The financial fragility of European households in the time of COVID-19 and the role of financial education and literacy

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Italian Financial Education Committee

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To get started

A number:

1/3
What this number is

1/3

• People who know the basics of personal finance
• This is true both in the US and around the world
• It is also related to knowledge about risk
Only 1 in 3 adults worldwide have basic financial literacy
Financial literacy by topic

% of adults answering correctly

**RISK DIVERSIFICATION**

<table>
<thead>
<tr>
<th></th>
<th>0%</th>
<th>20%</th>
<th>40%</th>
<th>60%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

**NUMERACY (INTEREST)**

<table>
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<tr>
<th></th>
<th>0%</th>
<th>20%</th>
<th>40%</th>
<th>60%</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Major advanced economies</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Major emerging economies</td>
<td></td>
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</table>

Source: S&P Global Finlit

Inflation and simple interest/numeracy is what people know most across countries.

Risk diversification is what people know the least.
Financial fragility: Can people handle shocks?

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.

From Lusardi and Tufano, BPEA, 2011
Measure of 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.

From Lusardi and Tufano, BPEA, 2011
### Financial Fragility in the United States – 2018 National Financial Capability Study

<table>
<thead>
<tr>
<th>Fragility</th>
<th>31%</th>
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<tbody>
<tr>
<td>Probably or certainly could not come up with $2,000 in a month</td>
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Who has basic financial literacy is much less likely to be financially fragile.
The financial fragility of European households in the time of COVID-19

Maria Demertzis, Marta Domínguez-Jiménez and Annamaria Lusardi

Executive summary

- The concept of household financial fragility emerged in the United States after the 2007-2008 financial crisis. It grew out of the need to understand whether households’ lack of capacity to face shocks could itself become a source of financial instability, in addition to risks to the stability of banks and the greater financial system. The concept goes beyond assessing the level of assets and encompasses the state of household balance sheets, including indebtedness. It relies also on individual perceptions of the ability to rely on families and friends and other methods to deal with shocks, though such impacts are less easy to measure and rely frequently on self-assessments.

- In the wake of COVID-19, we ask how well-prepared households were in the European Union (including the United Kingdom) to handle an unexpected expense. Two years before the pandemic hit, a substantial share of EU households reported that they would be unable to manage unexpected expenses. In some EU countries, many households had savings equivalent to just a few weeks of basic consumption.

- We find that one in three EU households is unable to meet an unexpected shock during regular times, let alone during a pandemic. COVID-19-related support measures put in place across the EU are intended to provide economic help to those households, whose members have lost jobs or face a severe reduction in income. However, in a number of countries where one in two households was already fragile, typically countries that are already economically weaker, state help is likely to be smaller and shorter-lived. Policies that increase financial resilience in structured ways will become more important in the future.
In Figure 1, we plot the share of households that self-report being unable to deal with an unexpected required expense. The data refers to 2018, a period of growth (albeit moderate) among European countries but, importantly for this exercise, not a period of specific financial stress.

Figure 1: Household inability to meet an unexpected required expense, all households, percentage shares, 2018

Source: Eurostat, EU-SILC. Notes. EU27 displays the average of all EU member states after January 2020 (those exhibited except the UK). EA19 is the euro-area average.
Financial Fragility in Europe: Single parent households (cont.)

Figure 4: Household inability to meet an unexpected expense, single person household with dependent children, percentage shares, 2018

Source: Eurostat, EU-SILC.
Building a new ecosystem

We need many components

• Financial literacy is an essential one
• It is the foundation (like water)
• We need to refocus after the crisis
Advice for public policy

Building a financial resilient society

• Need to focus on well-being
• Add financial literacy among indicators of well-being
• Toward a more inclusive society
Policy work: National strategies for financial literacy

More than 70 countries have done or are doing a national strategy for financial literacy.
In July 2017, I was appointed by Italy’s Minister of Economy and Finance as director of the new Financial Education Committee.

The Committee is in charge of designing the national strategy and implementation program for financial literacy.

Follow our work on www.Quellocheconta.gov.it
Concluding remarks

Financial literacy is like **reading** and **writing**: it is an essential skill to thrive in the 21^{st} century

- It is very important to be financially literate as early as possible
- Financial literacy is a stepping stone for financial resilience and financial well-being
Looking ahead

Short definition of financial literacy: **A vision for the future**

The question is: **Which future do we want to build?**
Research papers cited in this presentation

Financial literacy and financial resilience: Evidence from around the world
Lora Klapper | Annamaria Lusardi

Abstract
We measure financial literacy using two survey questions from the World Bank’s World Values Survey in 13 countries. The results show that financial literacy is associated with income, education, and financial status. Financial literacy is also related to financial outcomes such as savings, investments, and debt. The implications of these findings for policymakers are discussed.

1. Financial Literacy: What is it and Why it Matters

Without an understanding of basic financial concepts, people are more likely to make decisions related to financial management. People need to have a basic knowledge of financial stability, informed financial decision-making, savings, investing, and planning. Financial literacy education is important at all levels, from primary school to adult education.

The benefits of financial literacy are significant. They include improved decision-making, increased savings, reduced debt, and better financial planning. Financial literacy education can also help reduce financial stress and increase financial well-being.

References

The financial fragility of European households in the time of COVID-19
Maria Demertzis, Marta Dominguez-Jiménez, and Annamaria Lusardi

Executive summary
The concept of household financial fragility has become increasingly important in recent years, as the COVID-19 pandemic has highlighted the vulnerabilities of households in the face of unexpected shocks. This fragility can be measured in various ways, such as the share of households that are unable to meet their financial obligations, or the amount of debt they are carrying. The impact of the pandemic has been particularly significant in Europe, where the economic shock has hit households hard, leading to increased levels of financial fragility.

The consequences of household financial fragility are far-reaching, as they can affect both individual well-being and broader economic outcomes. Household financial fragility is often associated with lower levels of financial participation, higher levels of poverty, and lower levels of savings. It can also lead to increased levels of stress and anxiety, as households struggle to meet their financial obligations.

Policy lessons
- The pandemic has highlighted the importance of financial literacy education and financial planning for households.
- Further research is needed to understand the long-term impact of the pandemic on household financial fragility.
- Policy makers should consider providing targeted support to vulnerable households, such as those with lower levels of financial literacy.

References
Thank you!
Thank you!