Millennial Financial Literacy and Fin-tech Use

Brussels – November 7, 2018

Annamaria Lusardi

Founder and Academic Director
Global Financial Literacy Excellence Center (GFLEC)
The George Washington University School of Business
The growing importance of financial literacy

Major changes that increase individuals’ responsibility for their financial well-being

• Changes in the pension landscape
  • Shift from defined benefit to defined contribution plans
  • Greater responsibility for the individuals to save and invest in retirement wealth

• Rising Cost of Education
  • Young people are entering the labor force with more education but with greater student loan debt

• Changes in the labor markets
  • Workers change jobs more often
  • Skill-based wage differentials

• Changes in the financial markets
  • More opportunities to borrow & in large amounts
  • More complexity (financial products and new technology)

• Changes in financial services
  • New technologies that make financial services more efficient and available
Section 1

Financial Literacy and Personal Finances

The Current Situation for Millennials
Overview of Millennials with a focus on US

- 70 to 80 million individuals born between the late 1970s and mid-1990s
- This analysis is focused on 18 – 34 year old individuals
- Most diverse generation
  - Minorities are broadly represented (38%)
  - 11% of all Millennials have at least one immigrant parent
- Millennials are highly educated
  - 37% have at least a bachelor’s degree
- Will soon make up the largest share of the labor market
  - By 2025, 3 out of 4 workers globally will be Millennials
- Financially, they have faced the Great Recession early in their lives and careers, and struggled with large increases in the cost of education.
- Cohort with the largest proportion of fintech users
Financial literacy measure

The Big Three

“Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?”

“Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, with the money in this account, would you be able to buy...”

“Do you think the following statement is true or false? *Buying a single company stock usually provides a safer return than a stock mutual fund.”*
Financial literacy across age in the US

% answering Big 3 questions correctly

- Financial knowledge increases very slowly with age/cohort
- Less than 1/4 know 3 basic concepts by age 34 even though most important decisions are made well before that age

Source: 2015 NFCS
<table>
<thead>
<tr>
<th>Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have a checking account</td>
<td>86%</td>
</tr>
<tr>
<td>Overdrew from their checking account</td>
<td>26%</td>
</tr>
<tr>
<td>Own a home</td>
<td>38%</td>
</tr>
<tr>
<td>Have a mortgage on their home</td>
<td>63%</td>
</tr>
<tr>
<td>Have a self-directed retirement account</td>
<td>33%</td>
</tr>
<tr>
<td>Took a loan from their retirement account (in the 12 months prior to the survey)</td>
<td>23%</td>
</tr>
<tr>
<td>Made a hardship withdrawal from their retirement account (in the 12 months prior to the survey)</td>
<td>20%</td>
</tr>
<tr>
<td>Either took a loan or made a hardship withdrawal</td>
<td>27%</td>
</tr>
<tr>
<td>Have a college degree</td>
<td>37%</td>
</tr>
<tr>
<td>Have an outstanding student loan</td>
<td>39%</td>
</tr>
<tr>
<td>Have at least one credit card</td>
<td>70%</td>
</tr>
<tr>
<td>Expensive credit card behavior (fee for late payment, over-the limit fee, fee for cash advance)</td>
<td>46%</td>
</tr>
</tbody>
</table>

Note: Borrowing on assets and investments conditional on having the assets and investments.

Source: 2015 NFCS; 18–34 year old
Short-term liabilities: Use of Alternative Financial Services

Millennials show high usage of Alternative Financial Services (AFS), such as payday loans, pawnshops, auto title loans, and rent-to-own products.

% of Millennials who used an AFS product in the last five years prior to the survey

Source: 2015 NFCS; 18–34 year old

38%
45% of all Millennials have a student loan. Among those, more than half are concerned about repayment.

% of Millennials with a student loan and concerned about repayment

Source: 2015 NFCS; 18–34 year old
How confident are you that you could come up with $2,000 if an unexpected need arose within the next month?

- 26% Certainly could come up with $2,000
- 27% Probably could come up with $2,000
- 20% Probably could not come up with $2,000
- 23% Certainly could not come up with $2,000
- 4% Don’t know

Source: 2015 NFCS; 18-34 year old

43% are financially fragile
The Newest Reports on Millennials’ Financial Literacy in the Digital Age

Millennial Financial Literacy and Fin-tech Use: Who Knows What in the Digital Era

New Insights from the 2018 P-Fin Index

Paul J. Yakoboski, TIAA Institute
Annamaria Lusardi, The George Washington University School of Business
and Global Financial Literacy Excellence Center (GFLEC)
Andrea Halper, The George Washington University School of Business
and Global Financial Literacy Excellence Center (GFLEC)

Millennial Mobile Payment Users: A Look into their Personal Finances and Financial Behaviors

Authors:
Annamaria Lusardi
Carlo de Basso Scheresberg
Melissa Avery
Global Financial Literacy Excellence Center
The George Washington University School of Business

Abstract:
The financial technology (fintech) sector is revolutionizing traditional financial practices, yet little information exists on users of these services. In this study, we examine untapped information from the 2018 National Financial Capability Study and the 2018 GFLEC Mobile Payment Survey to provide insights on the financial capability of American Millennials who use mobile payments. Using data from both surveys, we find striking differences in financial capability between users and non-users. Particularly, we find that users of mobile payments are more likely to overdraw their checking accounts, use credit cards excessively, borrow through alternative financial services, and withdraw from their retirement accounts. Even after we control for socio-demographic factors, results continue to show that mobile payment users are more likely to engage in behaviors that do not seem to follow good financial management practices.
Millennial Mobile Payment Report
Motivation

Rapid growth and innovation in financial technology has facilitated the spread of mobile payments.

- Consumers find mobile payment apps more flexible and easier to use than traditional payment methods.
- Mobile payments pace up the transfer of money via various models.
- Merchants who provide the option of mobile payments often enjoy lower costs and customer data, and are able to provide improved experiences.

We aim to build a comprehensive profile of mobile payment users and understand how fintech is connected to users’ financial behavior (cannot measure causality).
We use two datasets to provide insights on the financial capability of American Millennials who use mobile payments:

**2015 National Financial Capability Study**
- Online nationally representative sample of more than 25,000 respondents
- Commissioned by FINRA Investor Education Foundation
- Offers unique information on financial literacy and capability
- Using the 3rd wave of 2015 in this study
- The sample of Millennials from the NFCS 2015 contains 7,894 observations

**2016 GFLEC Mobile Payment Survey**
- GFLEC fielded an independent survey, including questions from the NFCS and a set of additional questions to enrich analysis
- Amazon’s Mechanical Turk platform
- The sample size is 2,007 Millennials
How often do you use your mobile phone to pay for a product or service in person at a store, gas station, or restaurant (e.g., by waving/tapping your mobile phone over a sensor at checkout, scanning a barcode or QR code using your mobile phone, or using some other mobile app at checkout)?

- Frequently
- Sometimes
- Never
- Don’t know
- Prefer not to say

**Note:** Individuals who indicated “Don’t know” or “prefer not to say” were excluded from the analysis. Sample of 7,894 observations in the NFCS and 2,007 in the GFLEC Survey.

39% of Millennials in the NFCS and 49% in the GFLEC Mobile Payment Survey reported using mobile payments.
Demographic features of mobile payment users

The average mobile payment user, according to the GFLEC Mobile Payment Survey is:

- educated (Bachelor’s or more),
- male (more pronounced in NFCS),
- working full time,
- has high income,
- is more likely to be married
- and to belong to a minority ethnic group.

High usage among individuals with higher income and higher education might be expected as they typically are more financially active (have more incentives to use this method of payment).

Source: 2016 GFLEC Mobile Payments Survey. Statistics read as “50% of 18-34 year old males use mobile payments”
Mobile payment users hold more assets than non-users, i.e., are more likely to:

- have a checking or savings account
- have at least one credit card
- have a home
- have a retirement account

Millennial mobile payment users are more likely to hold nearly every form of debt compared to non-users. Users are more likely to have:

- auto loans
- student loans
- home equity loans

Source: 2016 GFLEC Mobile Payments Survey
• Mobile payment users more often overdraw their checking account, according to both the GFLEC and NFCS surveys
Financial literacy of mobile payment users

Only 40% of Millennial mobile payments users are able to answer the big three financial literacy questions correctly.

Source: 2016 GFLEC Mobile Payments Survey

<table>
<thead>
<tr>
<th>Uses mobile payments</th>
<th>NFCS Survey</th>
<th>GFLEC Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic financial literacy</td>
<td>-0.155*** (0.0138)</td>
<td>-0.149*** (0.0235)</td>
</tr>
<tr>
<td>Controls</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Observations</td>
<td>7,894</td>
<td>2,006</td>
</tr>
<tr>
<td>R²</td>
<td>0.073</td>
<td>0.077</td>
</tr>
</tbody>
</table>

Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

- A basic level of financial literacy is negatively associated with using mobile payments.
- Respondents with a basic level of financial literacy are around 15 percentage points less likely to use mobile payments.
## Role of financial literacy

<table>
<thead>
<tr>
<th></th>
<th>NFCS Survey</th>
<th>GFLEC Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Spend more than they save</td>
<td>Occasionally over draws checking account</td>
</tr>
<tr>
<td>Uses m-payments</td>
<td>0.0747*** (0.0119)</td>
<td>0.173*** (0.0120)</td>
</tr>
<tr>
<td>Basic financial literacy</td>
<td><em><em>-0.0260</em> (0.0155)</em>*</td>
<td><strong>-0.0658</strong>* (0.0156)</td>
</tr>
<tr>
<td>Mobile payment*Basic</td>
<td><strong>-0.0685</strong>* (0.0259)</td>
<td><strong>-0.130</strong>* (0.0261)</td>
</tr>
<tr>
<td>financial literacy (Interaction)</td>
<td>Yes (0.0293)</td>
<td>Yes (0.0261)</td>
</tr>
<tr>
<td>Constant</td>
<td>0.148*** (0.0425)</td>
<td>0.279*** (0.0419)</td>
</tr>
<tr>
<td>Observations</td>
<td>6,785</td>
<td>6,888</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.025</td>
<td>0.061</td>
</tr>
</tbody>
</table>

Standard errors in parentheses

** p<0.01, *** p<0.05, * p<0.1

- Financial literacy is negatively associated with each of the three financial behaviors.
- Interaction term is negative for all regressions and statistically significant.
  - Large magnitude: Users who are financially literate are much less likely to use AFS and to overdraw their checking account.
Role of financial literacy

• Only 40% of Millennial mobile payments users are able to answer the Big Three financial literacy questions correctly.

• A basic level of financial literacy is negatively associated with using mobile payments. Respondents with a basic level of financial literacy are less likely to use mobile payments.

<table>
<thead>
<tr>
<th></th>
<th>Spend more than they save</th>
<th>Occasionally overdraws checking account</th>
<th>Used at least one form of AFS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uses m-payments</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Basic financial literacy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financially literate mobile payment users</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

• Financial literacy is negatively associated with each of the three financial behaviors.

• Respondents who use mobile payments and are financially literate are much less likely to engage in each of these behaviors.
Mobile payment services are attracting segments of customers who have a much broader range of needs than simple money transactions; providing opportunities for innovation that can be targeted by fintech developers.

Important question: Does mobile financial technology increase the risk of financial mismanagement?
- Study indicates that mobile payment users are at a much higher risk of poor money management compared to non-users (even after controlling for socio-demographic factors).
- However, our data cannot be used to establish any causal link between use of mobile payment and financial outcomes.

While mobile payment users are more likely to experience financial distress and display poor financial management, the result reverses for those who are financially literate.

This highlights the important role of financial literacy in the expansion of the fintech industry and the fact that fintech is not a substitute for financial literacy.
Millennial P-Fin Fintech Report

The Link between Financial Literacy and Fintech
As a joint project of the TIAA Institute and GFLEC we have designed an index of personal finance. The survey started in 2017 as an annual project that will result in cross-sectional trend data.
The TIAA Institute-GFLEC Personal Finance Index (P-Fin Index) on Subgroups

Published October 2017

Financial Literacy among U.S. Hispanics: New Insights from the Personal Finance (P-Fin) Index

Andrea Anderl, The George Washington University School of Business and Global Financial Literacy Excellence Center (GFLEC)
Anamaria Lazzeri, The George Washington University School of Business and Global Financial Literacy Excellence Center (GFLEC)
Paul J. Yakovleva, TIAA Institute

Published October 2018

Millennial Financial Literacy and Fin-tech Use: Who Knows What in the Digital Era
New Insights from the 2018 P-Fin Index

Paul J. Yakovleva, TIAA Institute
Anamaria Lazzeri, The George Washington University School of Business and Global Financial Literacy Excellence Center (GFLEC)
Andrea Anderl, The George Washington University School of Business and Global Financial Literacy Excellence Center (GFLEC)
What makes the P-Fin Index unique?

What is it?
The Personal Finance Index measures knowledge and understanding which enable sound financial decision-making and effective management of personal finances.

What’s new?
- The P-Fin Index is unique in the breath of topics covered.
- This index complements simpler measures of financial literacy.
- Examines financial literacy across eight areas in which individuals routinely function.
- 28 financial literacy questions, with 3 or 4 devoted to each functional area.

How was it done?
- Online survey fielded in January 2018 with a nationally representative sample of U.S. adults, ages 18 and older, and completed by 1,012 individuals.
- Annual project that will result in cross-sectional trend data.
- Each year, there is a focus on a specific sub-group (2017: Hispanics, 2018: Millennials and their use of fintech)

The P-Fin Index’s 28 questions cover eight functional areas:
1. Earning
2. Consuming
3. Saving
4. Investing
5. Borrowing
6. Insuring
7. Comprehending risk
8. Go-to information sources
While U.S. adults answered only one-half of *P-Fin Index* questions correctly, on average, this figure is even lower among Millennials at 44%.

**Age range for Millennials:**
18 – 37 year old individuals

Source: 2018 P-Fin Index, general population and Millennial oversample
% of P-Fin questions answered correctly

- Younger Millennials: 41% (18 - 27 year olds)
- Older Millennials: 47% (28 - 37 year olds)
- Gen X: 49%
- Baby Boomers: 55%

Notable difference exists between younger and older Millennials.

Financial literacy of older Millennials mirrors that of Gen X.

Increasing financial knowledge with age is consistent with other surveys. However, the difference shows that there is large variation within Millennials.

Source: 2018 P-Fin Index, general population and Millennial oversample
Fin-tech activities

How often (never, sometimes, frequently) do you use your smartphone to do the following:

Transactional activities:

- Deposit checks into a bank account
- Send or receive money from friends, family or other individuals
- Pay for a product or service in person at a store, gas station, or restaurant, i.e., making mobile payments
- Pay bills

Informational activities:

- Track the amount you spend and what you spend it on
- Compare prices or product features when shopping
- Check your credit score
- Get personalized investment advice
Millennial fin-tech activities

% of Millennials using their smartphone to...

**Transactional**
- Pay bills: 33% Frequently, 35% Sometimes, 68% total
- Deposit Checks: 26% Frequently, 32% Sometimes, 58% total
- Send/receive money: 19% Frequently, 35% Sometimes, 53% total
- Mobile payment: 14% Frequently, 26% Sometimes, 40% total

**Informational**
- Comparison Shop: 37% Frequently, 44% Sometimes, 82% total
- Track Spending: 34% Frequently, 34% Sometimes, 67% total
- Check Credit Score: 14% Frequently, 34% Sometimes, 47% total
- Get Investment Advice: 4% Frequently, 13% Sometimes, 17% total

Across age: The use of fin-tech activities are more common among older than younger Millennials.

Little or no consistent variation by demographics or financial literacy in fin-tech use.

Fin-tech activities (which vary in purpose and nature) attract different users with different needs and economic circumstances.

Source: 2018 P-Fin Index
• Millennials who make mobile payments are more likely to overdraw their checking account.

• Significant difference even when controlling for demographic factors (such as gender, income, education, employment status).

• Track spending is expected to improve cash flow management, but users are not less likely to overdraw their checking account (difference is not statistically significant).

• Just correlation, but no causality measured: We cannot say whether fin-tech use increases the likelihood of poorer personal finance practices.
Role of financial literacy

**Mobile payment**

- % of users overdraw their checking account
  - 25% or less: 41%
  - 26% to 50%: 32%
  - 51% to 75%: 21%
  - 76% to 100%: 11%

**Track spending**

- % of users overdraw their checking account
  - 25% or less: 30%
  - 26% to 50%: 34%
  - 51% to 75%: 17%
  - 76% to 100%: 10%

<table>
<thead>
<tr>
<th>Occasionally overdrawing checking account</th>
<th>Uses m-payments</th>
<th>Financial literacy</th>
<th>Financially literate mobile payment users</th>
</tr>
</thead>
</table>

- Respondents who use mobile payments and are financially literate are much less likely to overdraw their checking accounts.

- Respondents who track spending and are financially literate are also less likely to overdraw their checking accounts.
• Millennials experience low financial literacy rates, even though they must make numerous financial decisions.

• Fin-tech activities are attracting segments of customers who have different needs and characteristics; providing opportunities for innovation that can be targeted by fin-tech developers.

• Important question: Does fin-tech increase the risk of financial mismanagement?
  • Study indicates that mobile payment users are at a much higher risk of poor money management compared to non-users (even after controlling for socio-demographic factors).
  • However, our data cannot be used to establish any causal link between use of mobile payment and financial outcomes.

• While mobile payment users are more likely to experience financial distress and display poor financial management, the result reverses for those who are financially literate.

• This highlights the important role of financial literacy in the expansion of the fin-tech industry
This research will be presented at Singapore Fintech Festival

Follow GFLEC for updates:  

Follow Annamaria Lusardi for updates:
On November 13th we will be attending the 2018 Singapore Fintech Festival Insurtech conference to discuss:

• the importance of financial literacy
• how financial literacy deficits should be addressed by Fintech innovations to tackle to pension gap around the world.

Opening and Moderator
Paolo Sironi
FinTech Thought Leader, IBM

Panelists
Annamaria Lusardi
Founder & Academic Director, GFLEC

Diana Crossan
Chair of Advisory Board, GFLEC, GWU

Gautam Bhardwaj
Director & Co-Founder, pinBox Solutions Pte Ltd

Harry Smorenberg
Founder & CEO, SCC
Final Note

- Fintech is not a substitute for financial literacy.
- Financial education is even more important in the digital age.
Thank you!

Questions? Contact me at alusardi@email.gwu.edu