

Financial Literacy Around the World and Among the Youth

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Need for financial education in the global context

- Structural changes in the labor market and education
 - Divergence in wages
 - Labor mobility
 - Investment in/cost of education
- Changing retirement systems
 - Employers are shifting from benefit to contribution plans
 - State welfare provisions have also fallen over time
 - Employees must plan and save for their future
- Longevity
 - Increased life expectation has raised the time spent in retirement with fewer sources of income
 - Creating need for more planning by individuals

Need for financial education in the global context (cont.)

- Changing financial market landscape
 - Financial markets have expanded
 - Creating new credit and including more clients – boosting access to finance
- New technology frontiers
 - Technology has made markets more complex
 - Creating a diverse range of products but also generating new issues of security and financial awareness

What comprises financial literacy

As framed by PISA

- Financially literate individuals not only know and understand basic financial concepts, but also have the motivation, skills and confidence to *make informed and effective decisions* about personal finances
- Sound decisions promote the *financial well-being* of individuals
- Through improved investments and personal finances, financial literacy has a direct *impact on the society*



The structural components reflect the need to look to the future and plan with a long-term horizon.

Today's blueprint to discuss financial education and literacy

<p>S&P/GFLEC – Global Financial Literacy Survey (GFLS)</p>	<p>Allianz/GFLEC – When will the penny drop?</p>	<p>OECD/GFLEC – Programme for International Student Assessment (PISA)</p>
<p>Assessing financial literacy <i>globally</i>:</p> <p>More than 150,000 adults in more than 140 economies were interviewed in 2014.</p>	<p>Assessing financial literacy <i>across Western Europe</i>:</p> <p>1,000 people in each of 10 West European countries were surveyed by Allianz in late 2016.</p>	<p>Assessing financial literacy for <i>the young</i>:</p> <p>Approximately 48,000 15-year olds in 15 countries/economies were surveyed in 2015.</p>

The S&P Global FinLit Survey (GFLS)



The survey covers four topics:

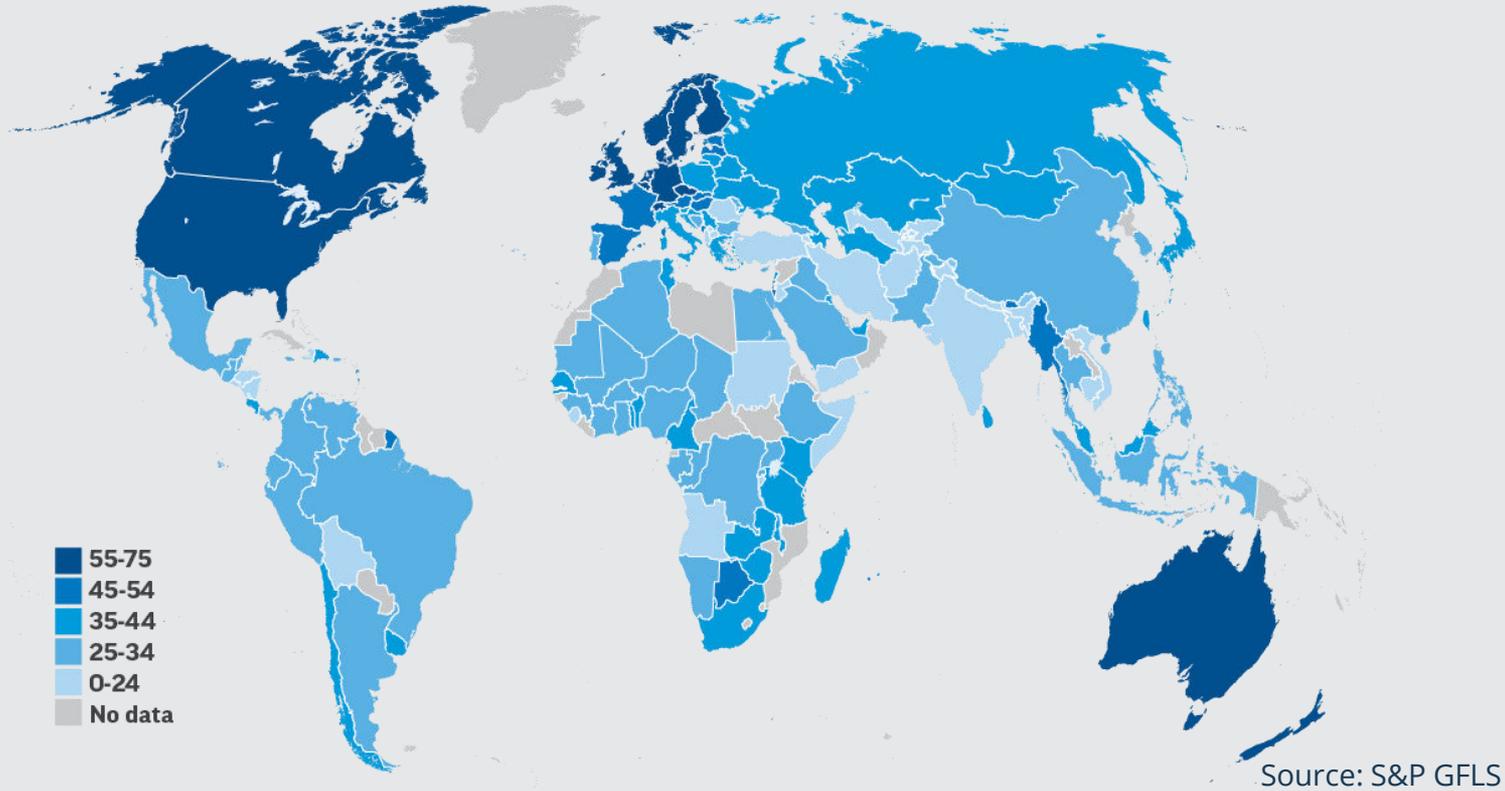
- Numeracy
- Interest compounding
- Inflation
- Risk diversification

Being financially literate:

How many can answer 3 out of these 4 topics correctly

Financial literacy across the globe

Percentage of financially literate adults

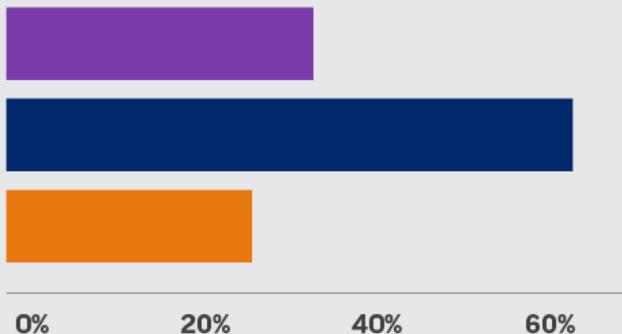


Only 1 in 3 adults worldwide responded correctly to three out of four topics.

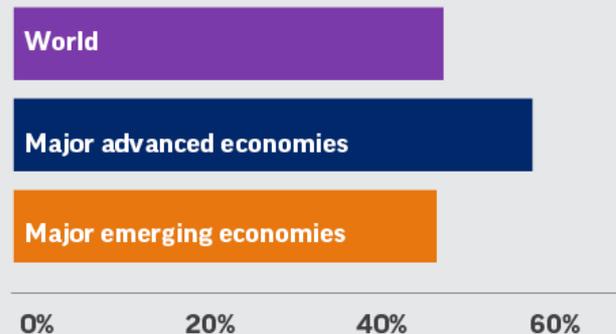
Financial literacy by topic

Percentage of adults answering correctly

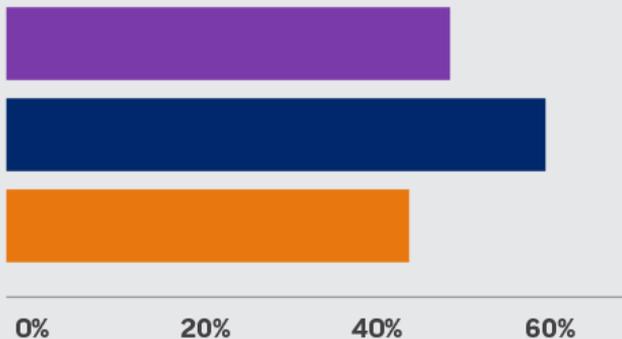
RISK DIVERSIFICATION



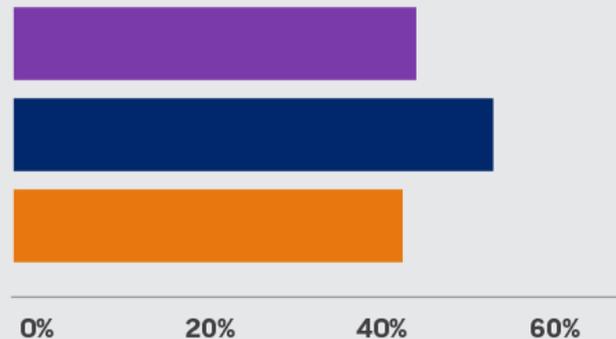
NUMERACY (INTEREST)



INFLATION



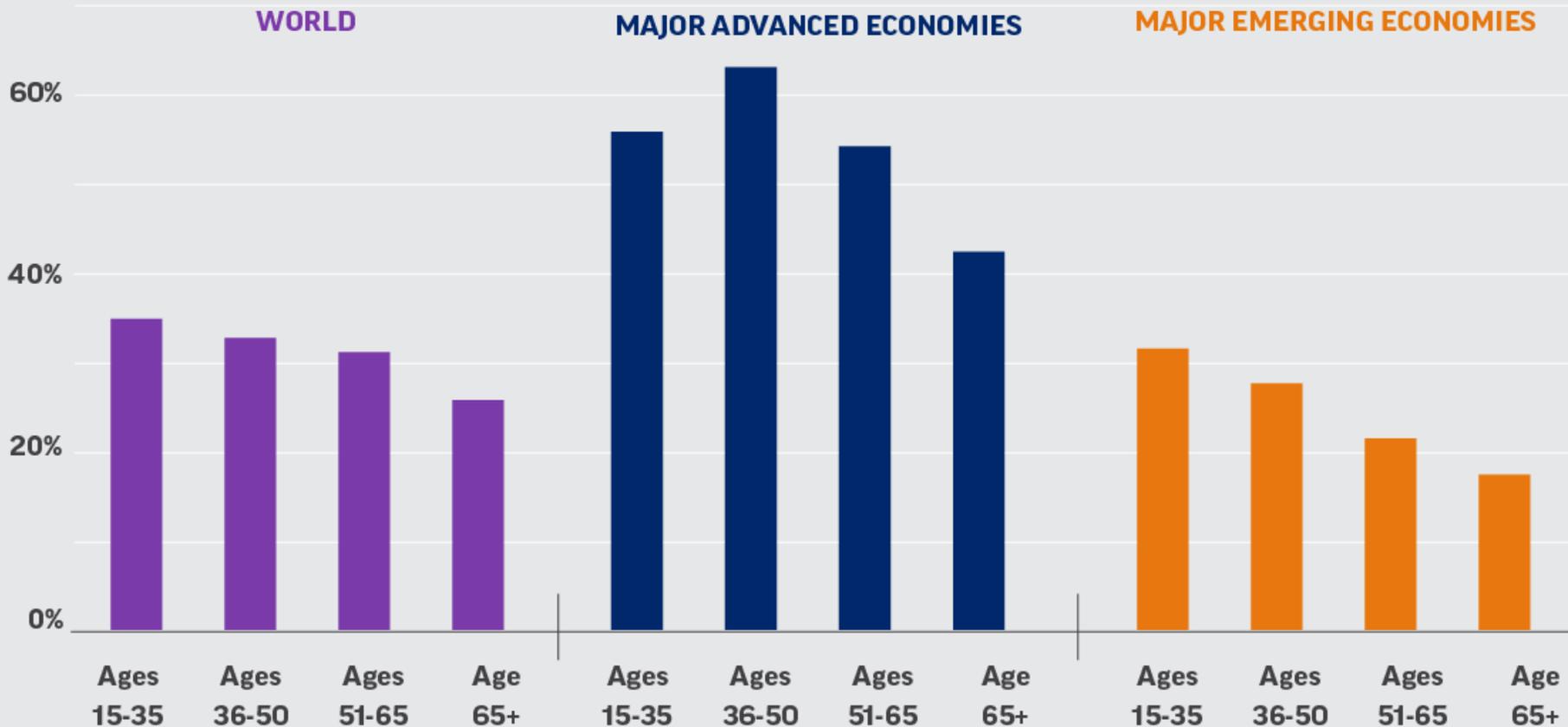
COMPOUND INTEREST



Source:
S&P GFLS

Financial literacy over the life cycle

Percentage of financially literate adults



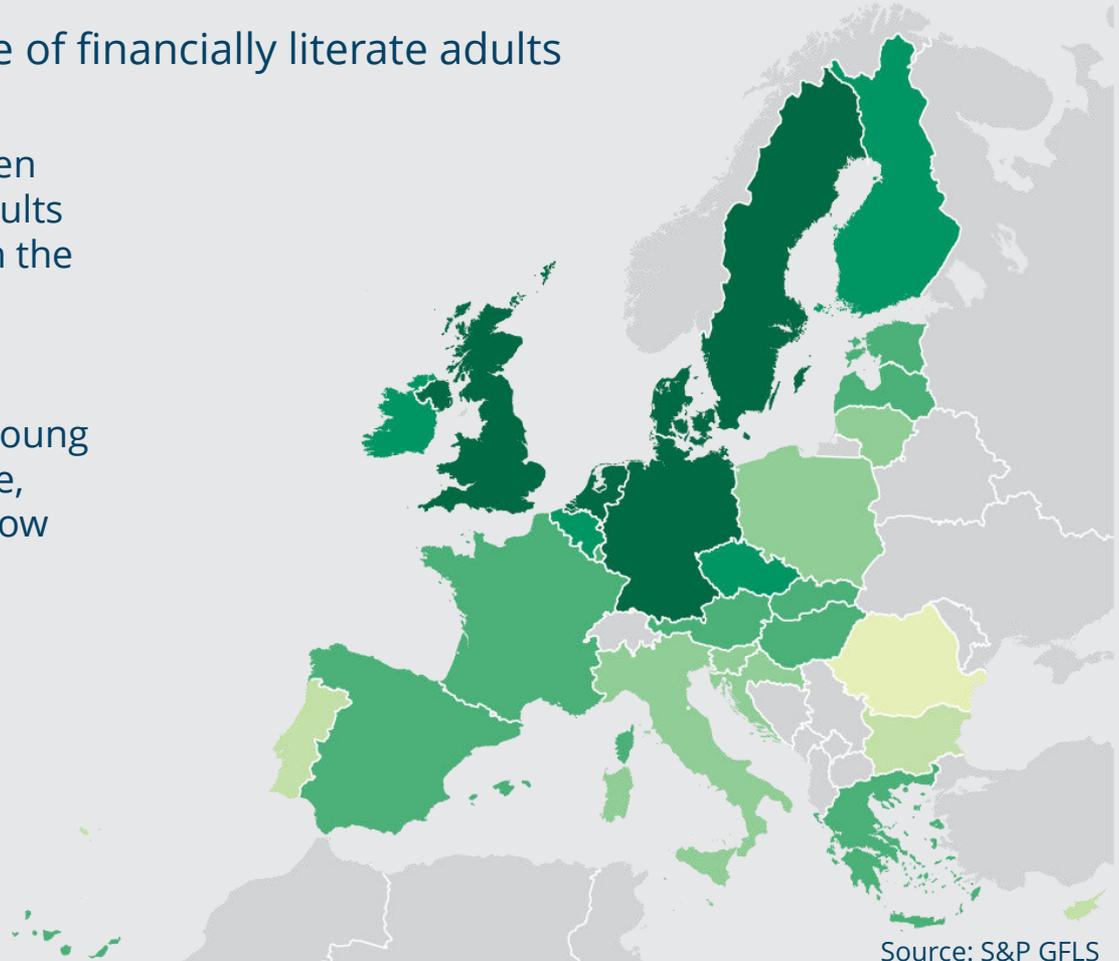
Source: S&P GFLS

Financial literacy in Northern and Southern Europe

Percentage of financially literate adults

In each of Denmark, Germany, Sweden and the Netherlands, at least 65% adults are financially literate—the highest in the European Union

Across Central and Eastern Europe, young adults are under-saving for the future, while old people are struggling with low financial skills in retirement



Understanding financial and risk literacy with Allianz

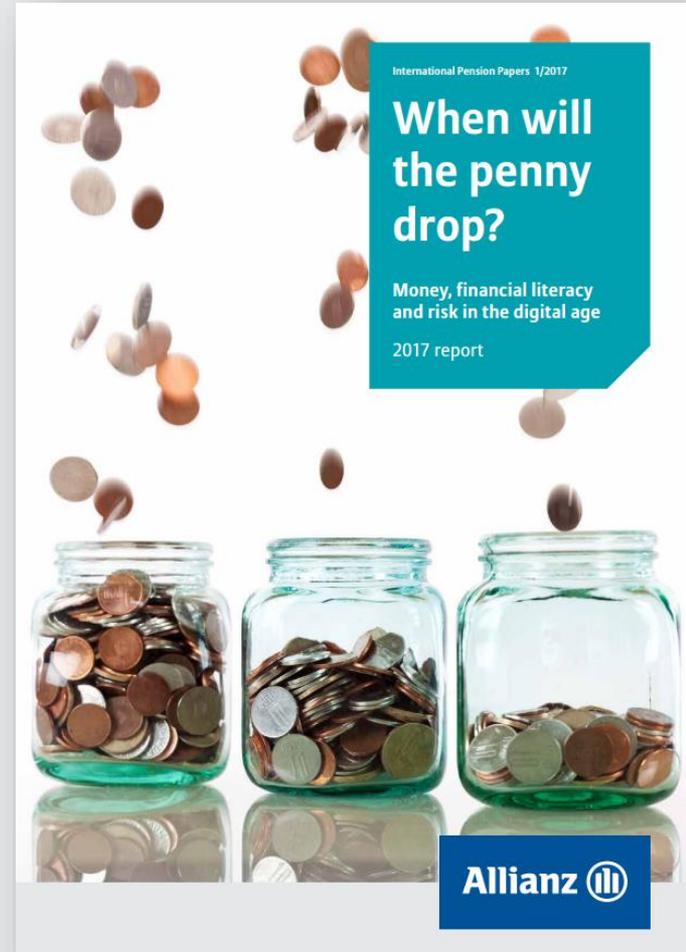
Evaluates literacy levels based on answers to questions about –

Financial literacy

- Compound interest
- Inflation
- Diversification

Risk literacy

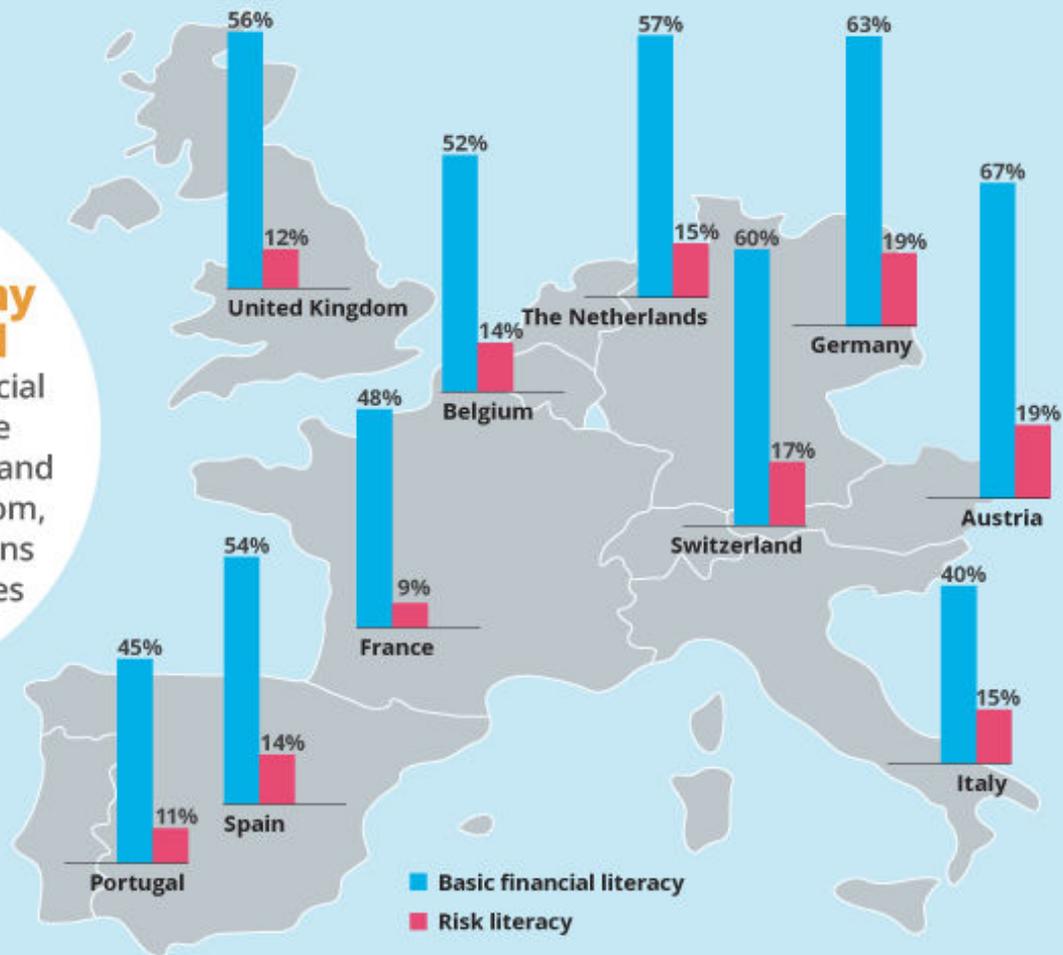
- Expected return
- Risk and return



Financial and risk literacy across Western Europe

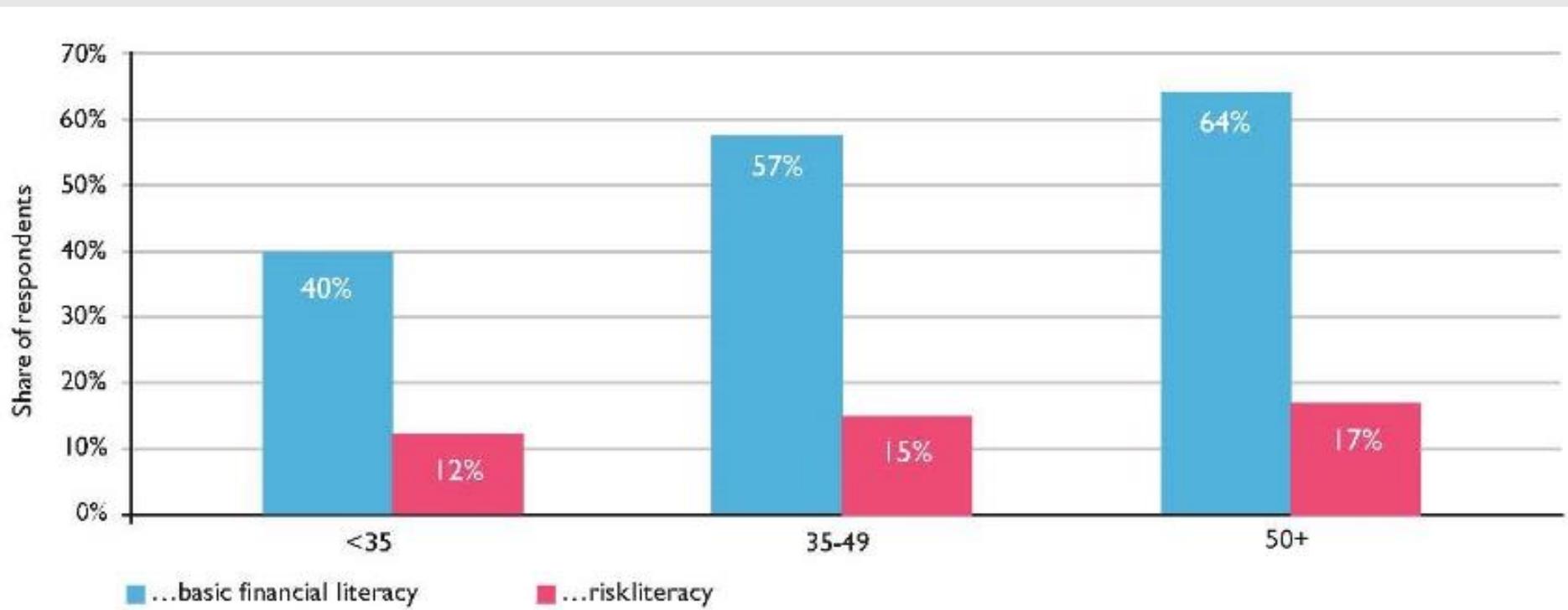
Europe is particularly important in the context of changing interest rates, pension systems and labor markets.

Austria, Germany and Switzerland top the ranking in financial and risk literacy, while **France, Portugal and Italy** rank at the bottom, although similar patterns exist between countries



Financial and risk literacy by age

Percentage of respondents with all correct answers



Source: Allianz, International Pensions
2017

OECD's Programme for International Student Assessment (PISA 2015)

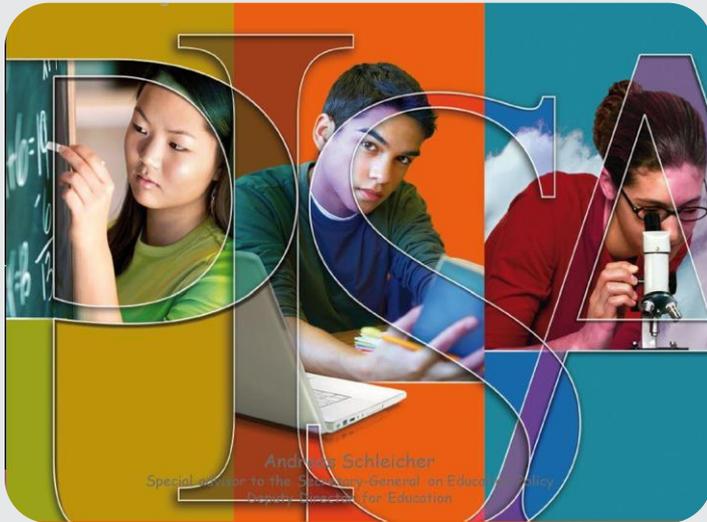
Content: Areas of knowledge required to make financial decisions

Processes: Elements of decision-making required in financial matters

Context: The relevant situations that need financial decisions



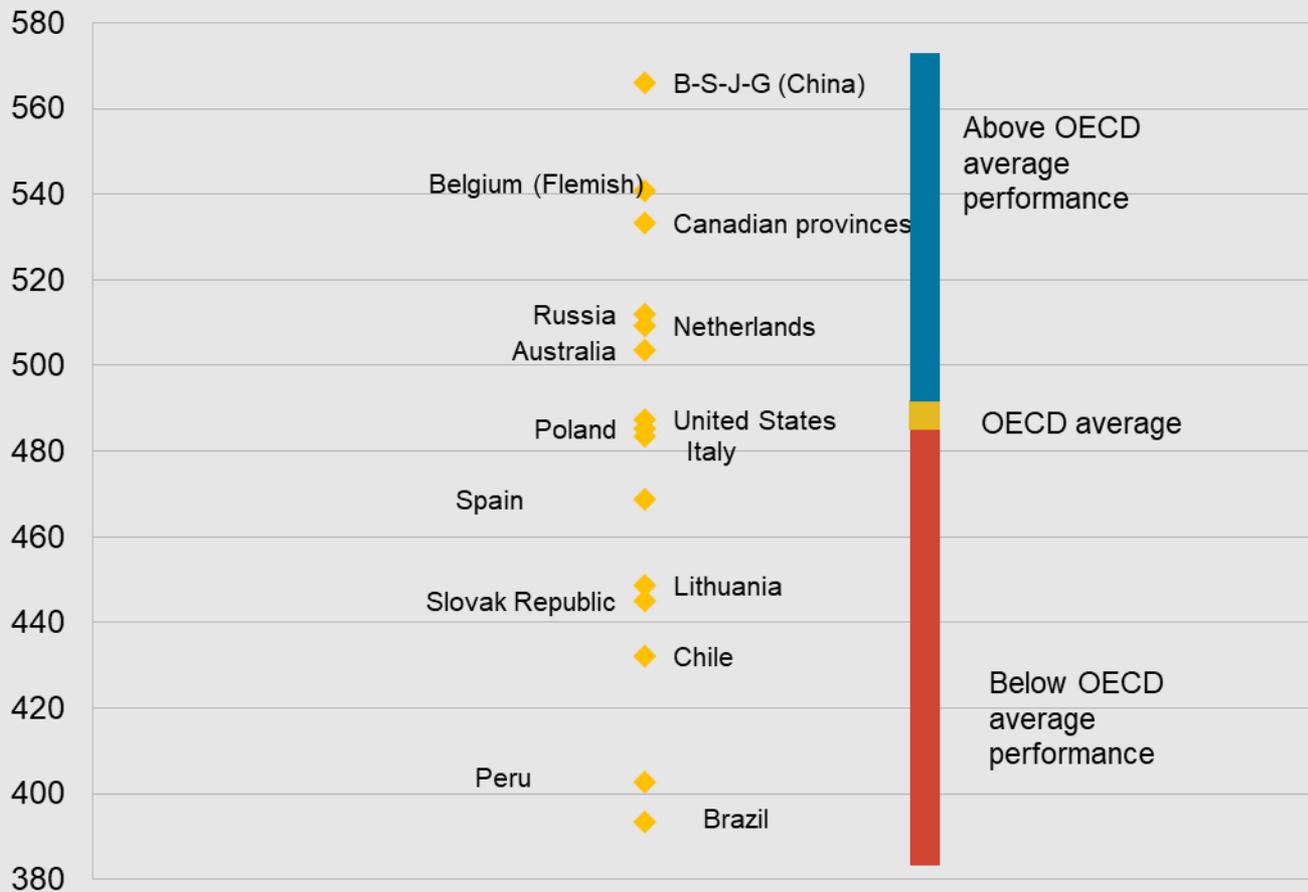
Participating countries: Australia, Belgium (Flemish Community), Brazil, B-S-J-G (China), Chile, Canadian provinces, Italy, Lithuania, Netherlands, Peru, Poland, Russia, Slovak Republic, Spain, and the United States



Andrew Schleicher
Special Advisor to the Secretary-General on Education Policy
Agency Director for Education

Financial literacy in performing countries – PISA 2015

Mean score on financial literacy assessment



Too many students lack basic financial skills

22%

- On average, across OECD countries and economies, 22% of students do not have basic financial skills
- Only about 12% of students across participating OECD countries and economies are top performers, who can tackle the most difficult tasks

Young people as consumers of financial products

64%

Some 64% earn money from some type of work activity

Some 56% of 15-year-olds in participating OECD countries and economies have a bank account, 19% have a prepaid debit card

56%

31%

But fewer than one in three students have the skills to manage a bank account

Sources of financial literacy

84%

- On average, 84% of students discuss money matters with their parents at least once a month
- Students who do so tend to perform better in financial literacy

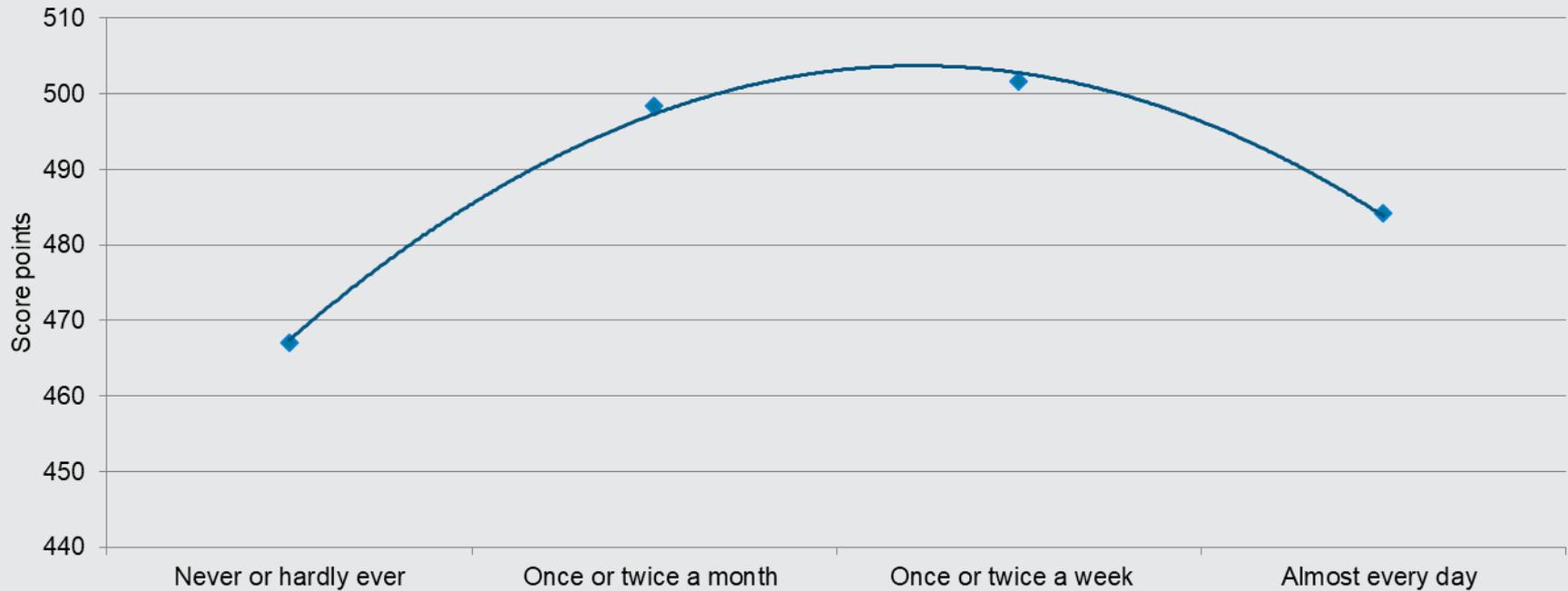
- But financial skills are strongly related to the socio-economic background of their family
- Advantaged students score 89 points higher in financial literacy than disadvantaged students

89 score
points

Sources of financial literacy (cont.)

Mean score, by students' answers to the question:

"How often do you discuss money matters (e.g. talk about spending, saving, banking, investment) with your parents?"



Parents play a role in developing their children's financial literacy not only through the resources that they make available to them but also through direct engagement

Relevance of financial education

- Financial *education* is a crucial foundation *for* raising financial *literacy*.
- Education programs need to be implemented at *multiple levels*: schools, workplace and community.
- The need is for *well-targeted, well-researched and well-designed* education programs.

Our contribution to financial education

Besides research, GFLEC develops financial education materials for schools and the workplace.

- Financial Literacy Micro-Credentials
- Personal Finance Course
- Financial Literacy Curriculum for Girl Rising
- International Federation of Finance Museums
- Workplace financial wellness programs



Concluding remarks

- **Financial literacy is like *reading and writing***
 - It is an essential skill for the 21st century
 - Imagine what a world with no education would look like
- **It is essential for *full participation in society***
 - Citizens are asked to vote on economic reforms
- **It is a global issue**
 - Countries can learn from each other

Thank you!

Questions? Contact us at gfilec@gwu.edu

GFLEC

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