

# Financial Education

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## INTRODUCTION

As defined by the OECD (2005b), financial education refers to the “process by which financial consumers improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being”.

Financial education is therefore defined as a process oriented towards helping the financial products consumer develop a series of skills that enable him/her to make better financial decisions based on greater financial knowledge and better decision-making techniques (Lusardi & Mitchell, 2014). The possession of such skills has, in turn, been termed “financial literacy”.

The PISA report also pointed to the need for a homogeneous unit of measurement to assess the outcome of the educational process in terms of “literacy”. The term literacy has been defined as “the capacity of students to apply knowledge and skills in key subject areas and to analyse, reason and communicate effectively as they pose, solve and interpret problems in a variety of situations” (OECD, 2012:12). This definition clearly reflects what the focus of financial education should be: not the degree of mastery of the academic curriculum content, but the ability of young people to make informed, responsible and therefore effective financial decisions, by applying the lessons learned on personal finances (OECD, 2012).

Therefore, financial literacy implies having the appropriate knowledge, skills, behaviours and attitudes (Atkinson & Messy, 2012, ACCA, 2014:4), since all of them are necessary to make suitable financial choices and thus improve individual well-being (OECD INFE, 2015b: 5). That is, financial skills include not only the possession of financial knowledge, but also more broad-spectrum cognitive processes such as searching, comparing, contrasting, extrapolating, evaluating and applying information within a financial decision-making context.

The objective of financial education is therefore well defined: to improve personal financial well-being, with a particular focus on personal finances, but also aimed at fostering an ability to understand and manage broader and more complex aspects of the economic system. These range from the simple and most common, to more complex and unusual financial contexts, which have lasting consequences.

This article defines the concept of financial education as well as the results achieved at an international level. The article also analyses the potential consequences of higher-level financial education for citizens and financial consumers. Finally, the article summarizes the main positions for and against financial education and draws conclusions in the form of recommendations for designing and implementing financial education programmes. The article carries this out through a thorough review of the existing to date literature, as well as through a novel review of the different financial education programs carried out internationally and their obtained results.

## BACKGROUND

# 1

Despite the vital importance of financial education and literacy, the reality is that the level of financial knowledge varies substantially worldwide.

The Global Financial Literacy Test carried out by Standard and Poor's with the collaboration of the World Bank in 2014 has revealed a worrying situation: only one-third of the surveyed adults were labelled as financially literate, in that they demonstrated an understanding of basic financial concepts such as risk management via diversification, simple and compound interest calculations, inflation and purchasing power. However, there are highly significant differences between countries in the level of financial literacy.

In a global financial environment with an ever-increasing number and complexity of financial products, an uneducated citizen is inevitably at a disadvantage when it comes to making informed financial decisions. Users who fail to understand basic financial issues often overestimate their ability to manage their personal finances; being overly self-confident makes them believe that they have a significantly better understanding of financial issues than they actually do (Arellano, Cámara & Roasta, 2014; Hospido & Villanueva, 2016; Lusardi & Mitchell, 2014).

The problem is thus twofold: the adult population shows a deficient knowledge of basic financial concepts, but also has an unrealistic perception of their level of understanding. This explains why, for example, 60% of American adults admit to not having a budget, less than half have savings for emergencies and the average family debt on the credit card is 3,000 dollars (McCormick, 2016). Or why an investigation by the Financial Services Authority (2006) concluded that 70% of UK citizens did not have provisions to cover an unexpected drop in income.

The insufficient financial capability of the adult population is also an incremental problem, which grows over time, as shown by the Financial Industry Regulation Authority with data from the National Financial Capability Study. Among the Silent Generation (those over 66 years of age), 65% saved for emergencies, only 8% used non-bank loans, and 14% spent more than they received. Millennials, meanwhile, show a radically different distribution: the percentage of individuals who save for emergencies has more than halved (32%), while over-consumption via non-bank loans has increased to 43%, and 23% of this age group spends beyond their means, spending more than what they receive as an income. This attitudinal change comes together with a collapse in the high levels of financial education, which has fallen from 55% in the Silent Generation, to 24% in Millennials.

The first international institution to promote financial literacy was the OECD, launching its Financial Education Project in 2003 in response to the growing interest of Member States in improving the financial culture of their citizens. This project culminated in 2005 with the publication of the book, *Improving Financial Literacy: Analysis of Issues and Policies*, which recommended promoting the financial education of citizens at all stages of life, in order to improve both personal and collective well-being. This publication served as a basis for managers to implement effective financial education programmes inspired by best practices and experiences at the international level. The OECD has continued to produce studies promoting the need to improve the public financial culture (OECD, 2008, 2014A, 2016).

However, it was with the outbreak of the international financial crisis in 2007 that a huge rise was seen in both financial education programmes and institutional initiatives, in response to the widely-supported thesis that financial illiteracy bore a good deal of the responsibility for triggering, or at least exacerbating, the crisis (OECD, 2009:9). In 2008, the European Parliament advocated for the establishment of a financial education network with the participation of public and private actors. U.S. President Barack Obama proclaimed April 2010 as the National Financial Literacy Month. Likewise, in 2012, the G20

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