

## “Financial Literacy, Companies and the Economy”

-Life, Universe and Everything

Creditinfo Academy  
December 5 2013



### Who am I?



Breki Karlsson Founder / CEO

Various research related to financial literacy since 2005

Consulting on research and financial education programs for EU, World Bank and OECD

Member of OECD's INFE, and founding member of Child and Youth Finance Intl.

Producer of TV programs and author/editor of textbooks

### What it is



“The process by which consumers/investors improve their understanding of financial products and concepts 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 and protection”.

-OECD's INFE

### What that REALLY means



The ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being!

A set of attitude, knowledge and behaviour

### Where does it come from?



Are you financially literate?

How did you get there?

### Example



from the 2011 Financial Literacy Survey

A saves 1.000 krónur every month from the age of 25.  
B saves 2.000 krónur every month from the age of 50.  
Both have the same kind of savings account with the same interest rate.

Who has the greater sum at the age of 75 or do you think the sum is equal?

57% of respondents got it right

## Example

from the 2011 Financial Literacy Survey



Let us say you deposit 10.000 krónur onto a savings account that gives you 2% interests. You do not deposit more, nor do you withdraw anything from the account. After one year, how much should there be on your account?

29% got it right

## Example

from the 2011 Financial Literacy Survey



What is the main purpose of the Central Bank Policy Interest Rates?

- 1% A) To raise salaries
- 55% B) To control inflation
- 18% C) To lower the rate of the Icelandic króna
- 26% I do not know

## People are illiterate



Icelanders: 25% of parents discuss finance with children

Australians: 67% say they understand compound interest but only 28% can calculate

Canadians find choosing investment more stressful than going to the dentist

77% of Americans are overstressed.  
Main cause Money and work

## The cost of illiteracy



On average financial illiteracy costs companies 11.2% of salaries, in...

- ...Increased employee turnover
- ...Training of new employees
- ...Sickness
- ...Poorer performance

Plus societal costs

## What to teach



1. Basics of how markets work
  - Law of demand and supply
2. Time value of money
  - The working of compound interest
3. Risk / reward
  - Diversification and insurance
4. Basic accounting - Meniga
5. Rights and responsibilities of consumers and institutions

## Evidence of how FL matters



Rules of thumb in savings are crude  
-Bernheim (1995, 1998)

Growing tendency of people falling prey to financial scams  
20% of +60 in USA and complaints up 60%  
-FINRA (2006) and Blanton (2009)

Positive impact of financial literacy on stock market participation  
-Christiansen, Joensen, and Rangvid (2008)

## Evidence of how FL matters



Potent effects of financial literacy on wealth  
van Rooij, Lusardi, and Alessie (2012)

Learning about interest compounding hugely  
increases pension contributions in China  
Song (2011)

FL explains more than half the wealth inequality  
in USA  
Lusardi, Michaud, and Mitchell (2013)

## Evidence of how FL matters



Consumption growth positively correlated with financial  
literacy.

Jappelli and Padurla (2013)

Strong positive association between financial literacy  
and net worth. Financial literacy is positively related to  
retirement planning which boosts wealth.

-Rooij, Lusardi and Alessie (2012)

Higher financial literacy leads to greater financial well-  
being, less financial concerns.

-Taft, Hosein, Mehrizi and Roshan (2013)

## Summary



Financial illiteracy and overconfidence is widespread  
which leads to

- Liquidity-constrains
- Over-indebtedness
- Poverty in retirement

Financial education can work

- One size does NOT fit all
- Timing is essential, life long

Financial education substantially increases demand  
for banking service

## Nice to have or need to have?



The cost of improving financial literacy may be high,  
but cost of illiteracy is higher

People crave financial education in the workplace  
and in schools



**Thank you!**

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