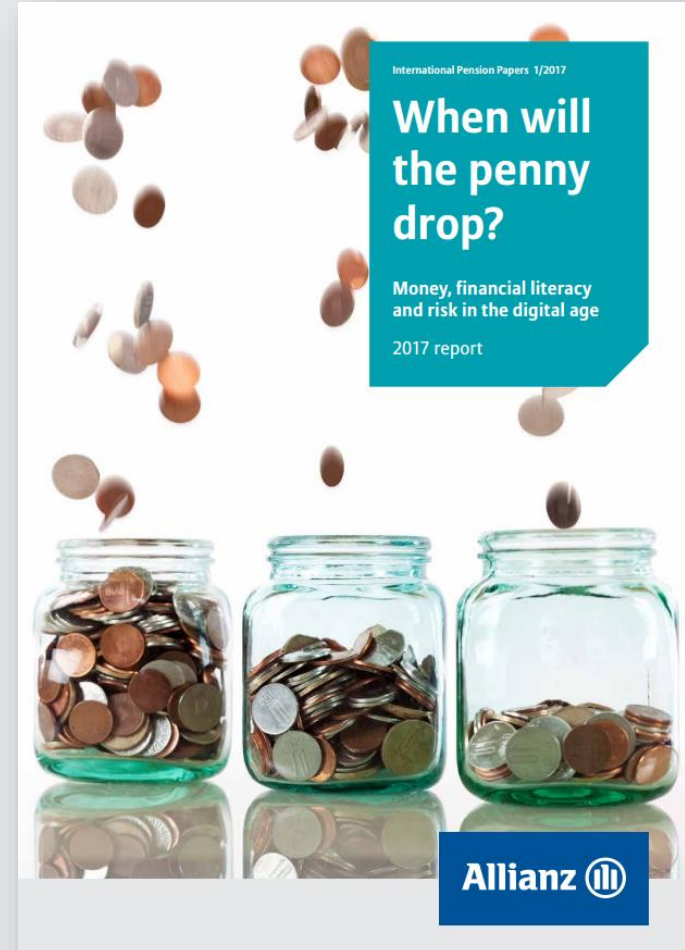
Evaluates literacy levels based on answers to questions about –

Financial literacy

- Compound interest
- Inflation
- Diversification

Risk literacy

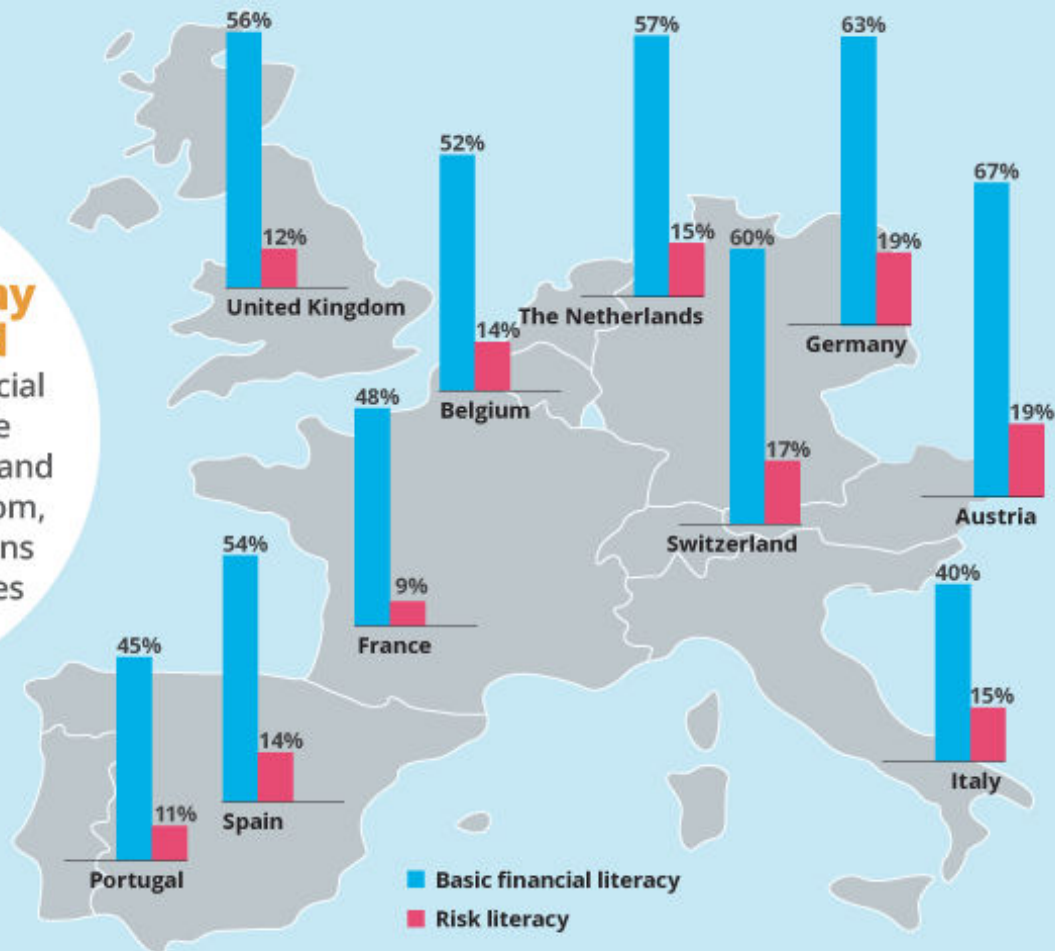
- Expected return
- Risk and return



## Financial and risk literacy across Western Europe

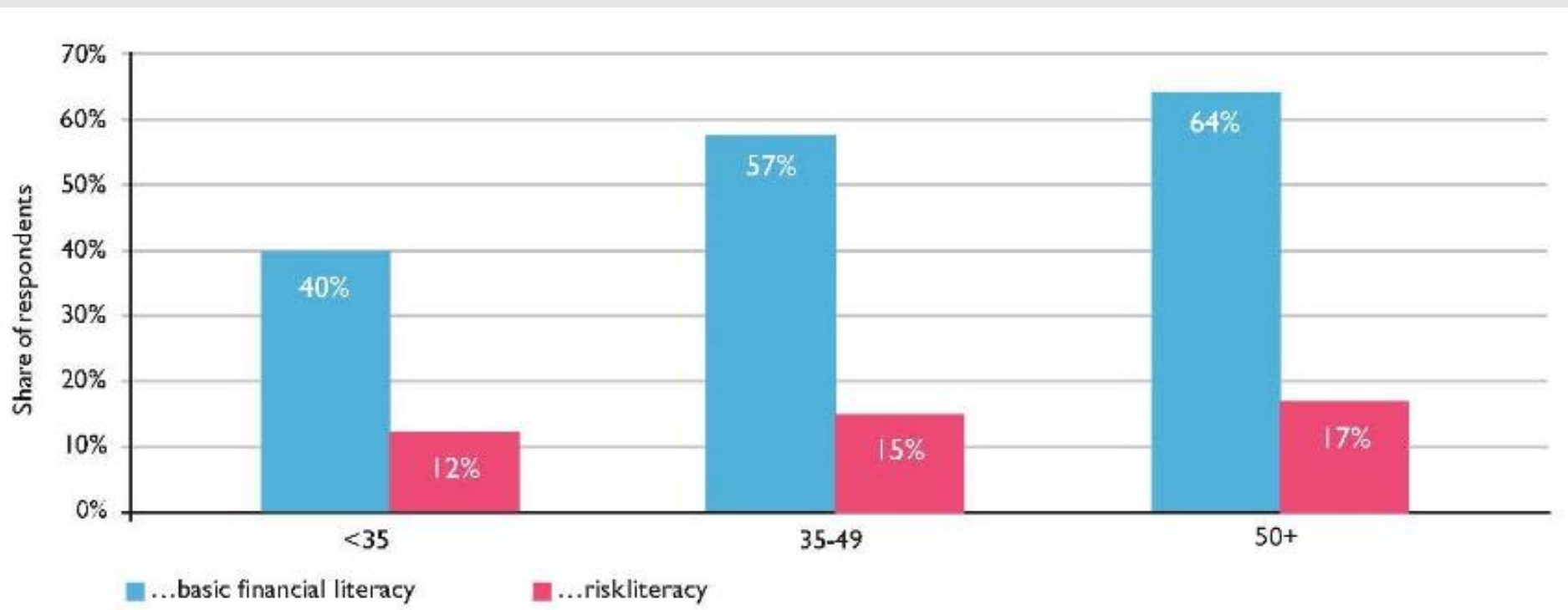
Europe is particularly important in the context of changing interest rates, pension systems and labor markets.

**Austria, Germany** and **Switzerland** top the ranking in financial and risk literacy, while **France, Portugal** and **Italy** rank at the bottom, although similar patterns exist between countries



## Financial and risk literacy by age

Percentage of respondents with all correct answers



Source: Allianz, International Pensions  
2017

## OECD's Programme for International Student Assessment (PISA 2015)

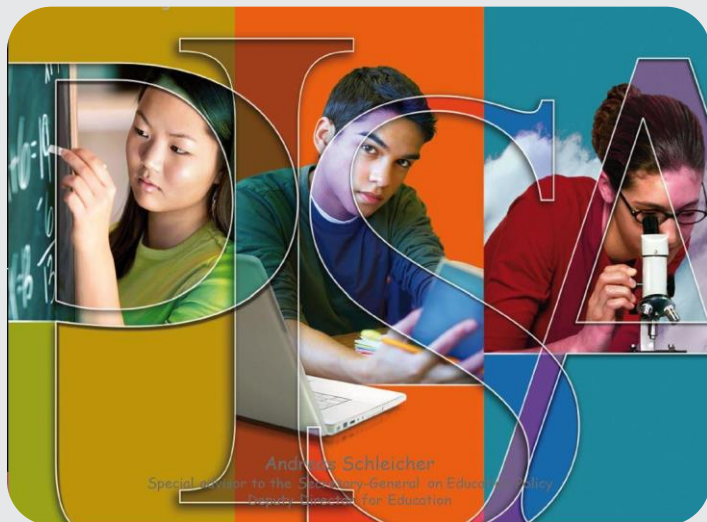
*Content:* Areas of knowledge required to make financial decisions

*Processes:* Elements of decision-making required in financial matters

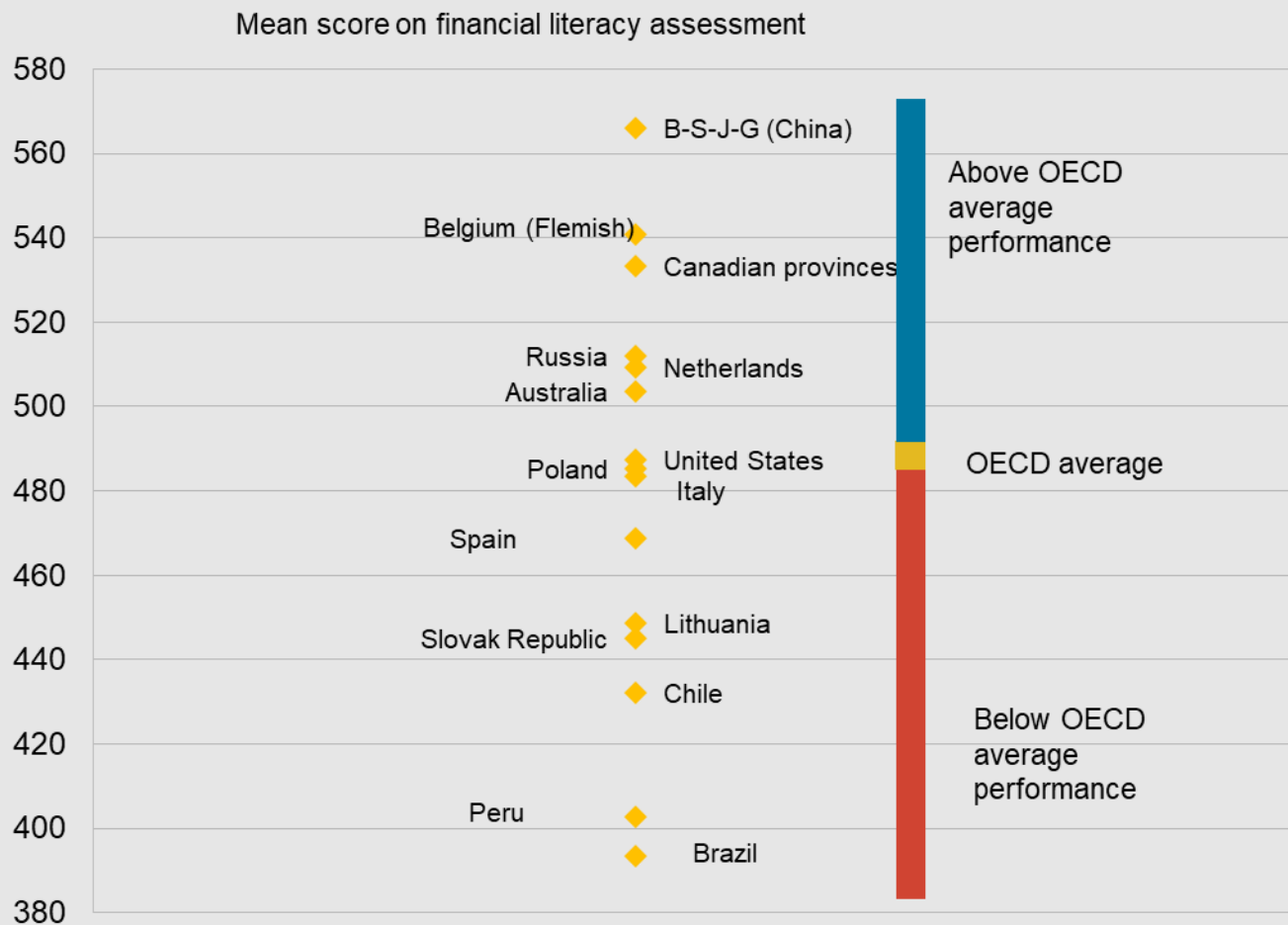
*Context:* The relevant situations that need financial decisions



*Participating countries:* Australia, Belgium (Flemish Community), Brazil, B-S-J-G (China), Chile, Canadian provinces, Italy, Lithuania, Netherlands, Peru, Poland, Russia, Slovak Republic, Spain, and the United States



## Financial literacy in performing countries – PISA 2015



## Too many students lack basic financial skills

22%

- On average, across OECD countries and economies, 22% of students do not have basic financial skills
- Only about 12% of students across participating OECD countries and economies are top performers, who can tackle the most difficult tasks



## Young people as consumers of financial products

64%

Some 64% earn money from some type of work activity

Some 56% of 15-year-olds in participating OECD countries and economies have a bank account, 19% have a prepaid debit card

56%

31%

But fewer than one in three students have the skills to manage a bank account

## Sources of financial literacy

84%

- On average, 84% of students discuss money matters with their parents at least once a month
- Students who do so tend to perform better in financial literacy

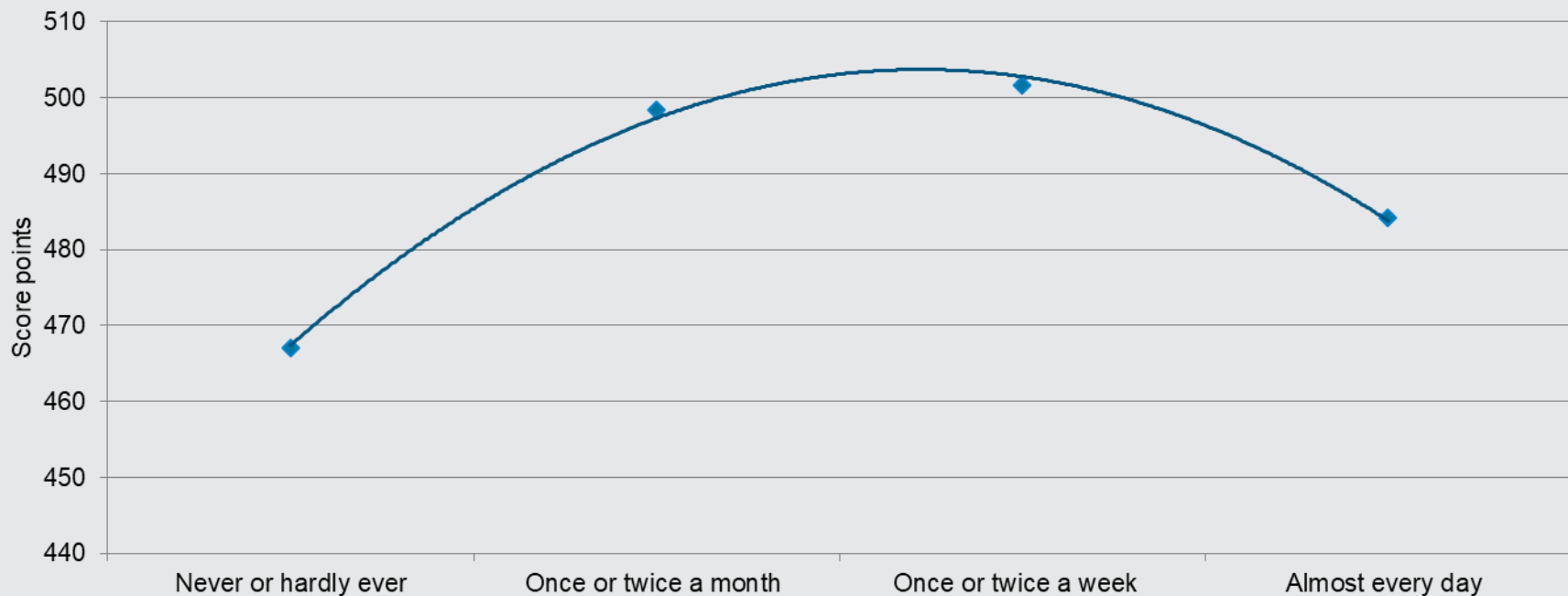
- But financial skills are strongly related to the socio-economic background of their family
- Advantaged students score 89 points higher in financial literacy than disadvantaged students

89 score  
points

## Sources of financial literacy (cont.)

Mean score, by students' answers to the question:

*"How often do you discuss money matters (e.g. talk about spending, saving, banking, investment) with your parents?"*



Parents play a role in developing their children's financial literacy not only through the resources that they make available to them but also through direct engagement

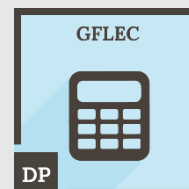
## Relevance of financial education

- Financial *education* is a crucial foundation *for* raising financial *literacy*.
- Education programs need to be implemented at *multiple levels*: schools, workplace and community.
- The need is for *well-targeted, well-researched and well-designed* education programs.

## Our contribution to financial education

Besides research, GFLEC develops financial education materials for schools and the workplace.

- Financial Literacy Micro-Credentials
- Personal Finance Course
- Financial Literacy Curriculum for Girl Rising
- International Federation of Finance Museums
- Workplace financial wellness programs



## Concluding remarks

- **Financial literacy is like *reading and writing***
  - It is an essential skill for the 21<sup>st</sup> century
  - Imagine what a world with no education would look like
- **It is essential for *full participation in society***
  - Citizens are asked to vote on economic reforms
- **It is a global issue**
  - Countries can learn from each other

**Thank you!**

Questions? Contact us at [\*\*gfilec@gwu.edu\*\*](mailto:gfilec@gwu.edu)



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