



Financial Literacy

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Introduction

Financial literacy – A useless endeavor?

"Consumers generally do not serve as their own doctors and lawyers and for reasons of efficient division of labour alone, generally should not serve as their own financial experts"

Lauren E. Willis, Against Financial Literacy Education, Iowa Law Rev. 94 (2008), 197, 198

Supervision helps, education helps even better!

Year	Death by drowning in D	Population	Deaths per 1 Million
before 1912	approx. 5.000 per year	63 Mio.	79,36
1913	Foundation of the "German lifesaving society" (lifeguards)		
1926	3.552	63 Mio.	56,38
1951	2.105	51 Mio.	41,27
1960	Primary schools – swimming lessons became mandatory		
1971	1.119	78 Mio.	14,34
2009	474	82 Mio.	5,78
2021	299	83 Mio.	3,60

<https://de.statista.com/statistik/daten/studie/657283/umfrage/todesfaelle-durch-ertrinken-in-deutschland/>

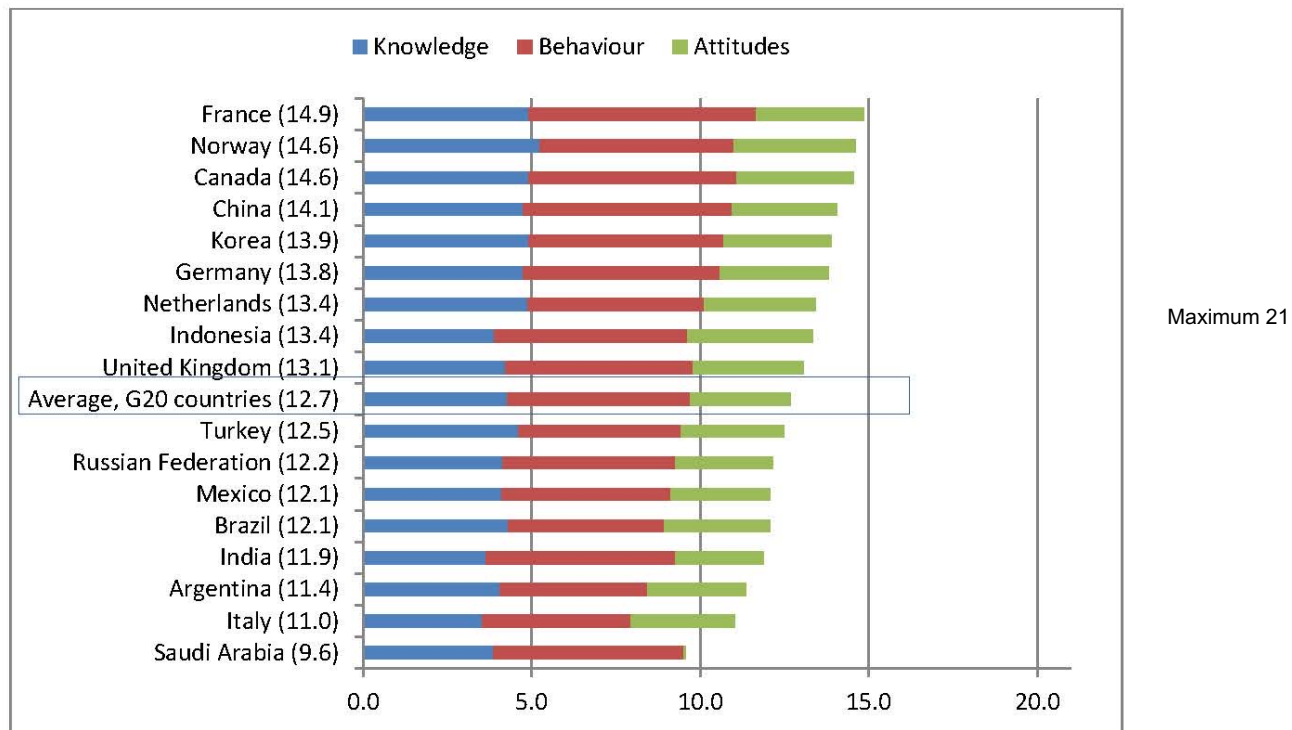
Definition

- Financial *literacy* means
 - **knowledge** of financial issues and
 - the **ability to apply** it in a decision making process concerning finance,
 - including **awareness** of the available sources of information, the functioning of financial products and services, financial intermediaries, and financial markets
- Financial *capability* is the ability to apply financial literacy in a specific scenario where people have to face financial issues in real terms

Nicolini, Financial literacy in Europe, 2019, 12

Diagnosis

G20-Countries – Financial knowledge, attitudes and behaviour



'Average, G20 countries' reports the mean of the country percentages for all G20 countries with comparable data (excluding the Netherlands and Norway). Each country is therefore given equal weight, irrespective of sample size or population size. Overall scores presented in parenthesis. These may not exactly reflect the sum of the three components due to rounding. G20 countries that are excluded from this chart do not have comparable data.

Benefits of financial literacy

- Benefits for the individual
- Benefits for society
- Growing importance of the topic
- Some examples

Therapy

Main areas of financial literacy

- Basic skills in numeracy
- Knowledge about
 - money management
 - savings and investment
 - borrowing and debt
 - insurance
 - retirement planning
- Knowledge about consumer and investor rights
- Ability to search for information
- Awareness of how to get competent help (e.g. investment advisors)

Relationship between financial literacy and financial behaviour

- Financial literacy in itself doesn't guarantee good decisions
- There is no cause-effect-relationship between literacy and decisions
- Difficulty in defining what a better decision is
- Literacy versus fast changing markets and products

Therefore only the *possibility* of better decisions increases, but this is definitely worth it

How to improve financial literacy? (1)

- Some improvements have already been achieved (e.g. client categorisation, key investor documents). Not all details are totally convincing (product governance and production intervention), but these measures are at least a good starting point
- Further proposals
 - **Starting financial education early** (already on a secondary school level)
 - Integrating the findings of behavioural economics
 - Prohibition of inducements (e.g. Retail Distribution Review in GB 2013)
 - Standardisation of terminology (e.g. ESG-Products)
 - Framework: Introducing understandable, simpler tax rules etc.
- A general paternalistic approach, as *Willis* calls for, is not convincing

How to improve financial literacy? (2)



IOSCO

- 2020: Capital Markets Union (CMU) Action Plan

Action 7

The Commission will conduct a feasibility assessment for the development of a European financial competence framework. It will also assess the possibility of introducing a requirement for Member States to promote learning measures supporting financial education, in particular in relation to responsible and long-term investing.

- 2021: Joint EU/OECD-INFE (OECD International Network for Financial Education) financial competence framework for adults
- 2022: Works begin on a joint EU/OECD-INFE financial competence framework for children and youth (to be finalised in 2023)
- 2022: IOSCO Report on Retail Investor Education in the Context of Sustainable Finance Markets and Products

“There is only one thing in the long run more expensive than education: no education!”

John F. Kennedy