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

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<td>Assessing financial literacy globally:</td>
<td>Assessing financial literacy across Western Europe:</td>
<td>Assessing financial literacy for the young:</td>
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<td>More than 150,000 adults in more than 140 economies were interviewed in 2014.</td>
<td>1,000 people in each of 10 West European countries were surveyed by Allianz in late 2016.</td>
<td>Approximately 48,000 15-year olds in 15 countries/economies were surveyed in 2015.</td>
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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
Only 1 in 3 adults worldwide responded correctly to three out of four topics.

Source: S&P GFLS
Financial literacy by topic

Percentage of adults answering correctly

**RISK DIVERSIFICATION**

- World: 20%
- Major advanced economies: 40%
- Major emerging economies: 60%

**NUMERACY (INTEREST)**

- World: 60%
- Major advanced economies: 40%
- Major emerging economies: 20%

**INFLATION**

- World: 40%
- Major advanced economies: 60%
- Major emerging economies: 20%

**COMPOUND INTEREST**

- World: 40%
- Major advanced economies: 60%
- Major emerging economies: 20%

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
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

Mean score on financial literacy assessment

- B-S-J-G (China)
- Belgium (Flemish)
- Canadian provinces
- Russia
- Australia
- Netherlands
- Poland
- United States
- Italy
- Spain
- Slovak Republic
- Lithuania
- Chile
- Peru
- Brazil

Above OECD average performance

OECD average

Below OECD average performance
Too many students lack basic financial skills

- 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.
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.

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

Source: PISA 2015
Sources of financial literacy

- 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.
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.
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 21st 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 gflec@gwu.edu