

The Power of Financial Literacy: Global Evidence

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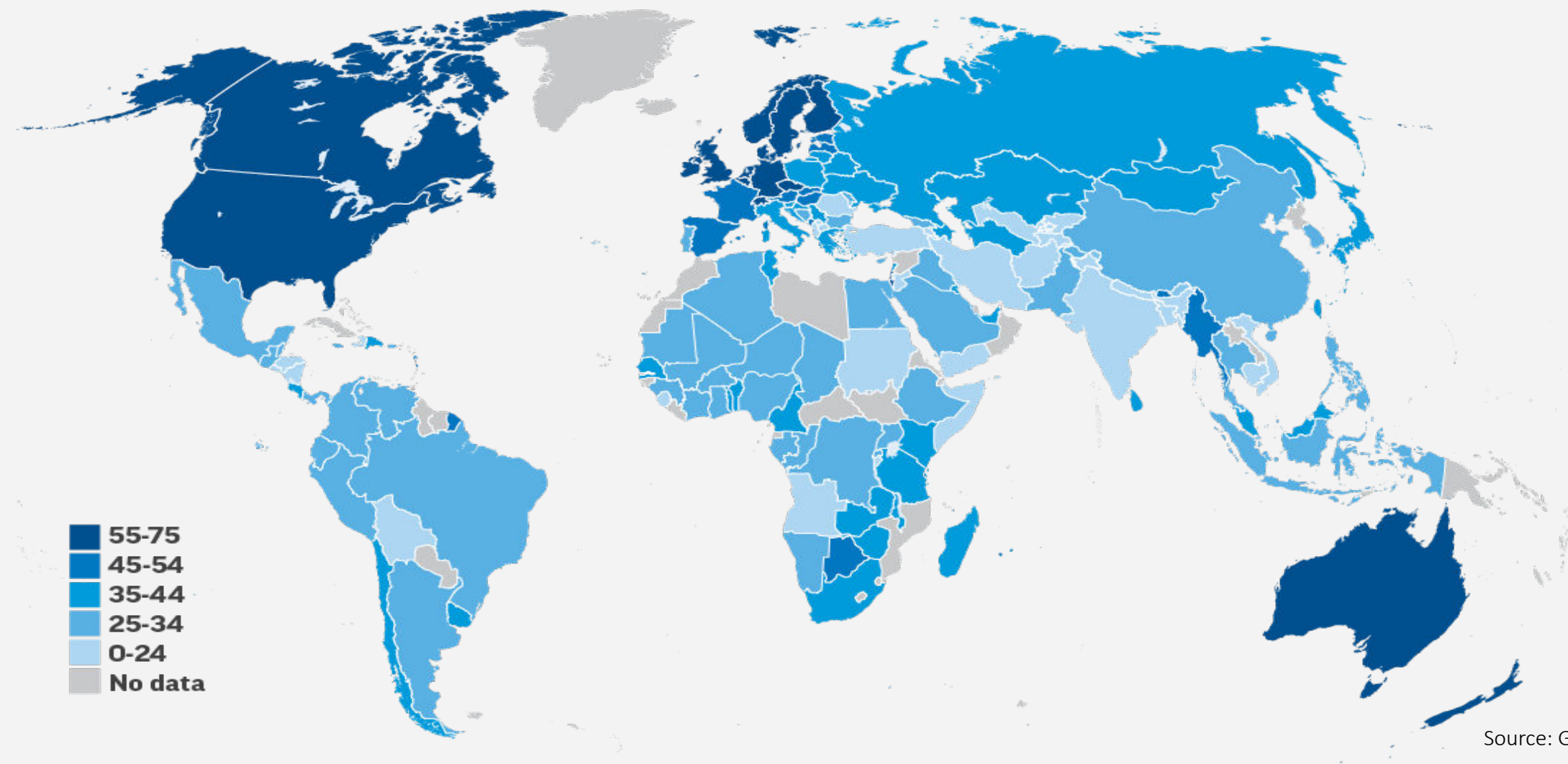
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Topics I will cover

- 1 ▶ Financial literacy levels are low across the globe and inequality is growing**
- 2 ▶ Financial literacy is linked to financial resilience and well-being**
- 3 ▶ Financial literacy and the ecosystem**

Global financial illiteracy: The world is flat



Source: GFLS 2014

The largest, most comprehensive, global measure of finlit

S&P Global partnered with Gallup, GFLEC, and the World Bank to measure financial literacy in more than 140 countries.

We found that:

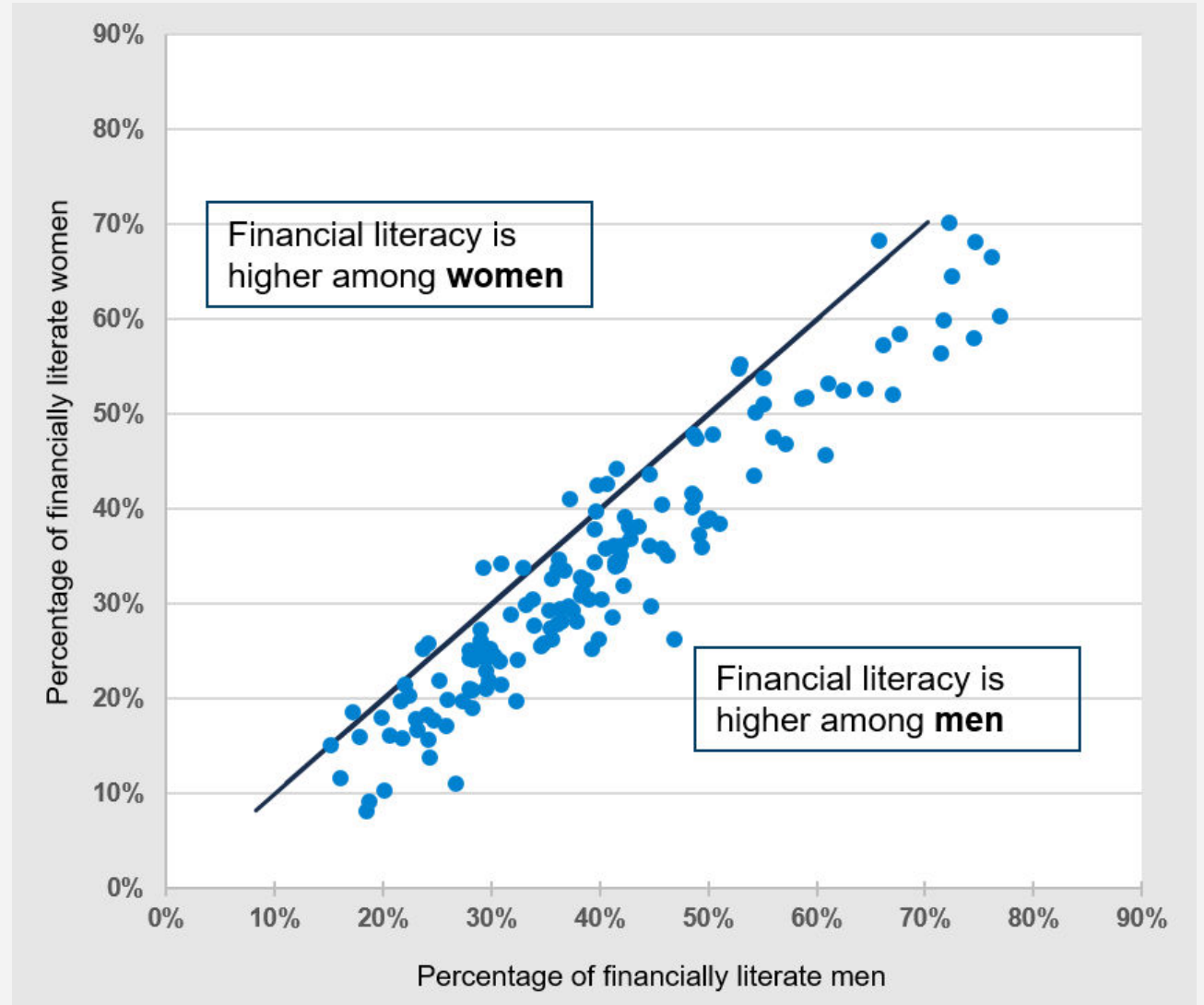
Low financial literacy is widespread.

Even in countries with well-developed financial markets and high GDP, financial literacy levels are low.



Persistent gender gap around the world

In most economies around the world, men have a better understanding of basic financial concepts than women.



Vulnerable groups are the same across countries

Financial literacy is particularly low among

- **young** adults
- the **elderly**

and those with

- lower **income**
- lower **education**



The U.S. as an example

The **TIAA Institute-GFLEC Personal Finance Index (*P-Fin Index*)** is an annual barometer of knowledge and understanding which enables sound financial decision-making and effective management of personal finances.

Data collection started in 2017 and is collected every year.

The index is based on **28 questions**.

On average, only **50%** of these 28 questions are answered correctly, a failing grade!

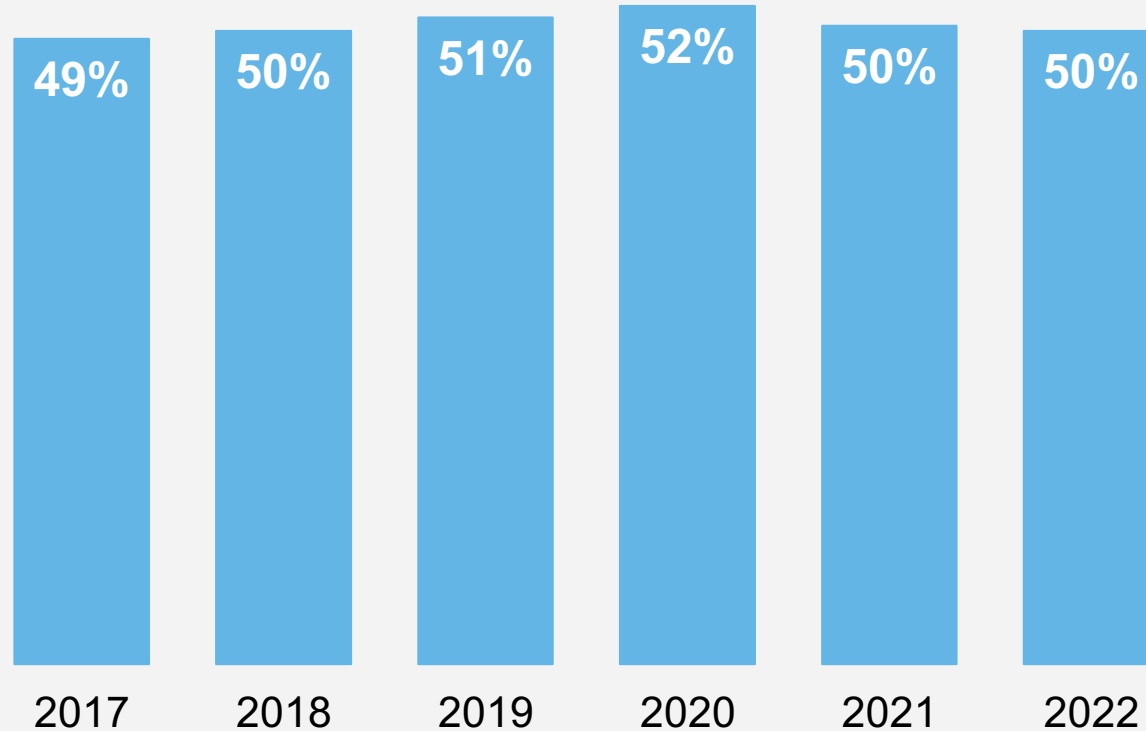


<https://gflec.org/initiatives/personal-finance-index/>



Financial (il)literacy is holding steady: 2017-2022

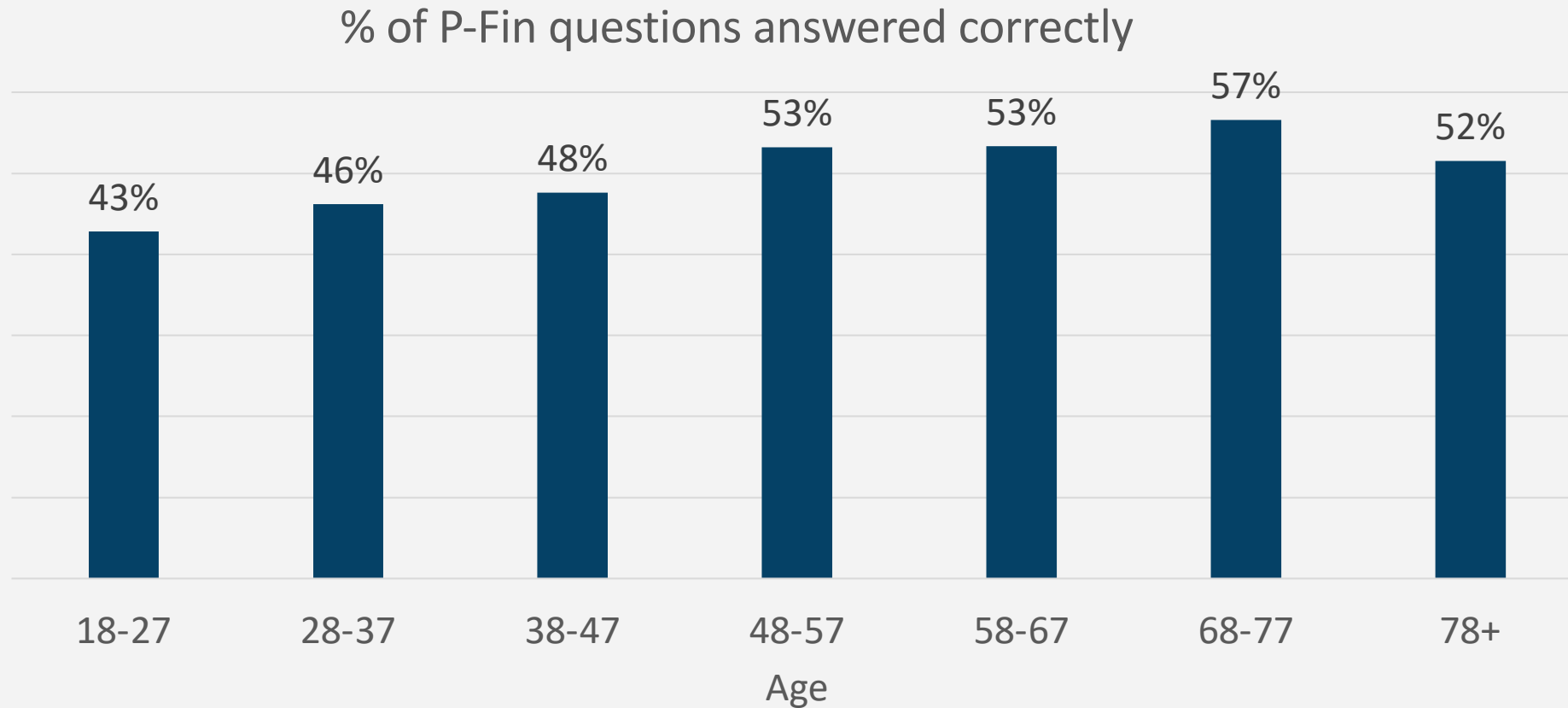
% of P-Fin Index questions answered correctly



Even though financial news are consistently on the front page of newspapers, knowledge of basic financial concepts has not improved over time.

No learning overtime.

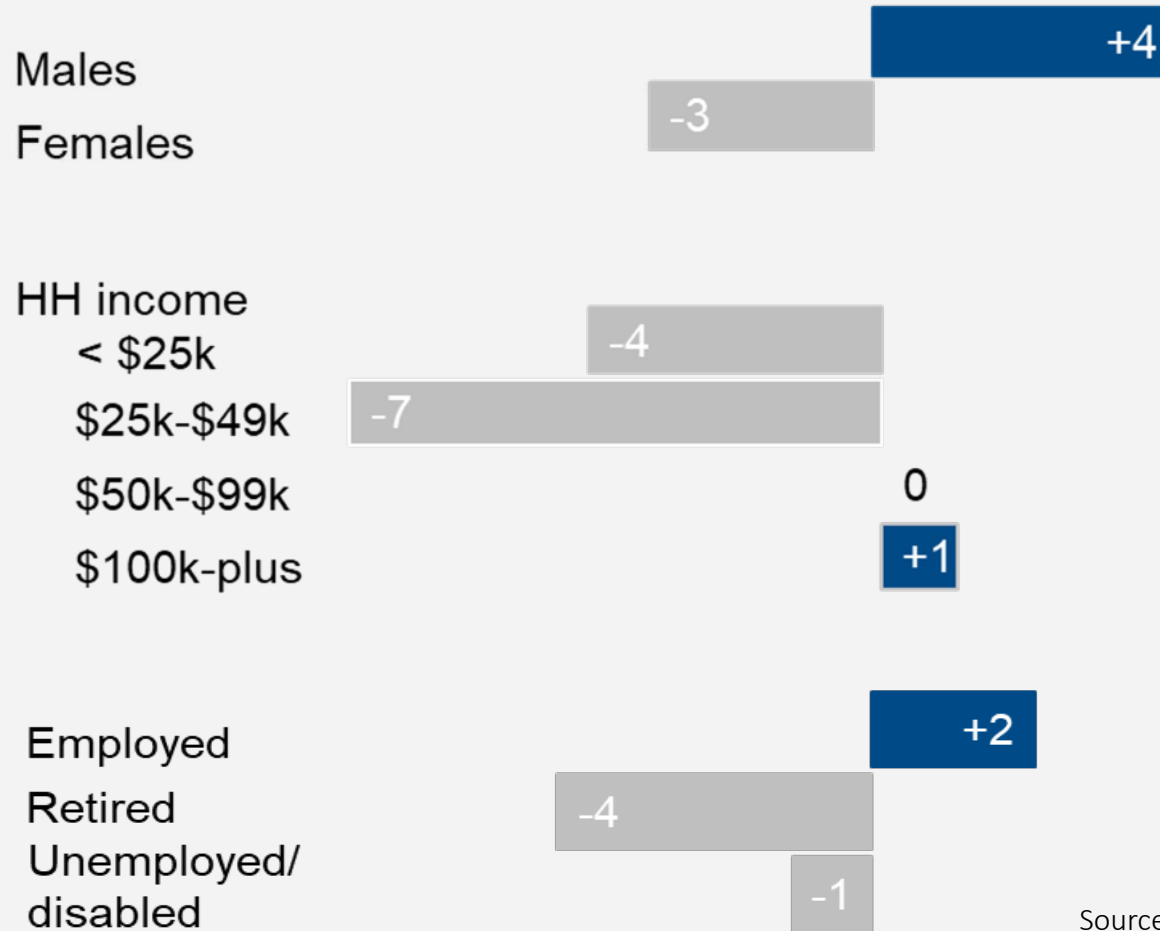
Little learning across age/cohorts



Source: TIAA Institute-GFLEC Personal Finance Index (2022).

Growing inequality in financial literacy

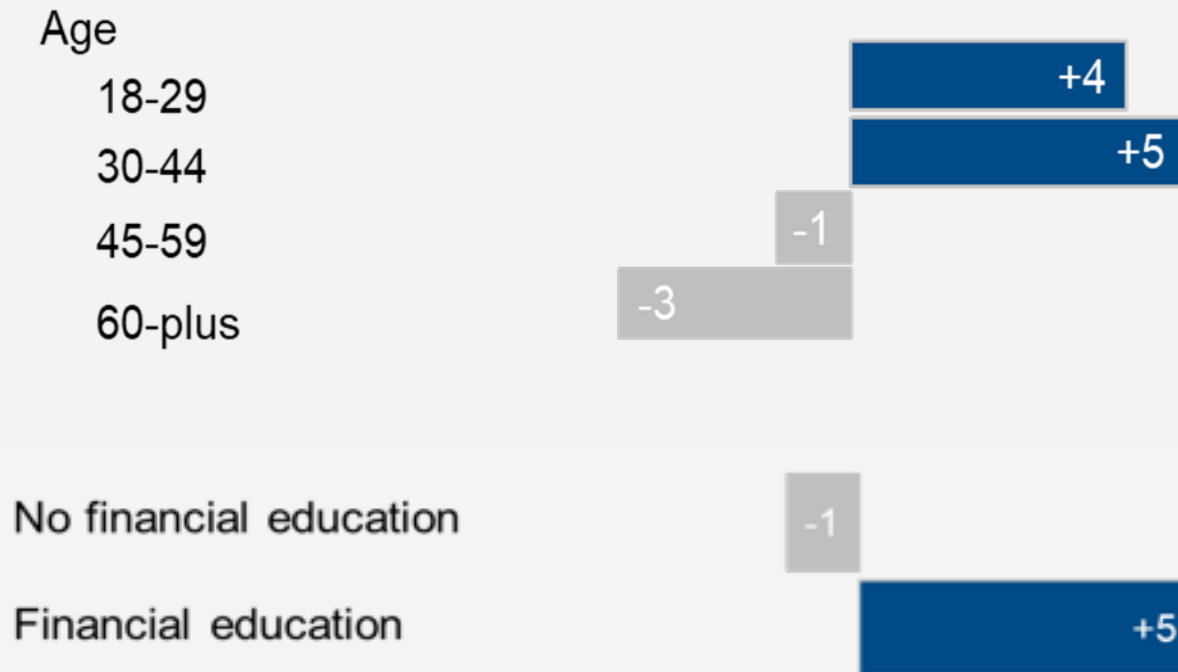
% point change in P-Fin questions answered correctly, 2017 to 2022



Source: TIAA Institute-GFLEC Personal Finance Index (2017, 2022).

But some changes are promising

% point change in P-Fin questions answered correctly, 2017 to 2022



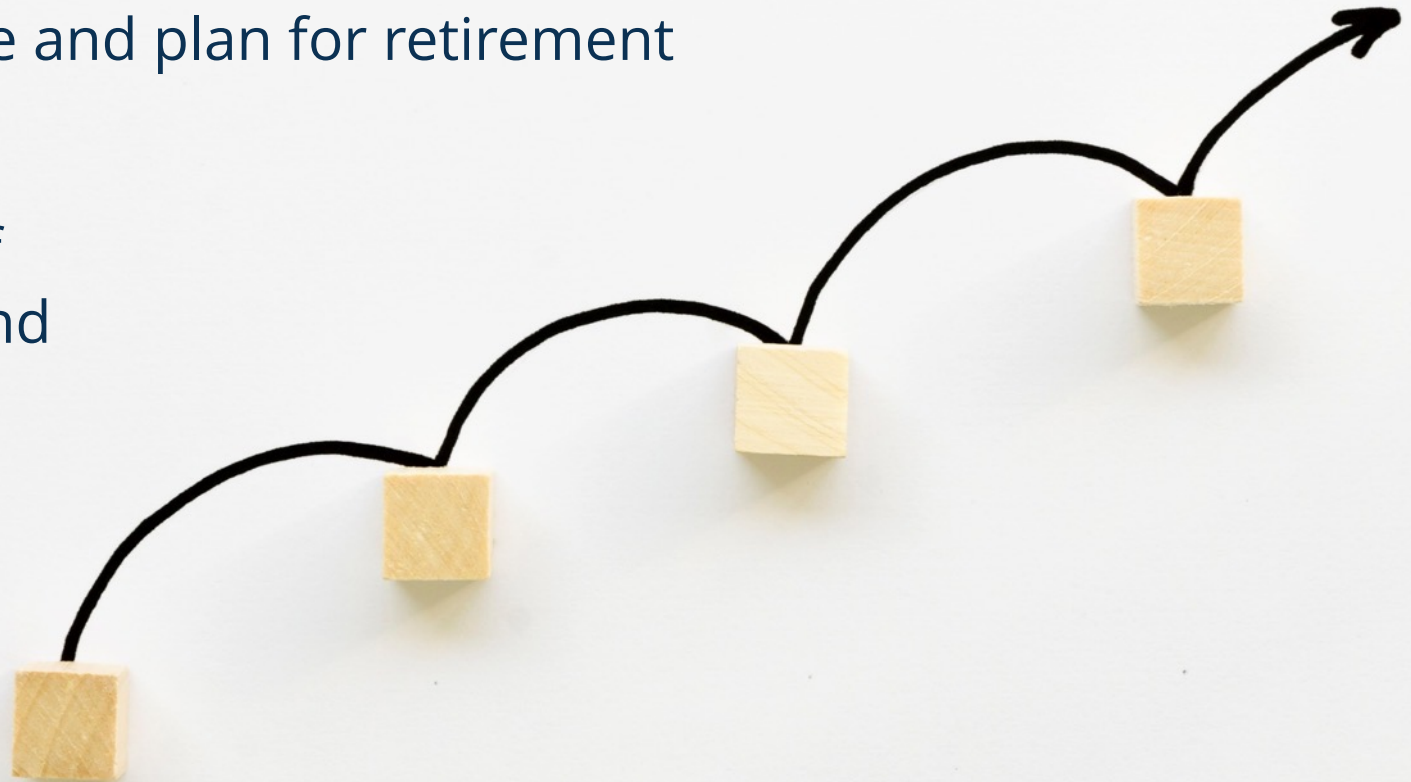
Source: TIAA Institute-GFLEC Personal Finance Index (2017, 2022).

Financial literacy matters

Who is financially literate:

- is more likely to make ends meet
- is more likely to cope with financial shocks
- is less likely to be debt-constrained
- is more likely to save and plan for retirement

These are indicators of
financial resilience and
ultimately **well-being**.



These are the issues we face

- Very low levels of financial literacy
 - Financial literacy should not be taken for granted, not even in advanced economies
- Financial illiteracy is widespread
 - Increasing knowledge and changing behavior requires more than small interventions
- Financial literacy increases only slowly with age/cohort
 - Learning by doing is not enough
- Large heterogeneity across demographic subpopulations
 - One size does not fit all

Financial literacy is like water in the ecosystem

- Financial literacy is an essential component
- It is the foundation (like water)
- Without financial literacy, the ecosystem does not flourish



A national strategy for financial literacy

- We need intervention at the aggregate level
- Financial education should be everywhere (where people are)
- A need to engage and coordinate all stakeholders
- Invest and pool resources: financial illiteracy is expensive

Some wide-reaching interventions

Large and scalable programs are needed to change the statistics

1. Financial education in school and college
2. Financial education in the workplace
3. Financial education in the local community (libraries, museums, theaters); e.g., a financial education office in city hall

A case for making financial education mandatory



Financial educations works: Our world-wide meta-analysis of financial education programs



Journal of Financial Economics

Available online 3 October 2021

In Press, Corrected Proof 

Financial education affects financial knowledge and downstream behaviors

Tim Kaiser ^a , Annamaria Lusardi ^b , Lukas Menkhoff ^c , Carly Urban ^d 

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Abstract

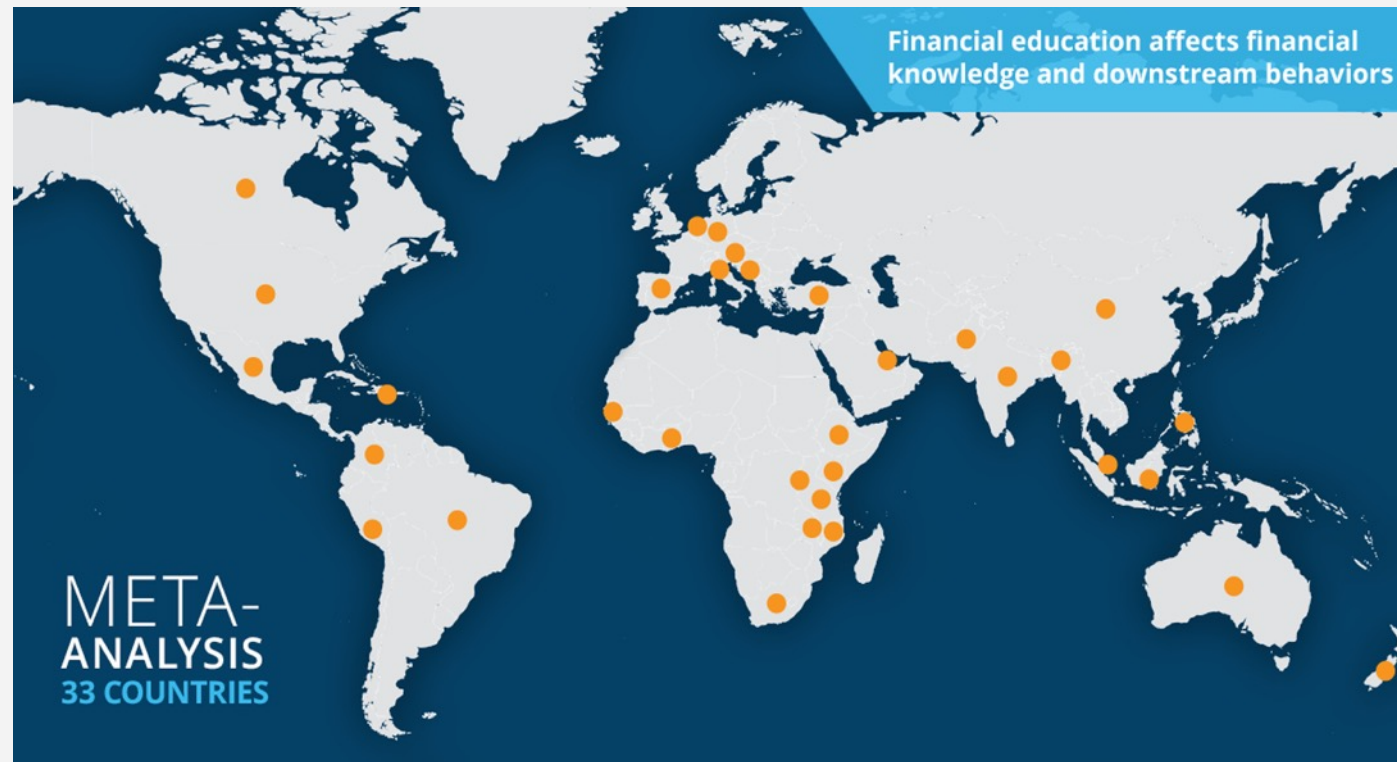
We study the rapidly growing literature on the causal effects of financial education programs in a meta-analysis of 76 randomized experiments with a total sample size of over 160,000 individuals. Many of these experiments are published in top economics and finance journals. The evidence shows that financial education programs have, on average, positive causal treatment effects on financial knowledge and downstream financial behaviors. Treatment effects are economically meaningful in size, similar to those realized by educational interventions in other domains, and robust to accounting for publication bias in the literature. We also discuss the cost-effectiveness of financial education interventions.



<https://gflec.org/metaanalysis/>

New meta-analysis

Our study includes 76 randomized controlled trials from 33 countries with over 160,000 individuals across the lifespan.



Financial education works and it is also **cost-effective**.

The national strategy in Italy



- Our policy work is based on data and research
- In our second term, we have been focusing on vulnerable groups. A good way to recover from the pandemic
- This year, the focus is on small and medium-size firms
- Leapfrog using experience from other countries

Some of our initiatives

- A financial education portal (www.quellocheconta.gov.it), which provides rigorous and unbiased sources of information
- Yearly data collection
- Guidelines for financial education for young and adults
- Collaboration with national TV, radio, and newspapers
- Financial Literacy Month
- Financial education national campaigns

Some bold initiatives: Re-imagine the future

- Finland launched a challenge: they want to be the most financially literate country by 2030.
- In the US, many states are making financial education mandatory in school. Other countries (e.g., Portugal in 2018) have already done so.

How about

- Adding financial literacy to **national statistics**, such as reporting GDP or inflation.
- A financial literacy **target? Keep inflation low and financial literacy high!**

To summarize

- Very low levels of financial literacy
 - The world is changing fast, we need to catch up
- Vulnerable groups are the same all over the world
 - Promote equality
 - Re-image the future after the pandemic
- National strategies can help build an ecosystem for a more resilient society by promoting large and scalable interventions.

Looking ahead

Short definition of financial literacy:

A vision for the future

The question is:

Which future do we want to build?



Thank you!

For more info visit www.gflec.org.

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If you have any questions, please send them to alusardi@gwu.edu.