# Building Financial Resilience

**Annamaria Lusardi**
**GWSB and Global Financial Literacy Excellence Center (GFLEC)**
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# Background and question

- Measuring financial fragility/resilience
- Financial resilience is an indicator of financial wellbeing
- Financial resilience right after a financial crisis and over time
- This indicator has implications for policy and programs

Question:

- How can families cope with this new crisis and how can we build a more resilient society?

# Measuring *financial fragility*

- How **confident** are you that you could come up with **$2,000** if an unexpected need arose **within the next month**?
  - I am certain I could come up with the full $2,000.
  - I could probably come up with $2,000.
  - I could probably not come up with $2,000.
  - I am certain I could not come up with $2,000.
  - Don’t know.
  - Prefer not to say.

People with these responses are classified as financially fragile.

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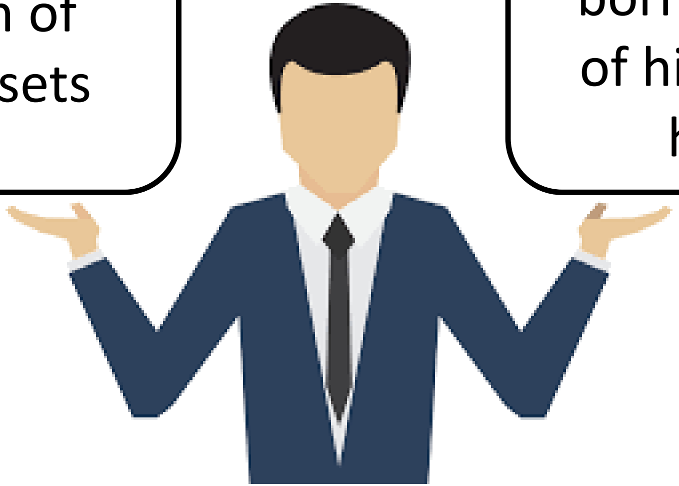
# A measure that goes beyond assets

- Financial fragility measures 2 aspects of personal finance

It is a symptom of lack of assets



It measures lack of borrowing capacity of highly leveraged households

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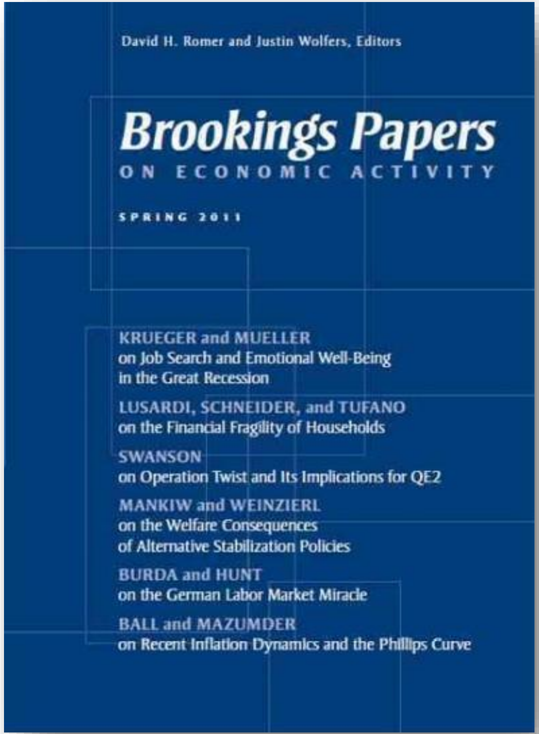
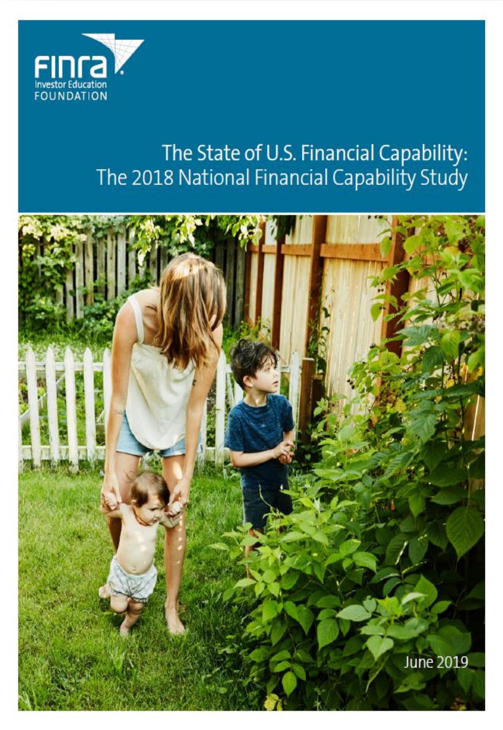
# Our methodology and data

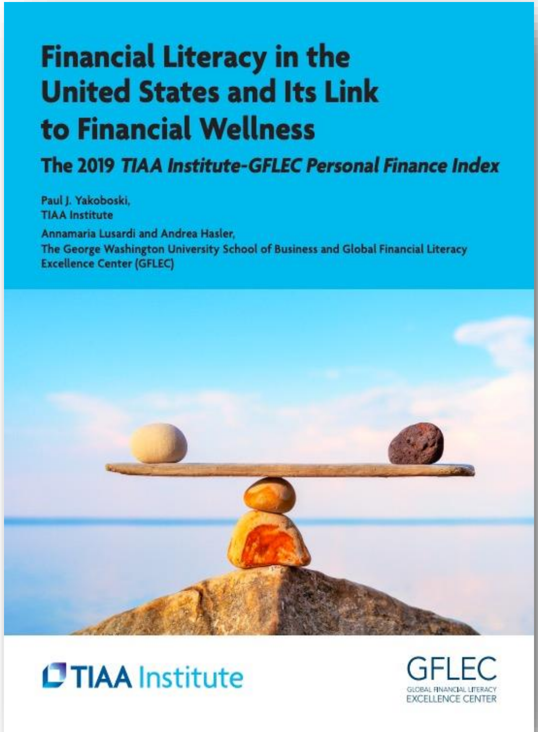
### 2011 Brooking Papers on Economic Activity



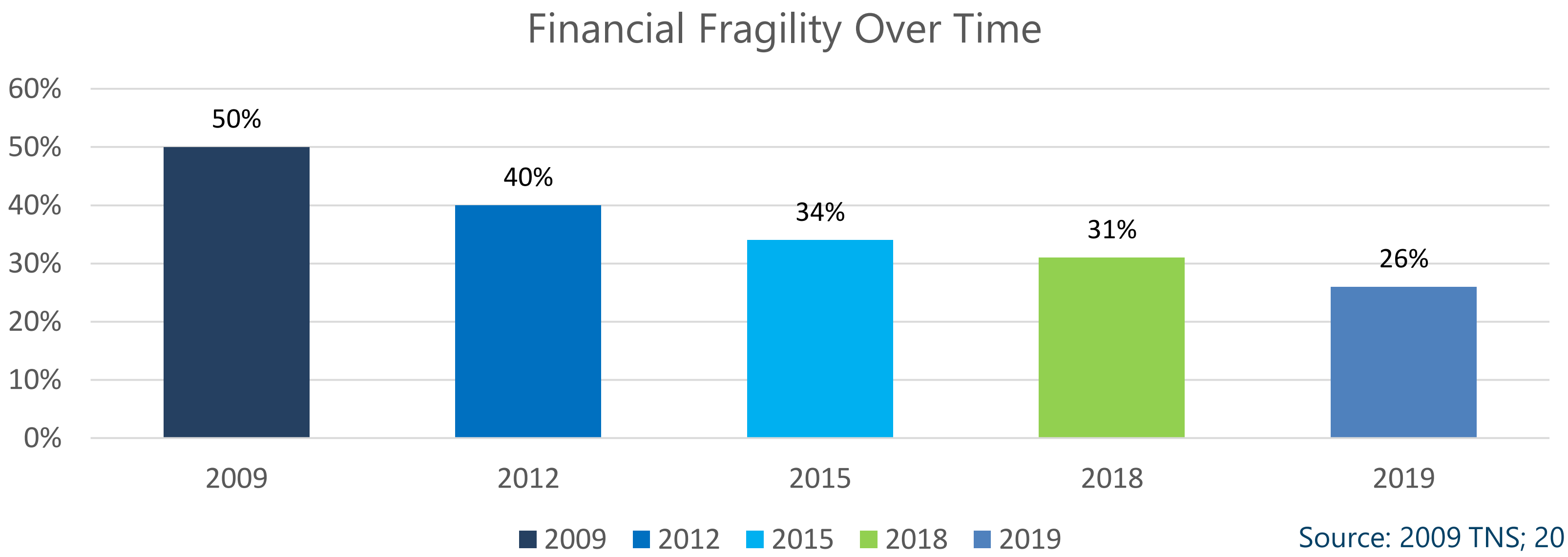

### 2018 FINRA National Financial Capability Study




### 2019 TIAA Institute-GFLEC Personal Finance Index



# Our long term research




Source: 2009 TNS; 2012, 2015, & 2018 NFCS, 2019 P-Fin Index

- Financial fragility is declining over time
- But more than 1 in 4 Americans cannot deal with a mid-size shock
- Averages hide large differences in the population

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# Who are the most financially fragile?

**Millennials (age 23-37)**

- 35% of Millennials are financially fragile

**Women**

- 36% of American women are financially fragile vs. 25% of men

**Educaton**

- 40% of those with high school education (or less education) are financially fragile

Source: 2018 NFCS

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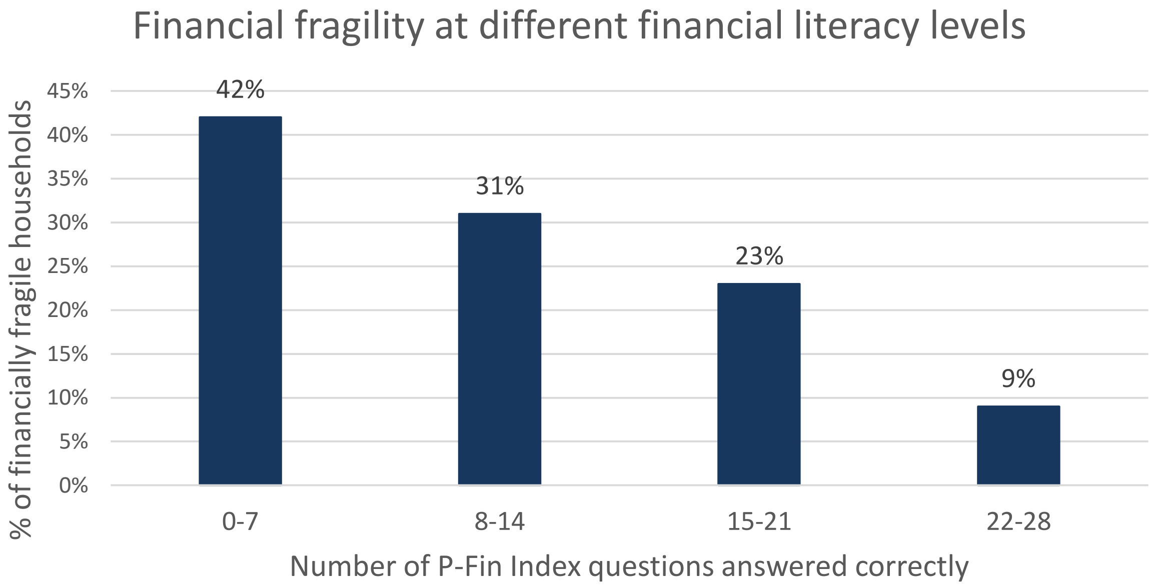
# Working toward a solution: Financial fragility and financial literacy




**As the number of P-Fin Index questions answered correctly increases, individuals are less likely to be financially fragile**

(This relationship continues to hold after accounting for many variables)

*Source: 2019 P-Fin Index*

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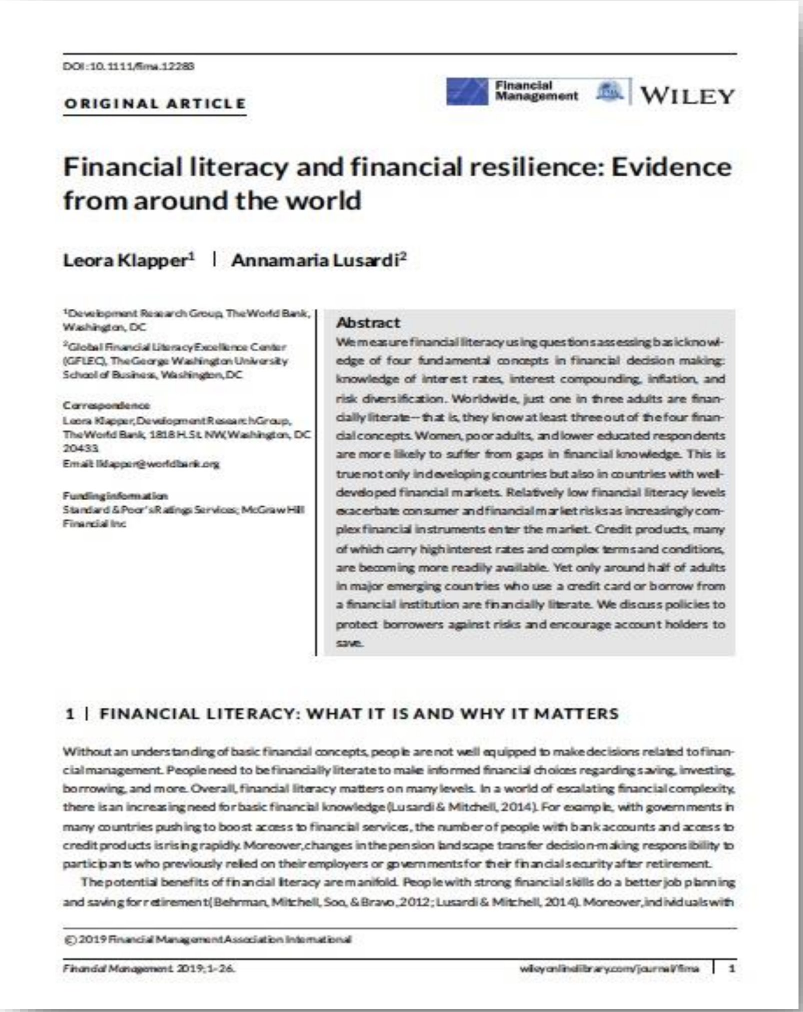
# The world is flat

- Strong link between financial literacy and financial resilience around the world

- Even the most advanced economies do not have high levels of financial literacy

- Financial literacy benefits not only individuals, but also the economy

- It also benefits regulators and policy makers



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## Financial literacy and financial resilience: Evidence from around the world

Leora Klapper[1] | Annamaria Lusardi[2]

[1]Development Research Group, The World Bank, Washington, DC

[2]Global Financial Literacy Excellence Center (GFLEC), The George Washington University School of Business, Washington, DC

**Correspondence**
Leora Klapper, Development Research Group, The World Bank, 1818 H St. NW, Washington, DC 20433
Email: lklapper@worldbank.org

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**Abstract**

We measure financial literacy using questions assessing basic knowledge of four fundamental concepts in financial decision making: knowledge of interest rates, interest compounding, inflation, and risk diversification. Worldwide, just one in three adults are financially literate—that is, they know at least three out of the four financial concepts. Women, poor adults, and lower educated respondents are more likely to suffer from gaps in financial knowledge. This is true not only in developing countries but also in countries with well-developed financial markets. Relatively low financial literacy levels exacerbate consumer and financial market risks as increasingly complex financial instruments enter the market. Credit products, many of which carry high interest rates and complex terms and conditions, are becoming more readily available. Yet only around half of adults in major emerging countries who use a credit card or borrow from a financial institution are financially literate. We discuss policies to protect borrowers against risks and encourage account holders to save.

### 1 | FINANCIAL LITERACY: WHAT IT IS AND WHY IT MATTERS

Without an understanding of basic financial concepts, people are not well equipped to make decisions related to financial management. People need to be financially literate to make informed financial choices regarding saving, investing, borrowing, and more. Overall, financial literacy matters on many levels. In a world of escalating financial complexity, there is an increasing need for basic financial knowledge (Lusardi & Mitchell, 2014). For example, with governments in many countries pushing to boost access to financial services, the number of people with bank accounts and access to credit products is rising rapidly. Moreover, changes in the pension landscape transfer decision-making responsibility to participants who previously relied on their employers or governments for their financial security after retirement.

The potential benefits of financial literacy are manifold. People with strong financial skills do a better job planning and saving for retirement (Behrman, Mitchell, Soo, & Bravo, 2012; Lusardi & Mitchell, 2014). Moreover, individuals with

# Implications of our research

More than ever

- People need to be able to navigate the world around them and be financially resilient

- We need to improve financial literacy.
  Levels of financial literacy are too low

- We need to start in school

- Lifetime learning

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# Seven suggestions to manage money in the time of crisis (similar to suggestions about health)

1. Learn about what your national and local government is providing in this time of crisis

2. Learn about possible hardship adjustments in financial and other contracts (different payment options and due dates for credit cards, taxes, bills and so on)

3. Revisit and create a budget to manage the new conditions imposed by the crisis

4. Rebuild over time a buffer stock of savings

5. Take advantage of lower interest rates and plummeting stock markets

6. Take advantage of online technology to manage your money as well as to compare terms and search for the best offer available

7. Take care of yourself and your health

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# Life sometimes is a storm

*The Storm on the Sea of Galilee*
**Rembrandt, 1633**

**This is not the perfect storm, but the perfect time for financial literacy!**

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