G20 Global Partnership of Financial Inclusion
Coping with New (and Old) Vulnerabilities in the Post-Pandemic World
Rome, October 5, 2021

Good afternoon, good evening, good morning to all of you.

It is a pleasure to attend the G20 Global Partnership for Financial Inclusion. Thank you Magda and Anna for inviting me. And thank you Minister Franco for your opening remarks.

I am here in a double role: as an academic and the founder of the Global Financial Literacy Excellence Center (GFLEC) in Washington D.C., a center dedicated to financial literacy which is 10 year old, and as Director of the Italian Financial Education Committee, in charge of designing and implementing a national strategy for financial literacy in Italy.

Rarely do academics have an opportunity to do policy work. It is very humbling to do so, in particular during difficult times, like the ones we have been experiencing. One of the things I would like to highlight in this short speech is the urgent need to address households' financial vulnerabilities, both new and old.

Last year, the Financial Education Committee, in collaboration with the data collection agency Doxa, collected data on the financial situation of Italian families. We did so because we want our work always to be driven by research and data.

I want to highlight three main findings from that data, that speak of the many vulnerabilities of Italian families:

1. Many families were already vulnerable before the pandemic. For example, more than 40% of Italian families said their income would not be enough to make ends meet, let alone deal with a pandemic.
2. The effects of the pandemic were quite unequally distributed in the population, just to echo what Minister Franco said. Two groups that were particularly hit hard were women and the young. These are important groups in society, in particular as we look to the future.
3. Financial literacy acted as a shield, it provided some protection against being hit hard by the pandemic. I always say that sailing or navigation lessons show their worth when you have to navigate a storm; well so is the case for financial knowledge. During the crisis, we could witness the benefits of being financially literate and the importance of having basic financial knowledge not only in good times but, in particular, in bad times.

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And other data corroborate these findings in Italy. In collaboration with the TIAA Institute in the U.S, since 2017 we have been collected data every year on what we have called the TIAA Institute/GFLEC Personal Finance Index (or PFin Index in short), which measures knowledge and understanding which enable sound financial decision-making and effective management of personal finances. The P-Fin Index relates to common financial situations that individuals encounter and, in that sense, can be viewed as a gauge of "working knowledge."

One advantage of collecting data at a yearly frequency is that one can assess findings before and after a major event. We did not have to wait too long for a major event to happen.

In January 2020, at a time when the stock market in the U.S was still roaring in and the unemployment rate was at all time low, close to 30% of families in the U.S. would not have been able to face an unexpected expense of $2000. So yet again, we find that families were vulnerable even before a financial crisis and a time of economic expansion. We should remember that economic expansions do not lift all boats. The long lines at the food bank that we saw right after the pandemic started are a reminder of how painful crises are and how important it is to build financial resilience.

Yet again, we found women were particularly fragile. Many have talked about women yesterday. I want to remind you that, even in the context of developed countries, women are a vulnerable group and more so during a pandemic.

Even though the data collection has not been long—it started in 2017 and we are in the fifth wave— we have reported a gender gap not only in financial resilience but also in financial literacy. In the U.S. as well, as in many countries around the world, women know less than men when it comes to finance. And what we see over the short time period are growing disparities in financial literacy rather than closing; those who are improving their financial knowledge are those who have higher financial literacy to start with, in particular men and higher income respondents.

These findings extend well beyond Italy and the U.S. Together with collaborators from Bruegel, we have also looked at the financial fragility of European households.

We use data from the EU Statistics on Income and Living Conditions. The information available there is whether households could afford an unexpected required expense equal about to a month of income and pay that expense through their own resources. The data refer to 2018, which is a period of moderate growth in many European countries.

This time, looking at data from 27 countries, we find that one in three European households is unable to meet an unexpected shock during regular times, let alone a pandemic.

The message from the data is clear: going forward we need to promote financial resilience. It should become a policy objective, not only because no-one should be left behind but also because it is a lot more expensive to support families when a shock hit than to help them build financial security both in the short and long term. We have many policies in place to promote retirement savings, but not for precautionary savings, but they are important and beneficial.

One way to promote that financial security is also to foster financial literacy.

This year we went back to interview the same Italian families that were contacted last year, in other word we have panel data on the financial situation of Italian families. While there is evidence that the financial situation of many families in Italy is improving, thanks also to the swift response of the government— thank you Minister Franco for the important work of the Ministry of Economy and Finance— inequalities have also widened. If we have to give a face to financial vulnerability, to remind you that behind these statistics there are people, it would be a face of a woman, of a young person, of someone living in the South, of someone with low financial literacy.

The data also show that Italians had to resort to using technology both for transactions and for other personal finance decisions. There has clearly been an increase in digital activities around the world. And I want to echo what Ragu Rajan called yesterday the opportunities and dangers of technology.

Even though these activities tend to be underreported, several families (5%) in Italy admitted they were victims of scams, another 5% admitted to improper use of data, and 23% stated they believed financial news that turned out to be fake. That is another feature of lack of financial resilience.

I want to add a note of caution about the use of technology. Let me return to PFin Index data. Each year we oversample a demographic group that we study in detail. In 2018, we oversample Millennials and we study their use of technology. Surprisingly, those using technology, for example to make payments, which is a common use to technology among the young, had worse financial outcomes; they were more likely to overdraw their checking accounts and more likely to borrow at high costs. If you make it easy to pay, perhaps people spend more.

Surprisingly, even those who use technology to manage personal finances, such as keeping track of expenses, had worse financial outcomes. While technology can be very sophisticated, its use is not. We cannot assume that technology is simple enough that we do not have to teach about it; promoting digital literacy is necessary and important, as it is clearly here to stay.

We do find that people who are more financially literate use technology better, meaning they do not have worse financial outcomes. In other words, technology and financial literacy are complement rather than substitute.

Let me now conclude.

I always say that the crisis gives us an opportunity to reimagine the future and we cannot go back to the normal before the pandemic because that normal was not good enough. It is time to focus on strengthening financial resilience and financial wellbeing for all.

One additional reason why I am in Rome is October is because is Financial Literacy Month in Italy. Following the recommendations of the data, this year the month is dedicated to 2 vulnerable groups in Italy: women and the young. The reason why I am wearing this pin, which is our signature for the month, is to invite everybody to join us in this effort to raise awareness toward the importance of improving financial literacy and fighting financial vulnerabilities.

If we want to achieve an inclusive and robust recovery we need to invest in these groups not just because no-one should be left behind but also because building financial resilience will pay off.

We do need a “transformation” as the title of this session says and it starts by taking a longer term approach and focusing on the needs of families, particularly the most vulnerable ones.

To paraphase the words of a visionary and bold leader: we should do “whatever it takes” to put families on a path to financial security.