



5th OECD-GFLEC Global Policy
Research Symposium to Advance
Financial Literacy

**Effective financial education for
sustainable and inclusive
growth**

**SYMPOSIUM
PROCEEDINGS**

18 May 2018
OECD Conference Centre
Paris, France



■ About the OECD

The OECD is a forum in which governments compare and exchange policy experiences, identify good practices in light of emerging challenges, and promote decisions and recommendations to produce better policies for better lives. The OECD's mission is to promote policies that improve the economic and social well-being of people around the world.

■ About the OECD International Network on Financial Education (INFE)

Created in 2008, the OECD/INFE promotes and facilitates international co-operation between policy makers and other stakeholders on financial education issues worldwide. More than 230 public institutions from over 100 countries have joined the OECD/INFE. www.financial-education.org

■ About the Global Financial Literacy Excellence Center (GFLEC)

Founded in 2011 at the George Washington University School of Business, the Global Financial Literacy Excellence Center (GFLEC) is one of the world's leading centres for financial literacy research and policy. More information on GFLEC can be found at gflec.org.

■ Contact

Jannah HUXLEY | SecretariatINFE@oecd.org
OECD Directorate for Financial and Enterprise Affairs

SYMPOSIUM HIGHLIGHTS

On 18 May 2018, the 5th OECD-GFLEC global policy research symposium brought together 220 high-level government and central bank officials, financial sector experts and academics from nearly 70 countries to discuss the key role of financial education in supporting sustainable and inclusive growth, as well as the relationship between financial education policies and broader economic, financial and social outcomes.

This symposium marked the 10th Anniversary of the OECD International Network on Financial Education (INFE), and provided an opportunity to assess its contribution and consider next steps.

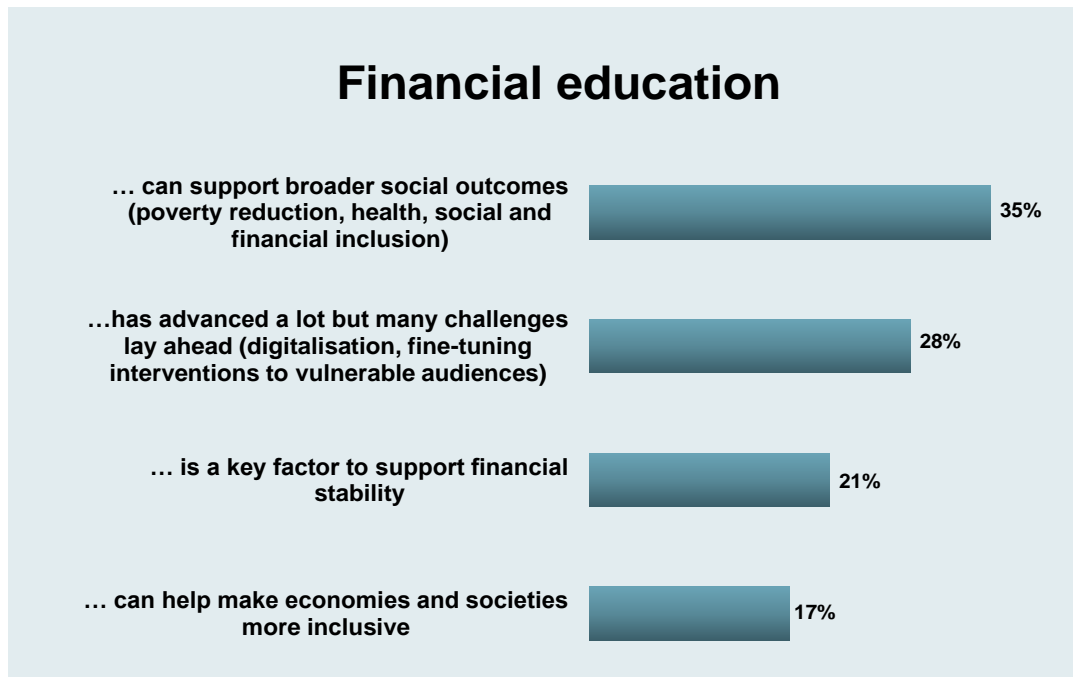
This document presents the main outcomes of the symposium's discussions, with particular emphasis on the leading role played by the OECD/INFE in advancing financial education policies for better lives globally since its inception. The document includes summaries of the contributions selected for presentation at the conference through a call for papers organised in January 2018. A summary of each policy research contribution is presented at the end of each chapter.

Key takeaways:

- **Financial literacy is an important element of the policy mix for financial stability**, and is rightly considered alongside market regulation, supervision and financial consumer protection. The 2008 global financial crisis clearly illustrated this by exposing three closely related realities:
 - the stability of the financial system is intrinsically linked to the quality of decision-making at the individual level;
 - the price tag of financial illiteracy is quite steep; and,
 - poor financial judgment and speculation at an aggregate level can have devastating system-wide consequences for the entire world economy.
- **Financial literacy can contribute to global economic growth and sustainable development** by improving financial inclusion and well-being outcomes. Improving financial literacy levels around the world can also help bridge remaining socio-economic gaps and inequalities across and within countries, thus leading to more inclusive societies for all.
- **Financial education policies can support the achievement of broader economic and social outcomes** by strengthening consumers' resilience to major financial shocks.
- **Significant progress has been made globally on financial education, but many more challenges lay ahead** including the digitalisation of finance, fine-tuning interventions to reach vulnerable audiences and addressing the implications of demographic changes.

- **Building trust is a primary condition for overall system stability**, particularly in today's digital age. This can be done through the application of robust financial consumer protection frameworks and financial education to empower consumers to engage in the global economy and become effective users of financial products.

Figure 1. Participants' main take-aways of the day



Source: Based on responses of conference participants collected through the online survey tool www.voxvote.com

The OECD International Network on Financial Education (INFE): A vision for the next decade

Created in 2008, at the outset of the global financial crisis, the OECD/INFE promotes and facilitates international co-operation between policy makers and other stakeholders on financial education issues worldwide.

With a membership of more than 240 public institutions from almost 120 countries to date, the OECD/INFE serves as a platform to collect and disseminate data on financial literacy, develop analytical and comparative research, and develop international policy instruments.

Members of the OECD/INFE Advisory Board, Technical Committee and Research Committee discussing the achievements of the OECD/INFE



From left to right: **Flore-Anne Messy** (Head of the Insurance, Private Pensions and Financial Markets Division, OECD, and Executive Secretary of the OECD/INFE), **José Alexandre Cavalcanti Vasco** (Director, Investor Protection and Assistance Department, Securities and Exchange Commission, Brazil), **Laura Higgins** (Senior Executive Leader, Financial Capability, Australian Securities and Investments Commission), **David Kneebone** (General Manager, Investor Education Centre, Hong Kong, China), **Olaf Simonse** (Head, Moneywise Platform, Ministry of Finance of the Netherlands), **Anna Zelentsova** (Strategic Coordinator, Ministry of Finance of the Russian Federation), **Annamaria Lusardi** (Denit Trust Endowed Chair of Economics and Accountancy, George Washington University School of Business, and Academic Director, Global Financial Literacy Excellence Center, United States).

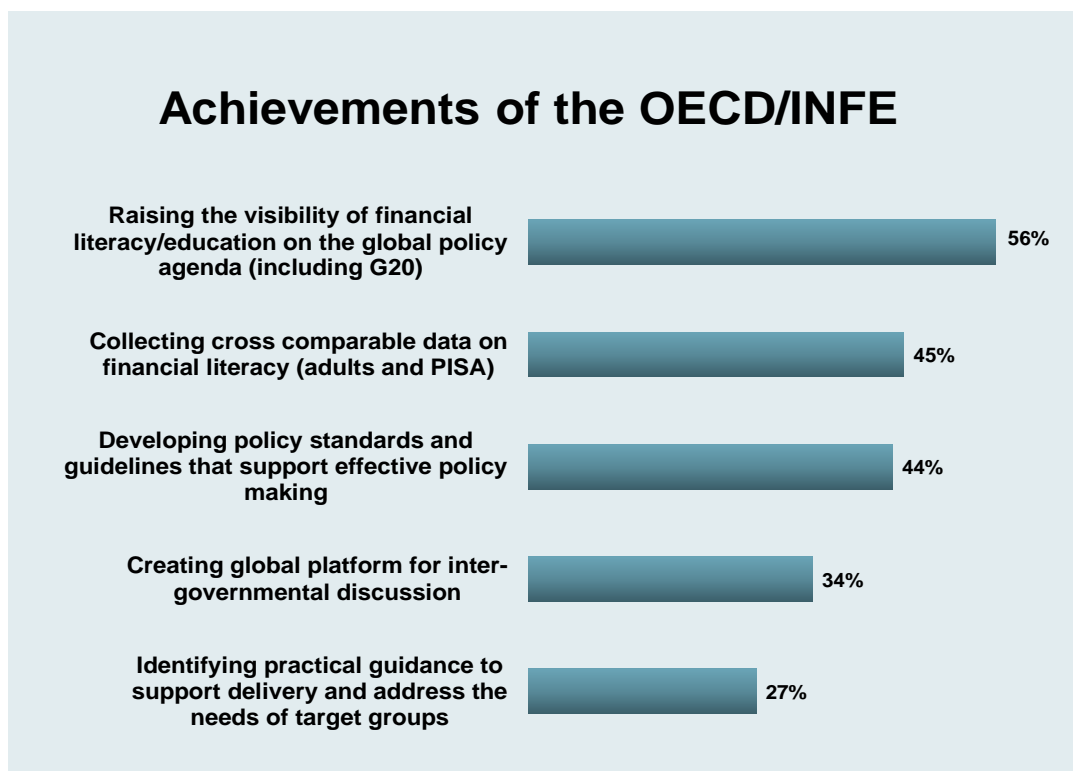
Main achievements of the OECD/INFE

Experts drawn from across the globe discussed the main achievements of the OECD/INFE since its inception, and their expectations for financial education policies over the next ten years. The session illustrated how the INFE has:

- **Played a pivotal role in putting financial education and financial literacy at the centre of the global policy agenda**, including through its substantive work and strong collaboration with the G20, Asia-Pacific Economic Cooperation (APEC), and other key international financial inclusion and consumer protection organisations and stakeholders

- **Driven forward efforts to collect and analyse cross-comparable data on the financial literacy levels of youth and adults**, in particular the work on the OECD PISA financial literacy assessment of students, and the OECD/INFE international survey of adult financial literacy competencies
- Spearheaded a revolution in many economies by demonstrating the **importance of financial literacy as a key national policy priority**, which has resulted in the development of National Strategies for Financial Education in over 60 countries to date
- Developed **globally acknowledged policy standards and guidelines that support effective financial education policy-making, implementation and evaluation** at the country level, including recently the OECD/INFE Policy Guidance Note on Digitalisation and Financial Literacy

Figure 2. Most important achievements of the OECD/INFE



Source: Based on responses of conference participants collected through the following online survey tool <http://www.voxvote.com>.

Continued action and future priorities for the OECD work on financial education through the INFE

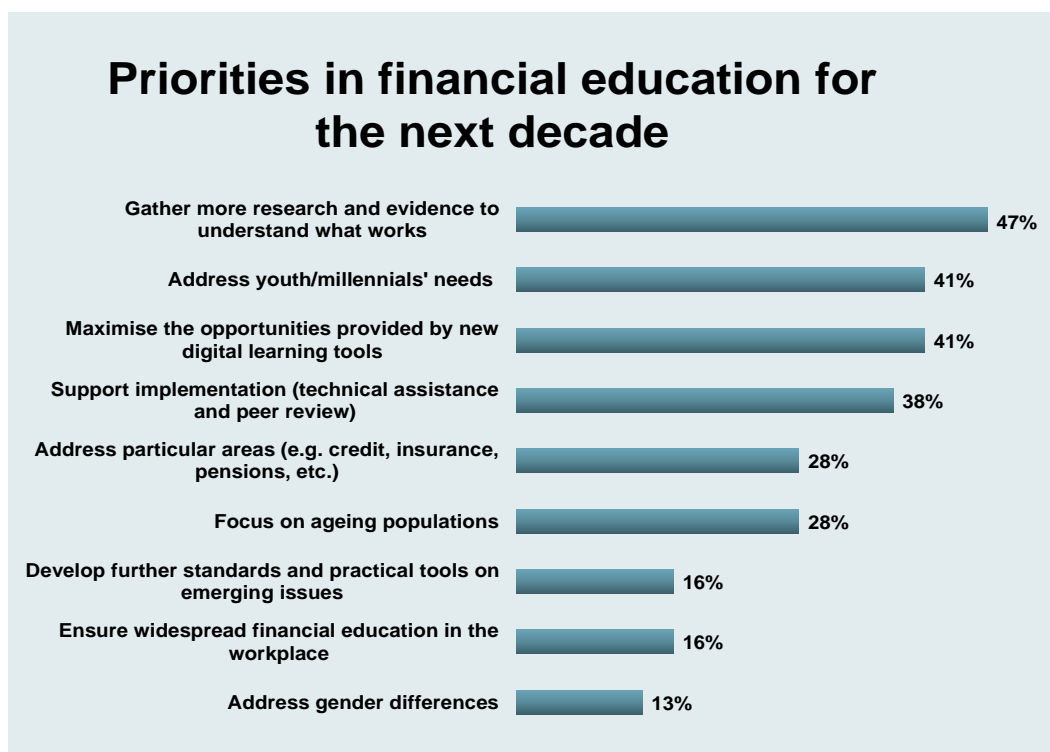
The experts and symposium participants offered their predictions for the next 10 years, suggesting that the INFE will:

- Continue to be a **major hub for sharing experiences** and spreading information about **what works and what does not work** in financial education

- **Analyse the specific needs of youth and students through regular PISA assessments of financial literacy**
- **Regularly measure the levels of financial literacy among adults** in as many countries as possible
- Support the implementation and impact evaluation of financial education activities **through data collection, research and the development of international policy standards**
- Make technical assistance projects and peer review processes **central features** of future INFE work

At the same time, **emerging challenges such as digitalisation, population ageing, and the lack of financial skills in the workplace** will be addressed to ensure more effective and tailored approaches to financial education and consumer protection for all

Figure 3. Most pressing priorities for financial education in the next decade



Source: Based on responses of conference participants collected through the following online survey tool <http://www.voxvote.com/>

Setting the scene

Financial literacy is a vital tool to fight inequality



The Secretary-General of the OECD, Angel Gurría (left), set the scene for this conference with some key observations.

“Financial literacy is an essential life skill. It lays the groundwork for many important, life-changing decisions, whether it is evaluating a job contract, purchasing a first home or managing retirement savings.

It is also a key tool to address inequality. PISA 2015 data show that 15-year-old students with high proficiency in financial literacy are more likely than those with low proficiency to be oriented towards saving, to expect to complete a university education, and to work in a high-skilled occupation.”

Financial illiteracy remains a core challenge

“A recent G20/OECD INFE report, *Adult Financial Literacy in G20 Countries* found that only half of adults in G20 countries achieved the minimum target score of at least six out of nine financial behaviours required to improve financial well-being.

The study also found that some of the weakest areas of financial literacy and behaviour relate to choosing financial products, showing that only 15% of people seek independent advice or information to make an informed choice.

Evidence from the OECD/INFE International Survey of Adult Financial Literacy Competencies in 2016 also showed that across all participating countries and economies, two in five respondents had not saved in the last 12 months and more than one in five had borrowed to make ends meet.

The OECD will continue to work closely with the G20, with policy makers and stakeholders to address these challenges and ensure that financial literacy is a priority.”

The way forward

“First, it will be important to better understand the relationship between financial literacy and financial stability. Widespread over-reliance on credit, high household indebtedness, a lack of understanding of the implications of changes in economic policy, and a tendency to “follow the herd” are just some of the issues that can lead to significant financial and economic difficulties.

Second, further efforts will be needed to ensure that nobody — no group, no society — is left behind. Currently, socio-economically disadvantaged students are about twice as

likely as advantaged students to be low performers on average in the PISA 2015 financial literacy survey. Students with an immigrant background score 26 points lower in financial literacy, on average, than native-born students of similar socioeconomic status. This is shocking! It is imperative to design targeted policies that recognise and understand the differences between people and seek to address the gaps in outcomes.

Third, more effective policies are required to support citizens in the new digital financial environment. For example, the proliferation of crypto-currency offerings calls for policies to protect and inform investors' decisions. These issues were explored in the G20/OECD INFE report on Ensuring Financial Education and Consumer Protection for All in the Digital Age and the OECD has been working with the Argentinian G20 Presidency on developing policy guidance in this area.

Financial literacy has traditionally been part of common wisdom: parents taught their children that “a penny saved is a penny earned” and that “money doesn’t grow on trees”. These proverbs remain wise, but financial literacy is also about a lot more than that, it is necessary to understand online banking, compound interest, loans and mortgage conditions, retirement and investment options as well as job offers.

You cannot thrive in this world without sound financial literacy, so our job is to ensure that no one is left behind, and everyone, regardless of age, nationality or socioeconomic status is given the opportunity to acquire and develop these skills.

Let’s move forward today, together. Let’s design, develop and deliver better financial literacy policies for better lives.”¹

¹ Extracts from SG Gurría’s speech – available in full at <http://www.oecd.org/finance/high-level-global-symposium-on-financial-education-paris-may-2018.htm>.

Implementing effective policy

The Italian experience

Policy makers recognise the importance of developing a strategic approach to financial education, and developing an implementation plan that is comprehensive and efficient. As Minister Padoan (right) highlighted in his speech, this process, which is not without its challenges, is nevertheless vital.



“...lawmakers, in agreement with the Government, introduced measures to deal with the lack of financial literacy among Italian population. A committee was established with the aim of quick-starting a national strategy to increase the level of education in the areas of finance, insurance, and pension provision.

The Committee for planning and co-ordination of financial education activities includes officials from 4 ministries and 4 independent authorities, and representatives of both financial advisors and consumers’ organizations. Professor Annamaria Lusardi was appointed Chair of the committee.

A strategic committee should take quite a long time to elaborate a vision and consider its mission before actually starting to achieve concrete results. Nevertheless, the lag in the diffusion of financial literacy among the Italian population required both a long-term approach and a sense of urgency. Therefore, the Government actively encouraged the Committee in elaborating a first version of a national program for financial education, approved by the Parliament early this year.”

Advancing financial education in Italy

“There’s a long way to go to recover Italy’s gap in financial education and the Committee is not intended as a measure to react to the crises but rather as a structural response to a fast changing world, which develops new opportunities and challenges every day.

Of course, there are critical voices. Someone in Italy has argued that the Government’s financial education initiative was intended to charge on consumers the burden of self-protection, and thus dismissing responsibilities for surveillance and supervision. This, of course, is not true. The challenge is to set up a mutually supporting interaction between a safe consumer behaviour based on strong literacy, and appropriate institutional support by the surveillance authorities.”

“The OECD and GFLEC must be thanked and commended for their joint contribution to the development of both the toolkits and the competences, now available for those who want to improve the level of financial education in their countries.”

Wider implications of a better understanding of managing personal and family finances

“If an adverse event takes place, this will result in a shock. The consequence will not be the same of a loss suffered by an investment firm. It will be much deeper as it will affect confidence, and therefore consumption, saving and investment.”

“Needless to say that such a scenario calls for better surveillance on the supply side. But it also calls for a focus on financial education and consumer protection, and reinforces the importance of financial literacy as a necessary complement to a sound framework for financial market regulation and financial supervision.”

Safer and better educated microeconomic behaviour leads to better macroeconomic performance

“Better-educated citizens perform better financial planning, are more accurate when making decisions about their own resources, and appropriately manage risks allocated in the future. This brings wellbeing and sounder financial wealth. There is evidence that 30–40 percent of retirement wealth inequality in the US is accounted for by financial knowledge. Financial education is therefore one of the strategies to fight inequality.”

Building trust through financial education

“Lack of education may amplify the fall in trust, making scapegoat solutions more attractive and institutional, knowledge building strategies more difficult to implement. A vicious cycle can start again making institution building more difficult. As mutual trust falls, inclusion is more difficult to implement thus leading to a further fall in human capital.”

“More than 10 years have passed since the break out of the financial crisis and we can safely say that the crisis is behind us. As policy makers, we have the duty to learn from that experience in order to possibly avoid repeating great mistakes. One lesson we have drawn is that we need to restore growth in such a way that growth is effectively inclusive. A second lesson is that education is a key ingredient to foster inclusion and, of course, financial education is an essential component of such a process.”²

² Extracts from Minister Padoan’s speech – available in full at <http://www.oecd.org/daf/fin/financial-education/Pier-Carlo-Padoan-18-May-2018-OECD-Keynote.pdf>.

Exploring the links between financial literacy and financial stability

Session 1: Experts explore the links between financial literacy and financial stability



From left to right: **Greg Medcraft** (Director, Directorate for Financial and Enterprise Affairs, OECD), **Claudia-Maria Buch** (Vice-President, Deutsche Bundesbank, German), **B.P. Kanungo** (Deputy Governor, Reserve Bank of India, and Vice-Chair of the OECD/INFE), **Johnny Noe Ravalo** (Assistant Governor, Central Bank, Philippines), **Armenak Darbinyan** (Board Member, Central Bank of Armenia).

Including stability goals within a national strategy for financial education

An increasing number of countries are adopting national strategies for financial education following the OECD/INFE principles endorsed by G20 Leaders in 2012. Policy makers are considering the financial stability perspective while designing such strategies. Indeed, central banks in particular have recognised the link between financial stability and the financial security and resilience of a population – both firmly built on a foundation of financial literacy and education. The importance of identifying and implementing strategic approaches to financial education is highlighted by current trends on financial resilience and literacy in many economies, including:

1. The over-reliance of many households on loans and expensive forms of credit, which is compounded by a widespread lack of understanding of the implications of different forms of borrowing.
2. Low savings levels, which makes it more difficult for households to weather difficult times.
3. The digitalisation of finance and money with a stream of new products and ways of transacting, which means that everyone's financial skills and knowledge must be kept up-to-date.

Whilst the benefits of improving financial literacy are clear, policy **makers also recognise that financial literacy cannot function alone to support financial stability.**

Sound regulation and supervision, as well as macro prudential policies are important complements to a comprehensive approach.

“Optimal choices by individuals is the aspired outcome but, on their own, they cannot rule out the possibility of Financial Instability”

Johnny Noe E. Ravalo, Assistant Governor Office of Systemic Risk Management

A win-win for policy makers

Financial education and financial stability can be considered as “close cousins”, their combination (co-operation) creates a win-win situation for all stakeholders. With the primary responsibility for managing inflation and financial stability of the country, central banks use financial education as a tool to keep consumers informed and support their decision-making and behaviour in different ways, including:

- At a micro/personal level, higher levels of financial literacy lead to improved financial well-being. Having the appropriate knowledge, behaviour and attitude helps the consumer to better plan their finances, make long-term savings, and avoid over-indebtedness, thus amplifying their personal financial stability and well-being.
- At the macro level, healthier financial behaviours of the population can lead to the improved functioning of the financial system. By being able to understand, estimate and evaluate the main macroeconomic indicators and complex financial products, consumers will also more easily understand the policies of central banks and the expectations of the market. In turn, this could influence consumption patterns in more predictable ways, as well as encourage individuals’ to actively participate in the economy.

“When people are vulnerable to income and expenditure shocks, we risk not only personal tragedies but also instability at a national level. Fortunately, financial literacy can mitigate some of these risks”

Greg Medcraft, Director, Directorate for Financial and Enterprise Affairs, OECD

“Armenia adopted the National Strategy of financial education in 2014 with the mission to increase the level of financial literacy of the persons living in the Republic of Armenia, which will promote financial stability, deepen financial mediation and improve the welfare of the people in the country”

Armenak Darbinyan, Board member of the Central Bank of Armenia

Encouraging research

There is a need to better understand the links between micro behaviour and aggregate outcomes. For example, it is well recognised that financial education can change the behaviour of individuals, but can it do so on a scale that is sufficient enough to have macro-

“The links between micro behaviour and aggregate outcomes need to be better understood”

Claudia M. Buch, Deutsche Bundesbank

level implications? Even if the identification of the causal effects of financial education on individual behaviour has improved considerably, the identification of causal impact on the macro-economy has proved more difficult.

In addition to using financial education to address the above mentioned challenges, it has been suggested that universities could teach financial stability in a more holistic way, taking into account micro- and macroeconomics, public finance, theory of regulation, and competition theory. Teaching needs to cover empirical methods – as well as knowledge about institutions, and encourage future generations of researchers to further explore the complex relationships between consumer-level policies and macro-economic outcomes.

Policy Research Contribution #1. A Stylized Model of Microeconomic Choices: Why Financial Literacy Is a Financial Stability Policy Issue

Johnny Noe E. Ravalo and Dottie M. Bernas, Central Bank of the Philippines

As financial markets become more complex and with more decisions left to financial consumers, financial education initiatives are being implemented in many jurisdictions. The Global Financial Crisis further highlighted the role of financial education in maintaining healthy financial markets. The paper argues that more financial education alone will not automatically mitigate the brewing financial stability risks, even when consumers are rational and fully informed.

In this respect, the paper shows that social outcomes of improved financial literacy may still be sub-optimal even when individuals make optimal financial choices. This differs from the conventional thinking that the lack of financial understanding among individuals was one of the contributing factors that led to the Global Financial Crisis. The paper recognizes the critical need for enhancing financial literacy but it also shows that financial literacy alone is not sufficient to achieve financial stability. The paper recommends that financial literacy initiatives benefit from taking a financial stability perspective, since many of the concerns for enhancing financial literacy also have a bearing on financial stability. It is suggested that this financial stability angle is evident in the formulation and execution of a jurisdiction's financial education national strategy.

Financial literacy, financial inclusion and the Sustainable Development Goals

Session 2: Speakers address the links between financial literacy, financial inclusion and the SDGs



From left to right: **André Laboul** (Senior Counsellor, Directorate for Financial and Enterprise Affairs, and Special Advisor to the G20 Sherpa, OECD, and Chair of the OECD/INFE), **Gabriel Bizama** (Director of Financial Inclusion, G20 Division, Ministry of Economy and Finance, Argentina), **Romina Boarini** (Co-ordinator of the OECD Inclusive Growth Initiative, General Secretariat, OECD), **Lukas Menkhoff** (Head of International Economics, German Institute for Economic Research, DIW, Berlin), **Ahmed Dermish** (Global Technical Specialist at the United Nations Capital Development Fund).

Achieving inclusion and sustainable development for all

Inequalities in access to financial services and to financial knowledge between women and men³ remain prevalent today in many parts of the world, including in developed nations. At the same time, socio-economically disadvantaged students are twice as likely to be low performers in financial literacy assessments.⁴ In this global context of rising inequalities across different dimensions, along with a declining trend of business dynamism, a new way of doing and thinking about economic growth is needed to improve economic and social outcomes for everyone, and thus achieve the Sustainable Development Goals.

“Education is key to improving the financial literacy of women... You also have to look at women’s entrepreneurship skills development”

Romina Boarini, Coordinator of the OECD Inclusive Growth Initiative

The OECD’s Framework for Policy Action on Inclusive Growth moves beyond GDP metrics and statistical averages to focus on equity, people and well-being, and emphasises the distribution of opportunities and outcomes in order to create sustainable growth. In

³ OECD (2016), *OECD/INFE International Survey of Adult Financial Literacy Competencies*, OECD Publishing, Paris.

⁴ OECD (2017), *PISA 2015 Results (Volume IV): Students' Financial Literacy*, PISA, OECD Publishing, Paris.

particular, the Framework recommends investing in people and places (including through early education programmes and life-long learning of skills), supporting business dynamism, and creating more inclusive labour markets, which will in turn rebuild trust and strengthen social cohesion.

Financial inclusion and financial education fit squarely within the OECD Framework's recommendations. Targeted financial inclusion and financial education policies help bridge inclusion gaps by directing support where it is needed most, thus contributing to inclusive growth and to more sustainable societies around the world. Moreover, recent cross-country empirical evidence suggests that higher financial literacy leads to more financial inclusion at the country level, and that improving financial literacy would be beneficial for all countries at different stages of economic and financial development (see the Policy Research Contribution #2 at the end of the chapter).

Taking advantage of digital opportunities

The digitalisation of finance has the potential to improve levels of financial inclusion by expanding reach and access to a variety of meaningful financial products and services. At the same time, digital delivery methods provide new ways of achieving desirable financial education outcomes.⁵ But policy makers have recognised that digitalisation also gives rise to a range of emerging risks from new types of fraud, mis-selling, data privacy issues, and new kinds of financial and economic exclusion notably due to digital profiling and easier access to credit leading to over-indebtedness.

The United Nations Capital Development Fund (UNCDF) has conducted key work on how digitalisation can support financial inclusion outcomes, with the goal of proving that there is a business case to service last mile customers with digital financial services and in order to achieve the SDGs. Future digitalisation trends include: increased intermediation in customer-provider dialogue; customer trust will be transformed; services will “think” for themselves; and, distributed networks will leapfrog legacy systems.

The changes resulting from financial innovation will require financial consumer protection frameworks that are fully adapted to the needs of the population and the emerging challenges from digitalisation, as well as further work to ensure that consumers and micro and small businesses are appropriately equipped to make savvy financial decisions in a digital environment. This helps explain why, for instance, this year's G20 Argentinian Presidency is focusing on digitalisation, inclusion and informality, with the following strategic deliverables:

- **Consumer protection:** provide direction to policy makers on how to develop effective consumer protection initiatives, and how to improve disclosure and transparency.

“If you have data available, then you know where the issues are. Data collection is important to create effective policies and interventions”.

Gabriel Bizama, Director of Financial Inclusion, G20 Division, Ministry of Economy and Finance of Argentina

⁵ OECD (2017), *Ensuring Financial Education and Consumer Protection for All in the Digital Age*, OECD Publishing, Paris.

- **Financial literacy:** provide direction to policy makers on how to strengthen financial literacy strategies, and how to raise awareness on the benefits and risks of digital financial services.
- **Data protection:** provide direction to policy makers on how to address data privacy and security issues, and how to foster better data consent models.

**Policy research contribution #2. Does Financial Literacy Improve Financial Inclusion?
Cross Country Evidence**

*Antonia Grohmann, German Institute for Economic Research (DIW Berlin)
Theres Klühs, Leibniz University Hannover
Lukas Menkhoff, Humboldt-University Berlin; DIW Berlin*

Lack of financial inclusion is still a far reaching problem. Data from the 2014 Global wave of Findex show that 2 billion adults are unbanked, i.e. almost 40 percent of adults in the world. Thus, financial inclusion, measured as access to and use of financial services, is an important goal of economic and, in particular, financial development; accordingly it has been argued to be an important policy that can help to achieve the Sustainable Development Goals (SDGs) (Klapper et al., 2016). It is hence of high interest for policy makers to learn about drivers of financial inclusion and how these can be influenced by national policies.

Research at the country level documents the state of access to financial services (Beck et al., 2007). It shows that better financial inclusion is related to country and institutional characteristics, such as more financial depth, physical proximity of financial institutions, low costs for financial accounts, or a strong legal system (Allen et al., 2016). Thus, country studies on financial inclusion so far focus on the supply side of financial markets. However, shouldn't financial development be more than financial infrastructure and legal background? Which role does the demand side play? It seems plausible that functioning financial markets do not only need good infrastructure but also skilled customers with a higher degree of financial literacy. Financially literate customers can be expected to make better financial decisions for themselves and for their businesses, they support the effectiveness of the financial system by demanding more sophisticated financial services and they will demand financial inclusion.

Despite this almost natural line of argument, this study is the first to examine the relation between financial literacy and financial inclusion at the country level. This has become possible due to the Standard and Poor's Global Financial Literacy Survey, documenting the degree of financial literacy for 143 countries (Klapper et al. 2015). These novel data complement the World Bank's Findex data on the access to and use of financial services (Demirguc-Kunt and Klapper, 2012, 2013), and, of course, earlier data on financial and institutional country characteristics.

First, the study establishes the stylized fact that higher financial literacy is systematically related to better financial inclusion at the country level, considering four measures of financial inclusion. As financial development is a comprehensive process, the stylized fact of a relation between financial literacy and financial inclusion takes into account potentially confounding country characteristics, including GDP per capita, the level of education, and standard variables of financial infrastructure (see e.g. Allen et al., 2016). Financial literacy is also positively and statistically significantly related to financial inclusion when taking these variables into account. This suggests that financial literacy (demand side) is related to financial inclusion, independently from the known positive

influence of financial infrastructure, i.e. the supply side (Beck and de la Torre, 2007).

In addition, it seems interesting to examine the relation between financial literacy and infrastructure: do demand and supply factors act as substitutes or complements? The answer depends on the type of financial inclusion. For *access* to financial services, in particular having a bank account, the effect of an additional increase in the level of financial literacy decreases with higher levels of financial depth, indicating that the two are mainly substitutes. If inclusion is about the *use* of financial services, however, and in this sense more advanced, financial literacy has a complementary effect on financial depth, so that the two even reinforce each other. Economically, it makes sense, for example, that active use of a bank account requires both the infrastructure and understanding about the infrastructure.

The study also investigates whether the relationship between financial literacy and financial inclusion can be considered to be causal, with the effect going from financial literacy to financial inclusion. To address this issue, the study uses the level of numeracy of primary school children within a country as a factor exogenously affecting financial literacy, arguing that numeracy affects financial literacy directly, while it only affects financial inclusion indirectly through financial literacy (for example, financial understanding is needed on top of mathematical ability to open an account). The use of this approach supports the causal interpretation that financial literacy increases financial inclusion.

To sum up, the research supports the idea that improving financial literacy would be beneficial for financial inclusion in countries at different stages of economic and financial development.

Note: This is a summary of the paper: Grohmann, Antonia, Theres Klühs and Lukas Menkhoff (2017), Does Financial Literacy Improve Financial Inclusion? Cross Country Evidence, *World Development*, forthcoming.

References

Allen, Franklin, Asli Demirguc-Kunt, Leora Klapper and Maria Soledad Martinez Peria (2016), The Foundations of Financial Inclusion: Understanding Ownership and Use of Formal Accounts, *Journal of Financial Intermediation*, 27, 1-30.

Beck, Thorsten, Asli Demirguc-Kunt and Maria Soledad Martinez Peria (2007), Reaching out: Access to and Use of Banking Services across Countries, *Journal of Financial Economics*, 85(1), 234-266.

Beck, Thorsten and Augusto de la Torre (2007), The Basic Analytics of Access to Financial Services, *Financial Markets, Institutions and Instruments*, 16(2), 79-117.

Demirguc-Kunt and Leora Klapper (2012), Measuring Financial Inclusion: The Global Findex Database, *World Bank Policy Research Paper*, No. 6025.

Demirguc-Kunt, Asli and Leora Klapper (2013), Measuring Financial Inclusion: Explaining Variation in Use of Financial Services across and within Countries, *Brookings Papers on Economic Activity*, Spring 2013, 279-340.

Klapper, Leora, Annamaria Lusardi and Peter van Oudheusden (2015), Financial Literacy around the World: Insights from the Standards and Poor's Ratings Service Global Financial Literacy Survey, <https://www.finlit.mhfi.com>.

Klapper, Leora, Mayada El-Zoghbi, and Jake Hess (2016), Achieving the Sustainable Development Goals – The Role of Financial Inclusion, *CGAP Working Paper*.

Trust in the financial system: the role of financial literacy and education alongside financial consumer protection

Session 3: Experts discuss issues of trust in the financial system



From left to right: **Elsa Fornero** (Professor of Economics, University of Turin, Italy); **Miles Larbey** (Head of Financial Consumer Protection Unit, Insurance, Private Pensions and Financial Markets Division, OECD); **David Bholat** (Senior Manager in Advanced Analytics, Bank of England, United Kingdom); **Tirta Segara** (Member of the Board of Commissioners, Financial Services Authority, Indonesia)

Lack of trust towards financial system: policy agenda for Central Banks

The Oxford Dictionary defines trust as a “*Firm belief in the reliability, truth, or ability of someone or something*”. Financial institutions are reliant on trust. A lack of trust may increase financial exclusion, and can lead to financial system instabilities and potentially trigger a financial crisis.

Lack of trust towards the financial system remains an important policy issue for policy makers. In the United Kingdom (UK), 55% of adults trust banks, and only 36% of British consumers trust banks to work in their customers' best interests.⁶ Almost the same situation has been observed in Italy, where only 35 % have expressed their trust towards banks. Similarly, in Indonesia, financial services were one of the least trusted sectors (54%), especially when compared to the technology sector (75%).⁷

In Indonesia, recent data shows a significant, positive correlation between financial knowledge and a confidence index (2016). For example, the level of knowledge regarding banking services stands at 99.8%, and the level of confidence towards the same services

⁶ YouGov, 2017; <https://yougov.co.uk/news/2017/05/19/most-brits-trust-banks-dont-think-they-work-custom/>

⁷ Edelman Trust Barometer (2018); <https://www.edelman.com/trust-barometer>

reaches 90.5%. In contrast, the level of knowledge in the capital market is only 15.7%, whilst the level of confidence in the capital market is only 9%.

The Italian experience has shown that even though Italian households are still among those with the highest savings rates in developed countries, there is still limited portfolio diversification (mainly housing wealth), a strong demand for public protection in the market place, and a reliance on public provisions for personal economic security (large public pension system and little private accumulation in pension funds). It appears that the population is wary of policy reforms, even when these reforms are intended to improve the sound functioning of the system. This sentiment of distrust is considered to be widespread and may be due to a lack of basic financial knowledge and understanding, as discussed in the Policy Research contribution #3 at the end of this chapter.

Potential frameworks to address the trust issue

To address the abovementioned issues, policy makers, together with relevant stakeholders can develop and implement robust policies to increase the level of financial literacy and protect the rights of consumers. Such policies can boost market confidence and limit the risk of instabilities and crisis.

Two important frameworks are recommended: a strategy for financial education and a strategy for financial consumer protection. The financial education framework is considered as a preventive tool that can help consumers to make informed decisions, know which service providers and products are trustworthy, and have appropriate levels of confidence in using financial products and services. The consumer protection framework is considered as both a preventative and potentially curative tool that must keep the balance between the growth of the financial sector and, simultaneously, protect the consumer and community interest.

Focusing specifically on financial education, Indonesia, for instance, has adopted a national strategy for financial education (Presidential Decree No. 50/2017) with a financial literacy target of 35% in 2019. The educational channels include direct (face-to-face) programmes, a new digital media, as well as a contact Centre known as a Financial Customer Care system, where customers and communities can ask questions, give information, and make complaints.

In the UK, the Bank of England implements a number of programmes to enhance the financial literacy (known as financial capability in the UK) of youth as a means of supporting other stability measures, including the UK Financial Capability Strategy. The programmes focus on the economic factors that influence personal decisions and discuss questions such as: how to make informed decisions, and how such decisions collectively influence the economy. The Bank has also enhanced its communication with the public by developing short, visually engaging guides to educate the public on the economy and inspire people to find out more. A new three-layered Inflation Report has been also published by the Bank, and Citizen Panels have been organized to promote better understanding on both sides.

Policy Research Contribution #3. Voting in the aftermath of a pension reform: the role of financial literacy

Elsa Fornero and Anna Lo Prete, University of Turin and CeRP

Structural reforms that have a relevant impact on people's life and on public finances are often difficult to implement because they can make a government unpopular. As policy makers know, people can punish a government in the next electoral round. This is the case, for example, of major restructuring of the public pension system.

During the 1990s and the 2000s, demographic ageing, the economic crisis, and poor design of pension schemes (often too generous towards current generations) challenged public debt sustainability. As a result, almost all advanced countries introduced pension reforms that changed public pension schemes substantially. Public pensions are a very important topic for everyone and reforms that imply a retrenchment of past promises can be resented and opposed. However, one may expect that people who understand why a reform is needed, for example because the current system is no longer sustainable and fair, may be less opposed to it.

This study looks at the relationship between the introduction of major public pension system changes during the 1990s and the 2000s and subsequent electoral outcomes in parliamentary elections. It shows that in the sample of 21 advanced countries under analysis the electoral cost of major pension reforms is lower in countries where the level of financial literacy is higher. According to the estimates presented in this paper, the introduction of a pension reform changes the probability of the head of the government being re-elected significantly when we account for financial literacy. To provide a sense of magnitudes, the change in re-election probability is in the range of minus 51 percentage points for the country with the lower level of financial literacy and plus 84 percentage points for the country with the higher level of financial literacy.

Interestingly, less specific indicators of education, such as school attainment, are not related to the electoral cost of pension reforms. Financial literacy indicators seem to capture a specific dimension of human capital that is relevant to the association between re-election probabilities and major economic reforms of the pension system. Since pension reforms have a relevant economic content, the results are in line with the idea that their understanding requires some basic economic and financial knowledge (like the notions of accumulation, compound interest, debt, and risk diversification).

This study does not suggest that financial literacy is a sufficient condition for the success of reforms. However, it is reasonable to argue that citizens understanding the basic principle of a reform should be less opposed to it when the reform is needed (and on the other hand, should be more opposed if the reform is meant to create new or undue differentiations and privileges). Governments may increase their citizens' awareness of what reforms involve by investing in specific financial education programmes for adults and young people, to help to change the reform's electoral cost and future viability.

Note

This is a summary of the paper: Elsa Fornero and Anna Lo Prete, "Voting in the aftermath of a pension reform: the role of financial literacy", forthcoming in the *Journal of Pension Economics and Finance*.

The positive spill-overs of consumer resilience

Session 4: Panellists address the positive spill-overs of consumer resilience



From left to right: **Annamaria Lusardi** (Denit Trust Endowed Chair of Economics and Accountancy, George Washington University School of Business, and Academic Director, Global Financial Literacy Excellence Center, United States), **Jane Rooney** (Financial Literacy Leader, Financial Consumer Agency of Canada), **Charles Counsell** (Chief Executive Officer, The Money Advice Service, UK), **Katherine Carman** (Economist, RAND, United States), **Diana Mejia** (Senior Specialist, Latin American Development Bank, CAF).

Financial knowledge and skills for better lives

When individuals and households face financial difficulties, such as over-indebtedness or an inability to pay for essential care, the consequences can have widespread implications overall. Fortunately, new research on the determinants of financial well-being in Latin America suggests that higher levels of financial knowledge and financial skills are, on average, related to greater financial well-being, as detailed in the Policy Research Contribution #4 at the end of the chapter. Financial education policies that support consumers at the individual level may therefore benefit society and the economy as a whole, as indicated in by three case studies.

Statistics from the Money Advice Service in the UK indicate that nearly 16% adults feel that their debts are a heavy burden, or have missed three bill payments in the last six months, thus roughly equating to 8.3 million pounds.

Whilst the total funding for debt advice in the UK currently stands at 200 million GBP, the need for debt advice far outweighs current supply. An independent review found that approximately 600 000 people are not getting the advice that they need.

“We need to improve the supply of debt advice but we also have to do more to implement our financial capability strategy”

Charles Counsell, Chief Executive Officer,
The Money Advice Service, UK

Measuring the economic impact of debt advice is important because it: validates value for money; considers the holistic impact of debt advice on people and broader society; supports ongoing and new investment; and, identifies beneficiaries. It is estimated that debt advice has a total impact of 445 to 960 million GBP in the UK, resulting from the sum of its social impact (300-570 million GBP) and the increase in transfer payments generated by the advice received (145-390 million GBP).

Such findings demonstrate that debt advice is strong value for money and worth investing in. The integration of debt advice in a broader system can generate greater social benefit for all, notably because debt advice produces benefits beyond those who receive it and invest in it.

The hefty price tag of financial illiteracy

Insurance is an essential tool to enhance people's financial resilience, but it remains a complex financial product requiring good levels of financial literacy. In particular, access to health insurance is still quite limited in the United States (US) which, in turn, has a strong negative impact on the overall financial resilience of households, where more than a quarter of US adults struggle to pay medical bills and, among these, nearly three quarters have debt resulting from medical bills. Moreover, medical debt is also the number one cause of bankruptcy in the country. In this context, the consequences of financial illiteracy may include: consumers being uninsured or underinsured; consumers choosing dominated plans (i.e. more expensive rather than less expensive ones); consumers not getting any health care at all; and, consumers facing significant financial burdens or debt.

With an increasingly ageing population, the financial literacy situation of seniors in Canada has become an important policy priority. High household debt can pose a significant threat to financial stability, particularly in a context in which, in 2014, 19% of retirees in Canada held a mortgage, and 15% carried outstanding credit card balances. In addition, in 2017, 18% of all personal bankruptcies in the country were among seniors and individuals aged 60 and above.

There is a clear link between financial confidence and financial wellbeing, and higher levels of financial confidence can help older people budget better, live within their means, save adequately, and plan for emergencies. However, studies also show that senior women tend to have lower financial confidence, but also indicate that some seniors are overconfident, which can lead to excessive financial risks and poor financial decision-making.

To address some of the aforementioned issues, the government of Canada has developed a seniors' financial literacy strategy that aims to:

- Engage more Canadians in preparing financially for their future years as seniors,
- Help current seniors plan and manage their financial affairs,
- Improve understanding of and access to public benefits for seniors, and
- Increase the tools to combat financial abuse of seniors.

Given that fewer than half of all people over 65 in Canada use the Internet, finding appropriate ways to communicate with this specific group will also be critical to the success of the strategy.

"People with the best outcomes are those with the highest financial knowledge but also confidence"

Jane Rooney, Financial Literacy Leader,
Financial Consumer Agency of Canada

Research Policy Contribution #4. Determinants of financial well-being: evidence for Latin America

Jhon Sebastián Cárdenas, Financial Superintendence of Colombia

Paola Cuadros-Sierra, Central Bank of Colombia

Catalina Estrada-Mejía, Universidad de los Andes

Diana Mejía, CAF -Development Bank of Latin America

This paper provides a first measurement of financial well-being in Latin America. The study is based on the United States Consumer Financial Protection Bureau's (CFPB) research on financial well-being and the results of the financial capability surveys carried out by CAF-Development Bank of Latin America in seven countries in the region: Argentina, Bolivia, Chile, Colombia, Ecuador, Paraguay, and Peru - using the OECD/INFE financial literacy survey. The paper describes the levels of financial well-being in each of the countries and studies the factors that are associated with it.

The financial well-being scores proposed in this study measure the ability of people to fully meet current and ongoing financial obligations, feel secure in their financial future and be able to make choices that allow them to enjoy life, according to CFPB's definition.

The country analysis shows that top scores were found in Chile (66 point on a scale from 0 to 100) and Colombia (63), followed by Bolivia (59) and Peru (58), and lastly Ecuador (57), Paraguay (56) and Argentina (55). The results show that, first, the financial well-being index provides information beyond traditional financial measures; that is, even when a person is a member of a group that is relatively disadvantaged, there may be compensating factors or strategies that offer opportunities for these people to increase their financial well-being. Second, differences in average financial well-being are greater across ownership of formal saving products than across credit card ownership. This finding suggests that not having or not using formal products for saving may be more harmful to financial well-being than not having access to formal credit. Third, higher levels of financial knowledge and financial skills are associated with greater financial well-being in average. Fourth, several key variables are related to financial well-being, such as previous experience with the financial sector, comparing between different financial institutions before acquiring a new financial product, and personal participation or involvement in the financial decisions of the household.

The findings suggest some opportunities to improve financial well-being through financial education and inclusion programmes, even though more research is welcome. First, if attitudes and behaviours such as saving, comparison between different financial institutions before acquiring a new financial product, and personal participation or involvement in the financial decisions of the household are included properly in financial education and inclusion programs, this could have a significant impact on individuals' financial well-being.

Second, the findings show that financial knowledge is important for financial well-being. Thus, it is imperative that public and private institutions implement programmes that promote financial capabilities in an effective manner and using interventions that are aimed at changing behaviour, such as teachable moments, learning by doing, nudges and reminders, heuristics, edutainment tools, personalisation and socialisation.

Future OECD financial education meetings

OECD/INFE Technical Committee meetings and global symposia 2018/2019

- OECD/INFE meetings and global symposium, Moscow, Russian Federation, 2-5 October 2018
- OECD/INFE meetings and global symposium, South Africa, 21-24 May 2019
- OECD/INFE meetings and global symposium, Brazil, 4th quarter 2019, (dates TBC)

Regional meetings in 2018

- OECD-ADBI-BOL-GIZ conference on the role of Financial Education and Consumer Protection in Supporting Financial Inclusion, Vientiane, Lao PDR, 26-27 November 2018
- Meeting of the OECD/LAC Regional Network and Regional Seminar, Sao Paulo, Brazil, 12-13 November