



BANCA D'ITALIA
EUROSISTEMA

Measuring financial literacy and inclusion of the adult population: the OECD-INFE framework

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Foreword

- G20 Leaders in the 2012 and 2014 have recognized the importance of financial literacy and inclusion and requested international comparable surveys
- OECD has launched a project to create an internationally comparable dataset.
- A blueprint questionnaire used has been developed by the International Network for Financial Education (OECD -INFE)
- Banca d'Italia has recently conducted a survey to contribute to this initiative
- The results have been presented in the G20 meeting in July



Focus of the presentation

The measurement of financial literacy

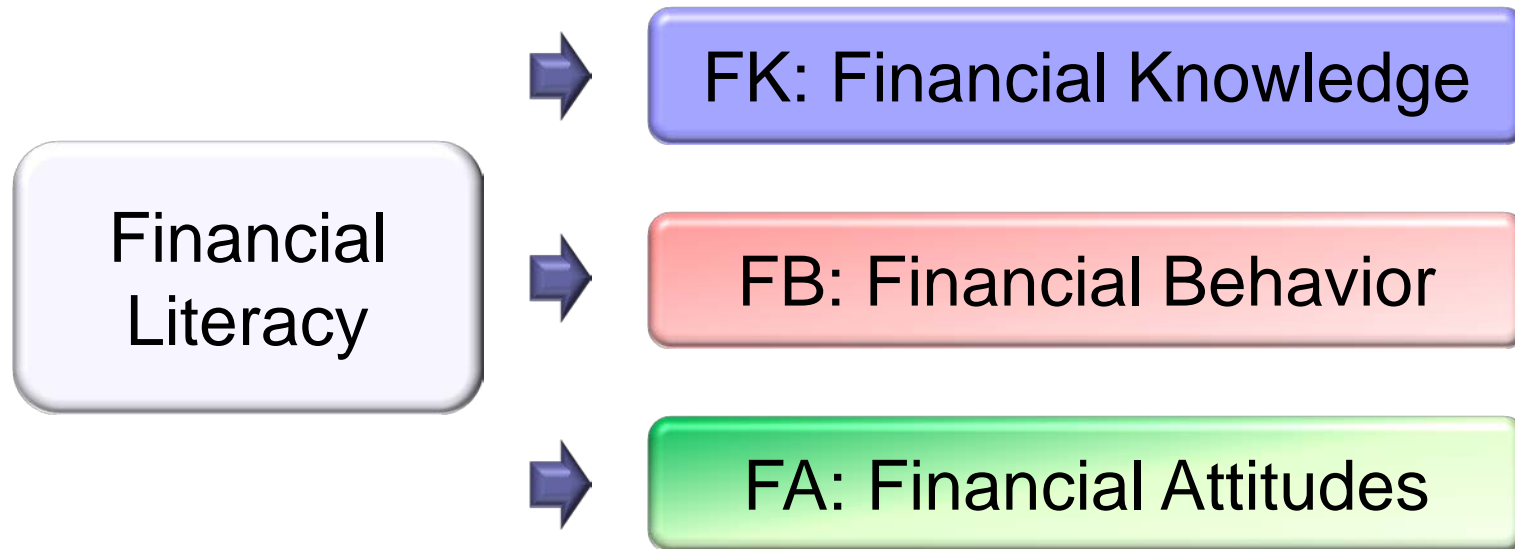
Reasons:

- Financial literacy is a strong determinant of financial inclusion
- Financial literacy can be improved by policy intervention
- There is no widely accepted framework to measure FL

The Italian survey

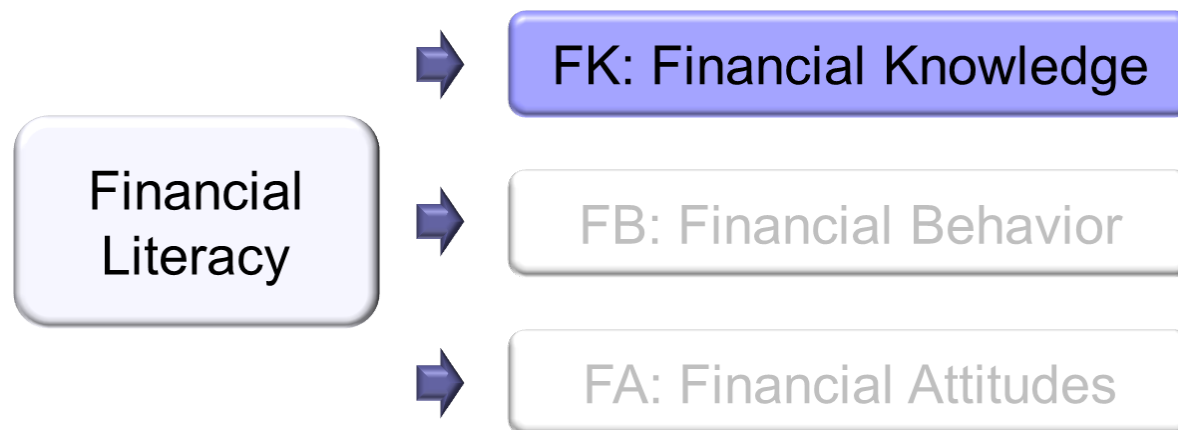
- Focus: financial literacy and inclusion
- Target: adult population (18+)
- Sample: 2,500 individuals
- Two probabilistic samples (electoral lists, population registers)
- Two different methodologies: 40 % CAPI – 60% *Tablet*

OECD Methodology



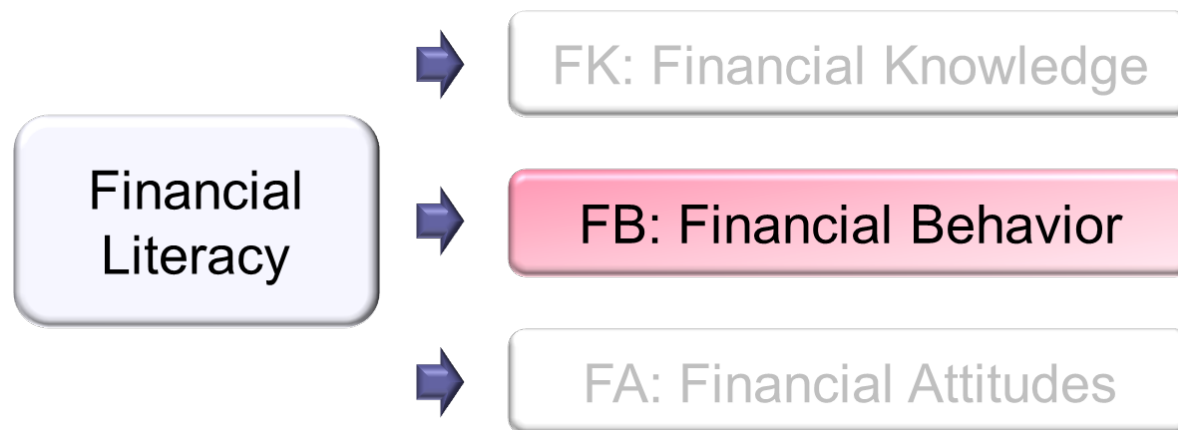
*«A combination of awareness, **knowledge**, skills, **attitude** and **behaviors** necessary to make sound financial decisions and ultimately achieve individual financial well-being»*

OECD Methodology



- Inflation
- Simple and compound interest
- Risk diversification
- Risk \leftrightarrow Return
- ...

OECD Methodology



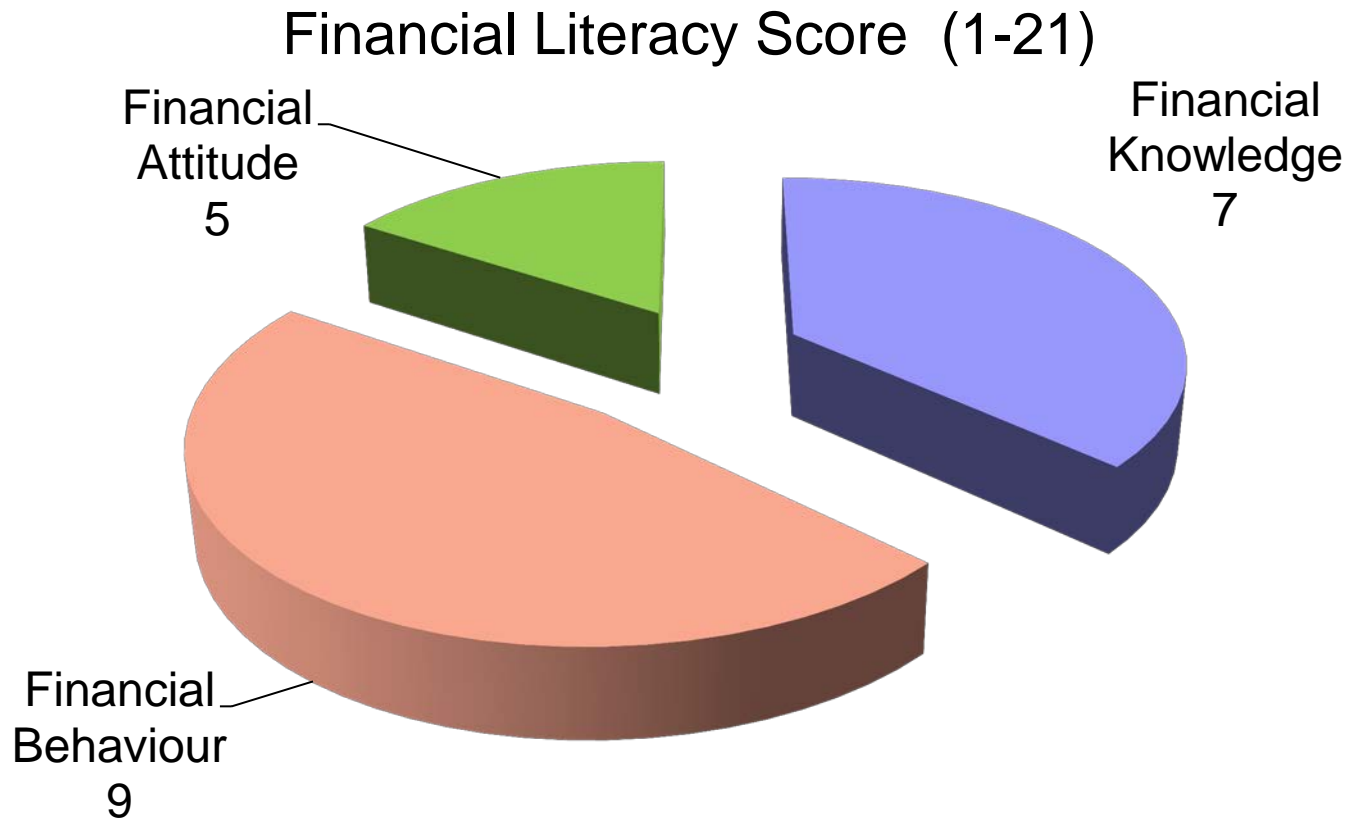
- Budgeting
- Active saving
- Shopping for financial products
- Making ends meet
- ...

OECD Methodology



- Short term living vs planning ahead
- Attitudes towards money spending
- ...

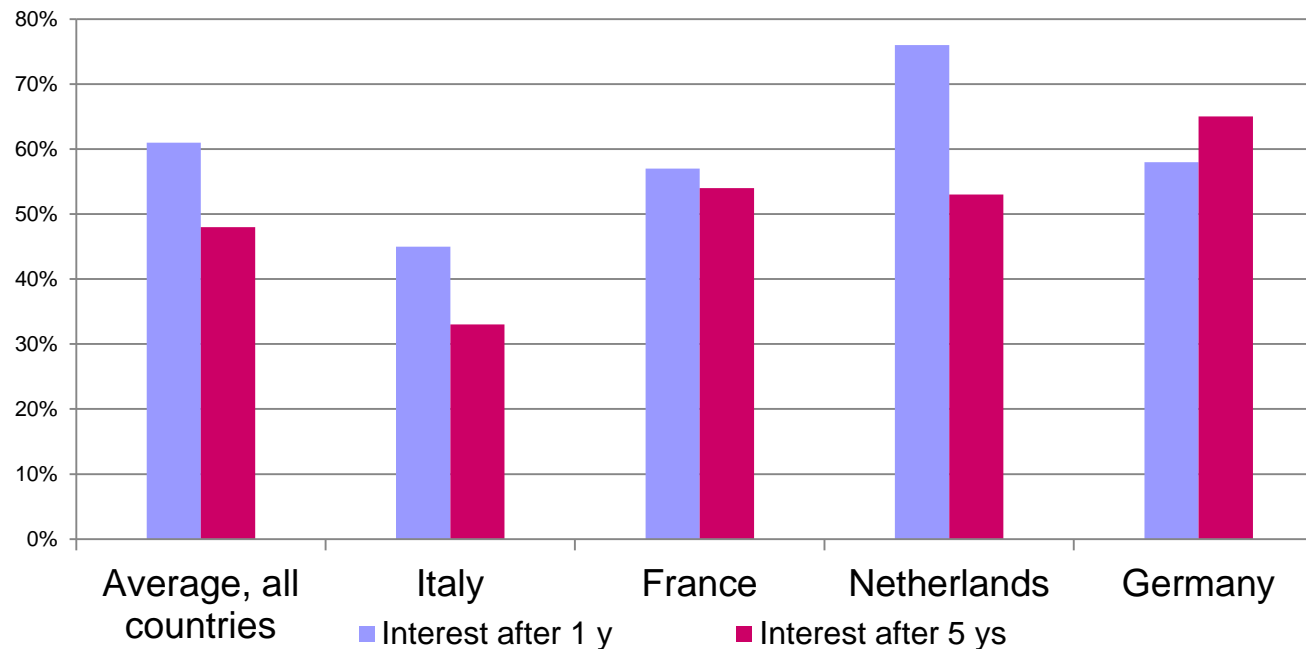
OECD Methodology



Financial knowledge (1)

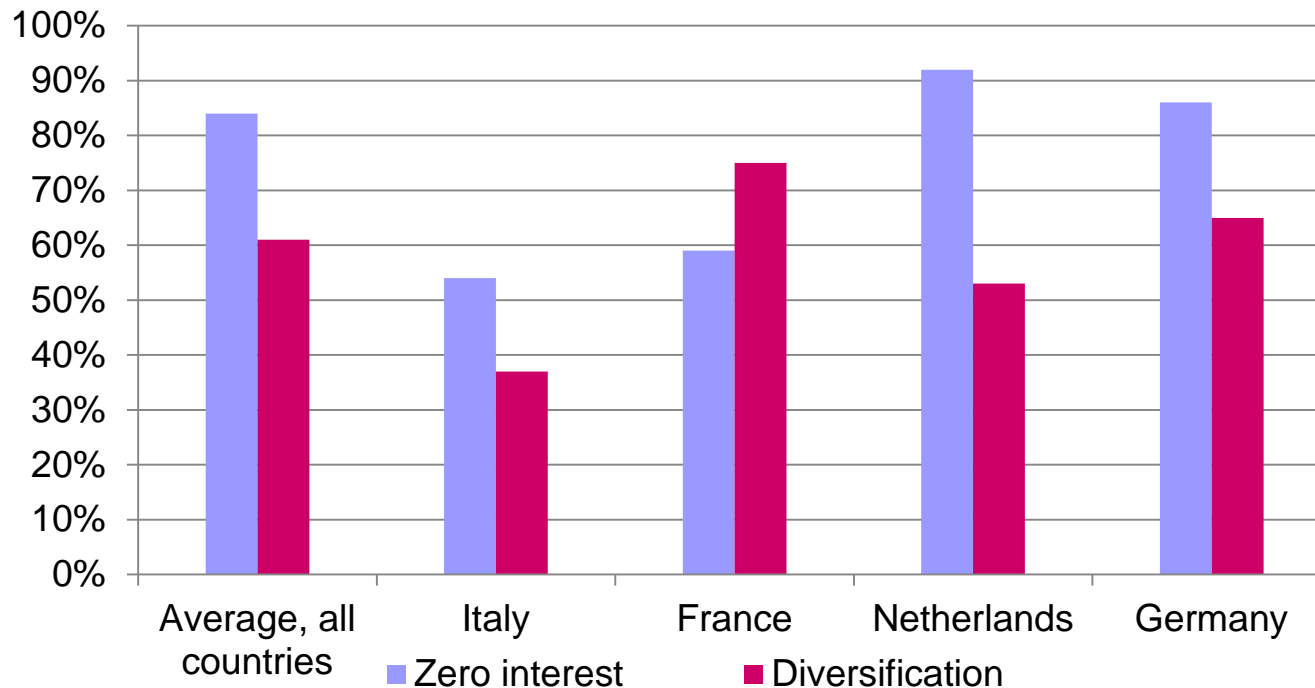
Suppose you put EUR 100 into a no-fee savings account with a guaranteed interest rate of 2% per year. You do not make any further payments into this account and you do not withdraw any money. How much would be in the account at the end of the first year, once the interest payment is made?

And how much would be in the account at the end of five years?



Financial knowledge (2)

- *You lend \$25 to a friend one evening and he gives you \$25 back the next day. How much interest has he paid on this loan?*
- *It is usually possible to reduce the risk of investing in the stock market by buying a wide range of stocks and shares*



The impact of socio-demographic characteristics

- men score better than women
- the level of education appears to be of high relevance for scores
- U-shape for age

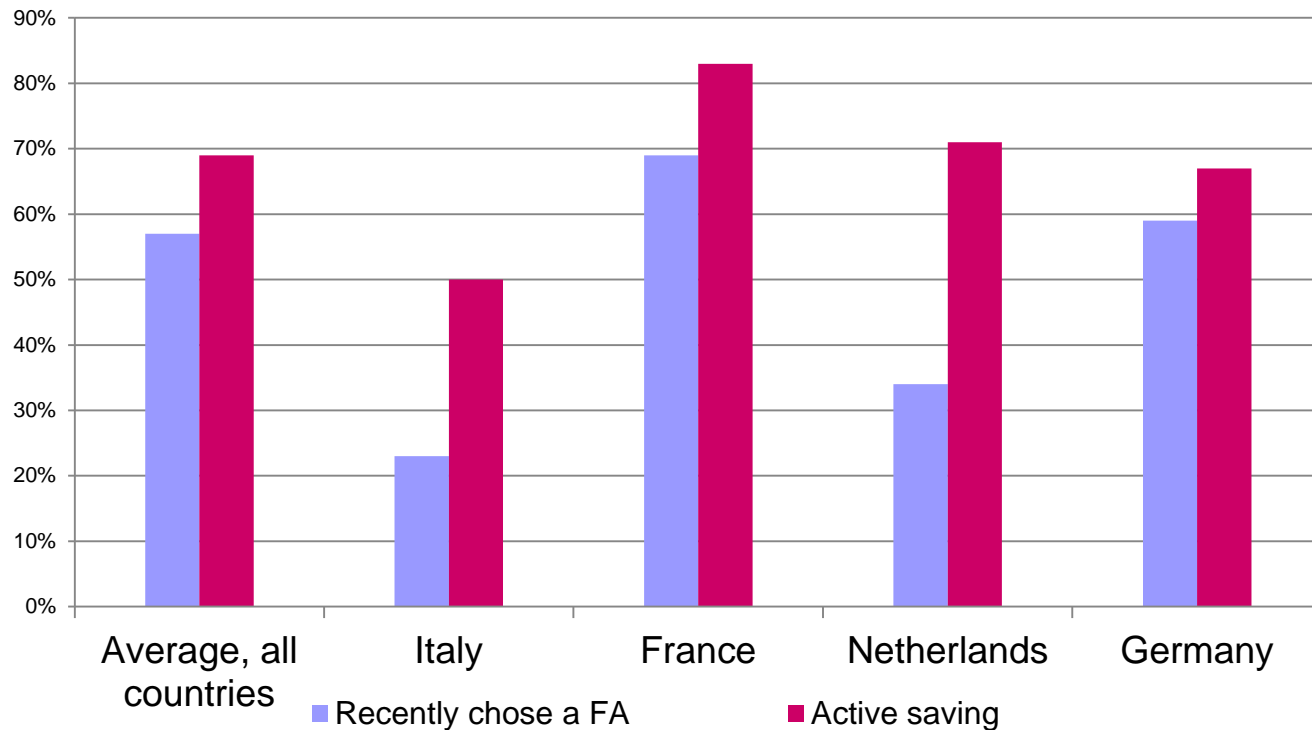
The role of socio-demographics in cross-country comparisons

- Counterfactual analysis by aligning the population characteristics

	Germany	France	UK	Canada
Gap	1,28	1,38	0,68	1,38
% explained by demographics	19%	12%	38%	26%

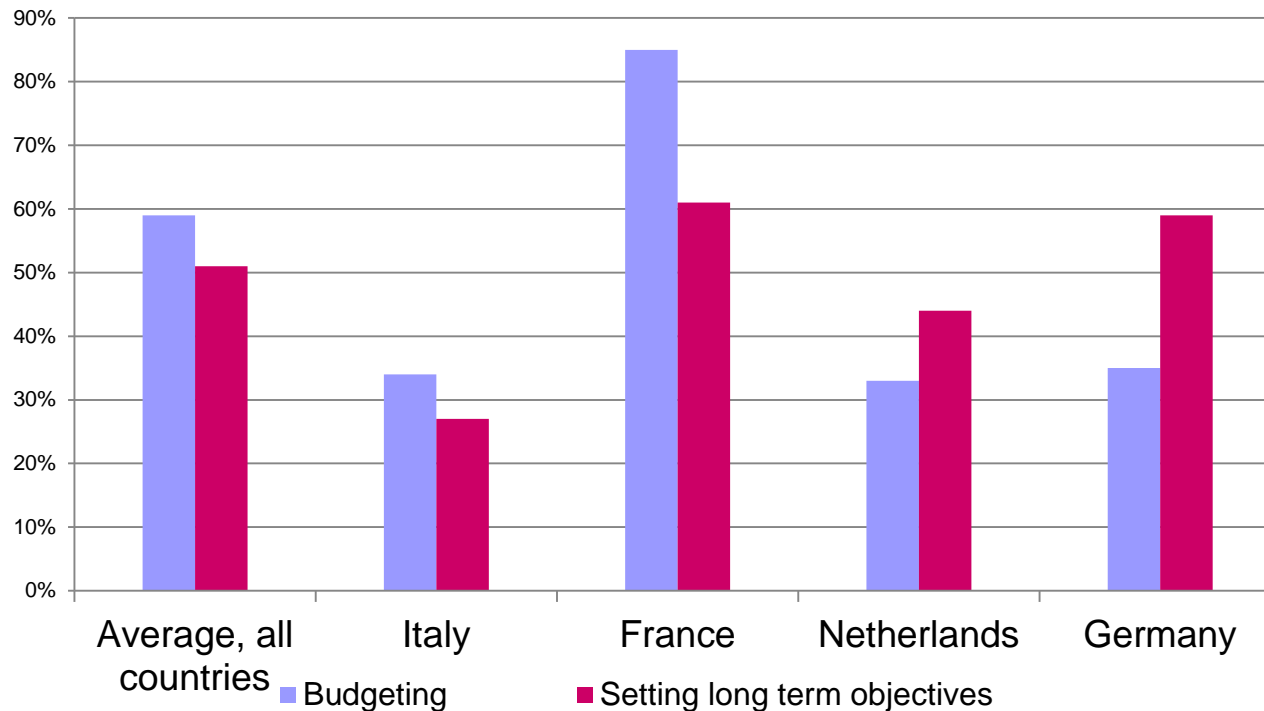
Financial Behaviour (1)

- In the last two years, which of the following types of financial products have you chosen? (showcard)*
- In the past 12 months have you been [personally] saving money in any of the following ways? (showcard)*

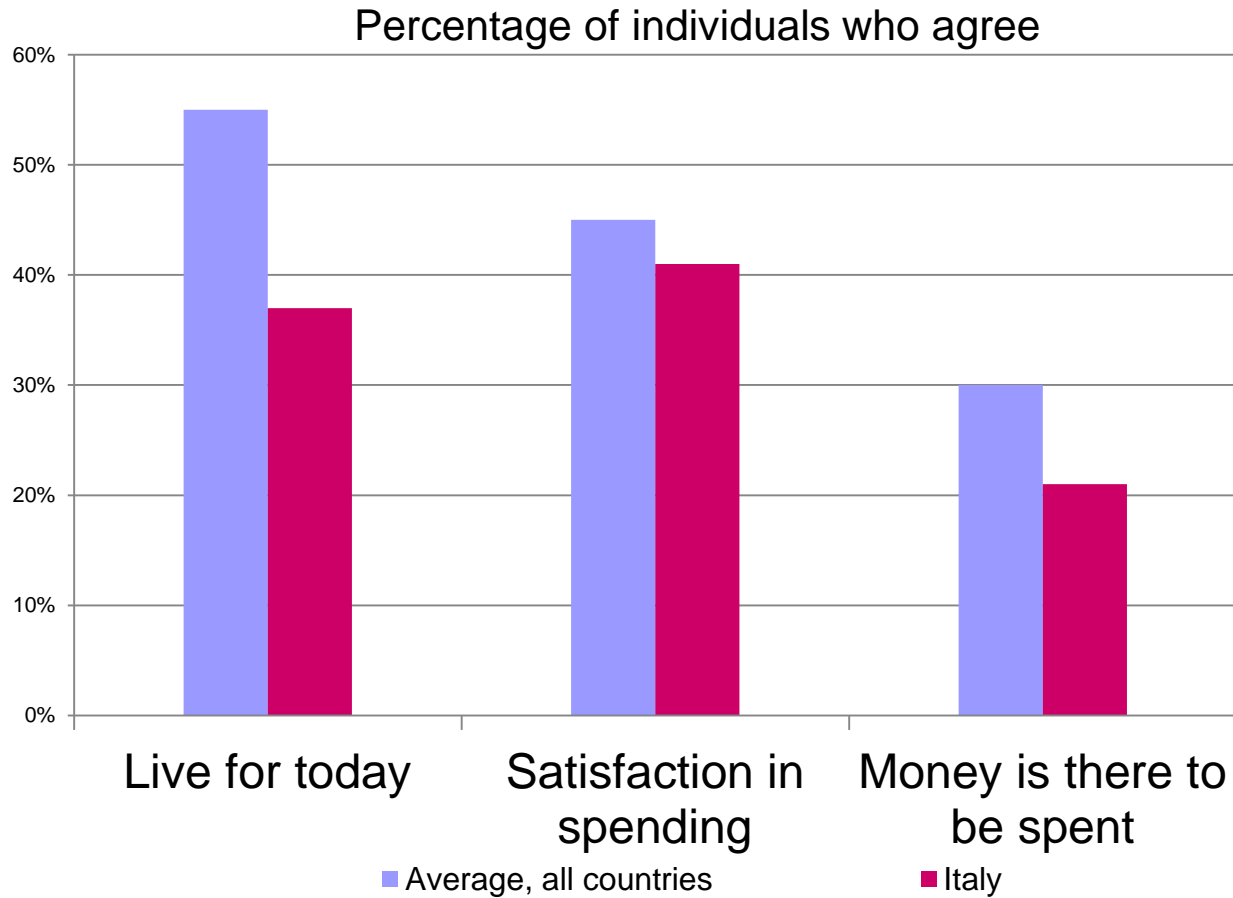


Financial Behaviour (2)

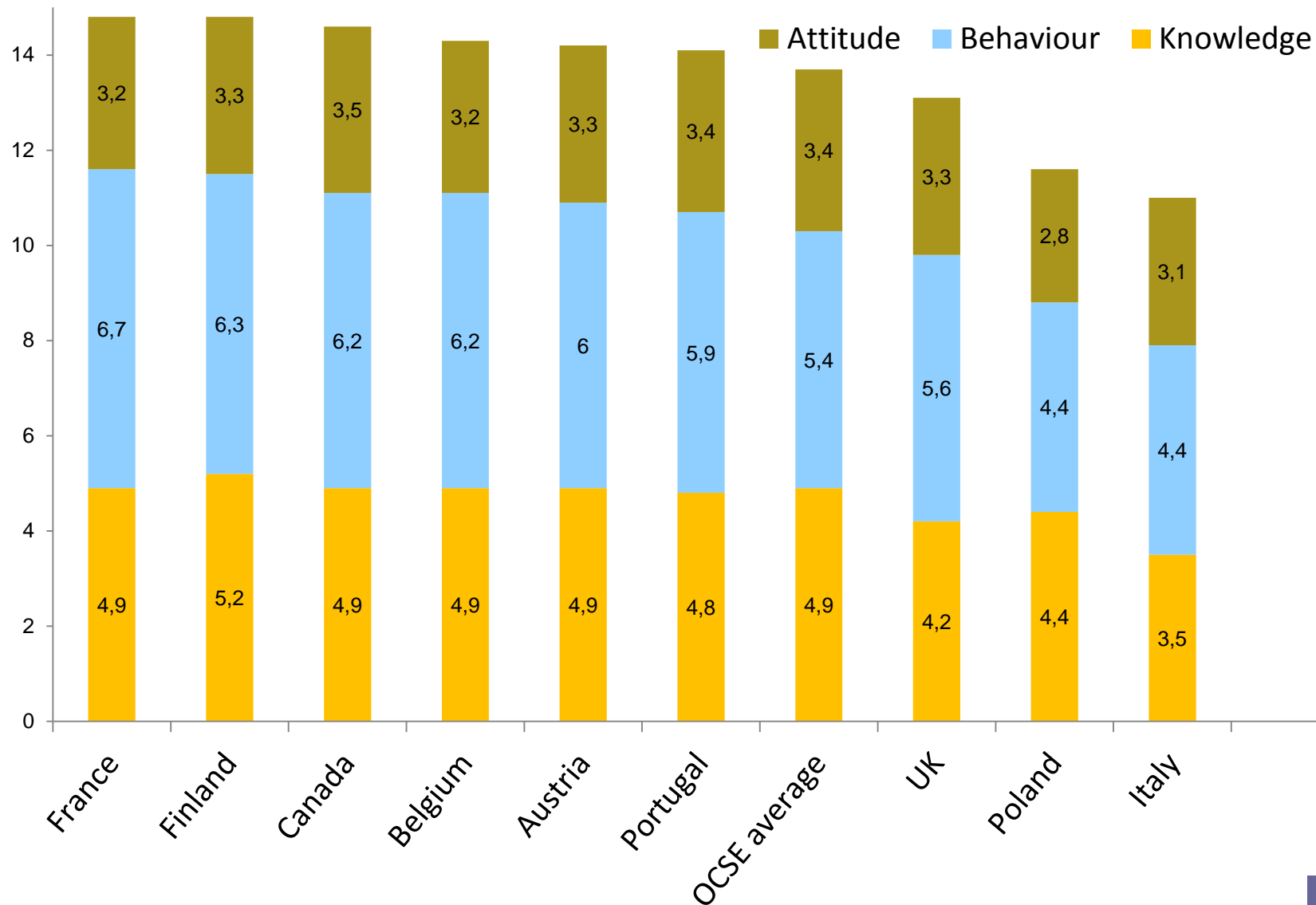
- Does your household have a budget? A household budget is used to decide what share of your household income will be used for spending, saving or paying bills*
- I set long term financial goals and strive to achieve them*



Financial attitude

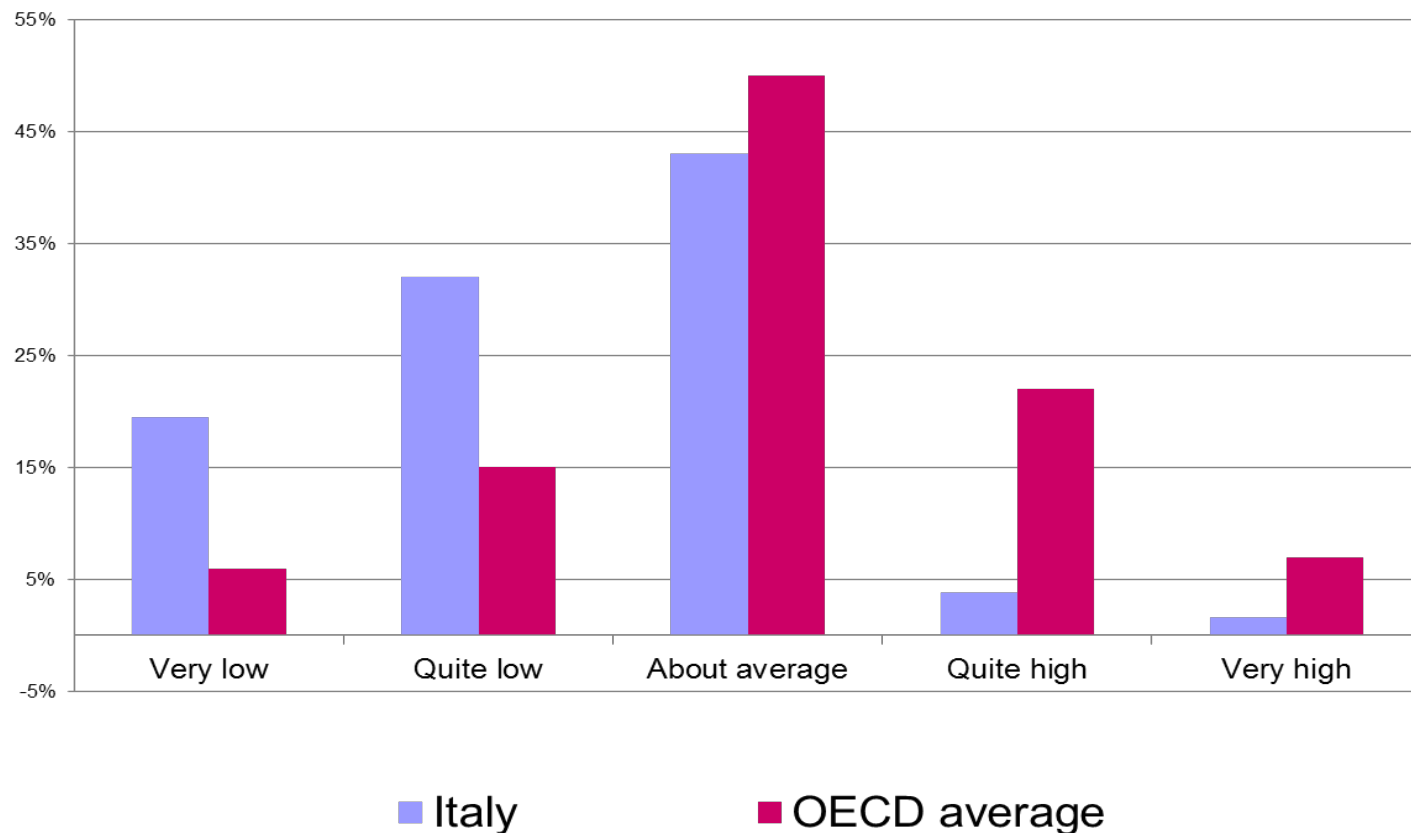


Total score



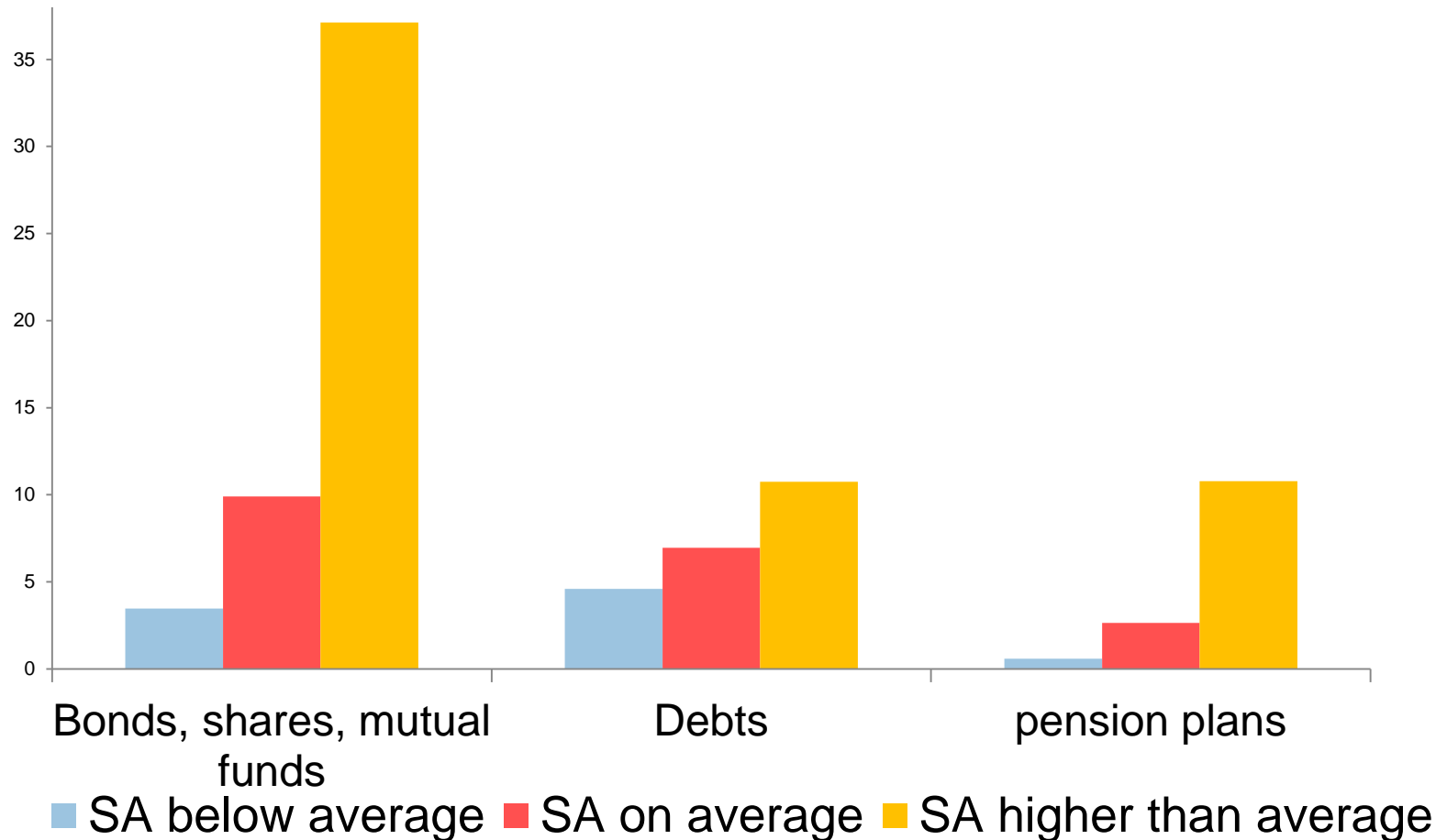
Individuals' self-assessment of financial knowledge

How you would rate your overall knowledge about financial matters compared with other adults in your country?
(missing responses excluded, percentages)



Self-assessment and financial inclusion

Probabilities of holding financial products by levels of FA

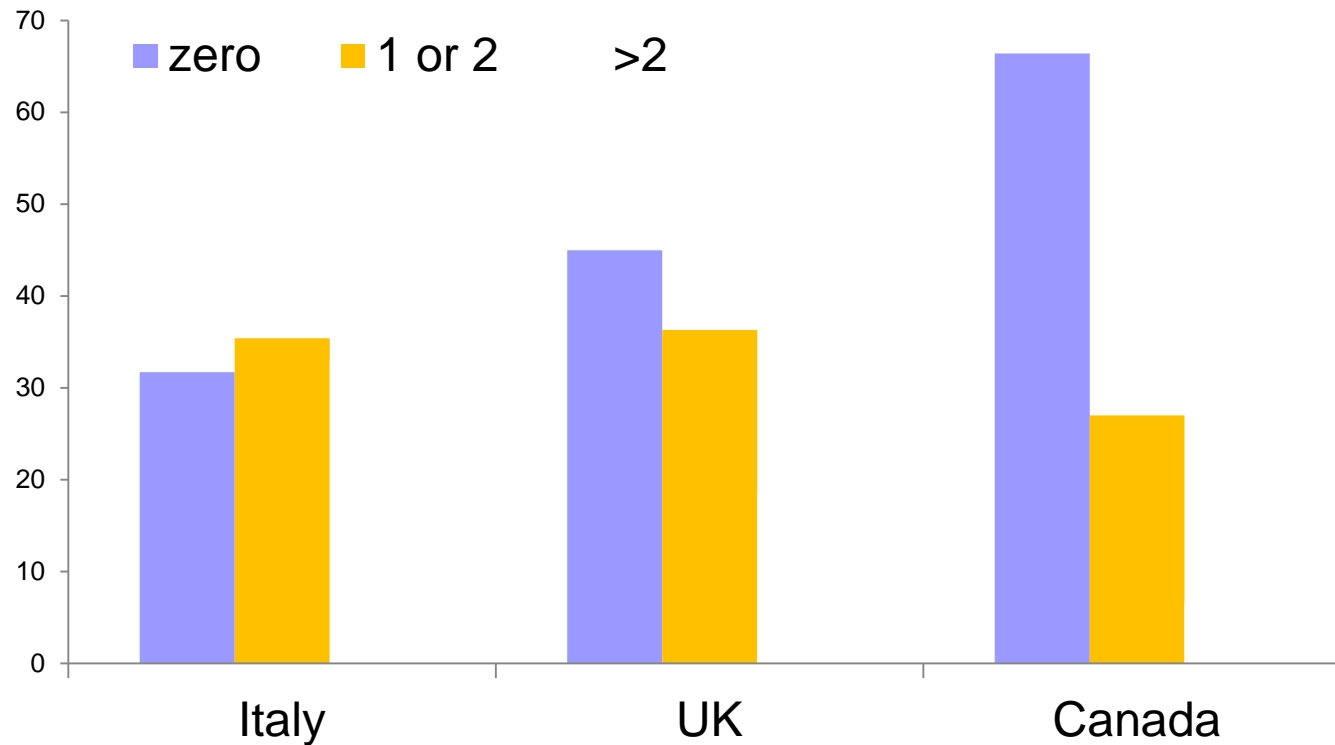


FL and Self-assessment explain behaviour

	PENSION PLAN PARTICIPATION		SAVING		TIMELY BILL PAYMENT		RAINY DAYS FUNDS		FINANCIAL PRODUCTS	
	Odds ratio (Pr > Chi Sq)		Odds ratio (Pr > Chi Sq)		Odds ratio (Pr > Chi Sq)		Odds ratio (Pr > Chi Sq)		Estimate (Pr > t)	
Parameter	With controls	Without controls	With controls	Without controls	With controls	Without controls	With controls	Without controls	With controls	Without controls
FK score	1.186 (0.0012)	1.237 (<.0001)	1.009 (0.7757)	1.063 (0.0453)	1.093 (0.0112)	1.141 (<.0001)	1.256 (<.0001)	1.305 (<.0001)	0.0475 (0.001)	0.0689 (<.0001)
FA score	1.254 (0.0163)	1.219 (0.0213)	1.302 (0.0002)	1.394 (<.0001)	1.376 (<.0001)	1.574 (<.0001)	1.048 (0.5153)	1.136 (0.0585)	0.0848 (0.013)	0.1048 (0.002)
Self-assessed FK	1.551 (<.0001)	1.939 (<.0001)	1.606 (<.0001)	1.638 (<.0001)	1.261 (0.0033)	1.238 (0.0028)	1.511 (<.0001)	1.46 (<.0001)	0.2015 (<.0001)	0.2412 (<.0001)

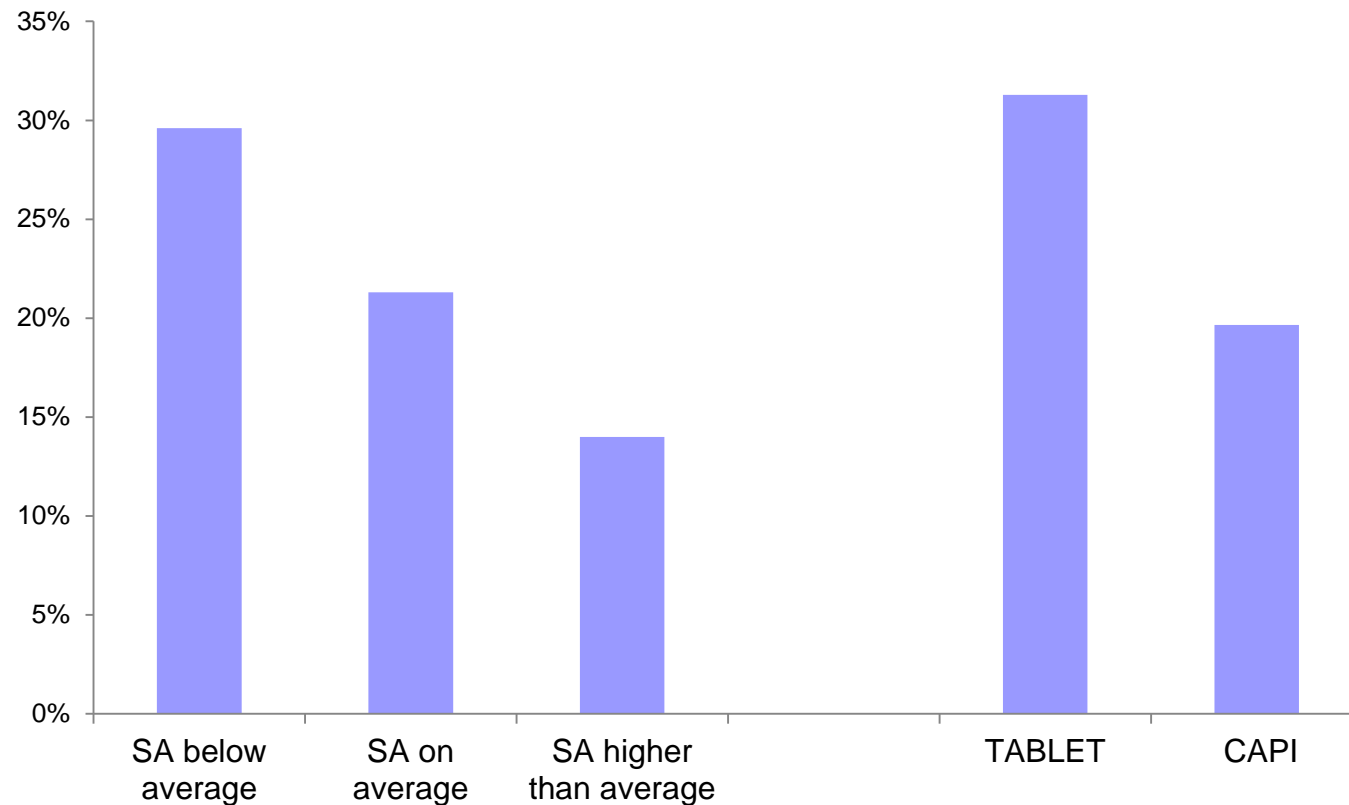
Some methodological issues...

Number of missing items to the FK questions



Some methodological issues...

Share of (item) nonresponse by SA and Mode of Interview



Conclusions

The OECD methodology is a valuable instrument for policy makers

Possible areas for improvement

- Some of Behavioural questions should be reconsidered
- The attitude questions are «questionable»
- Has the sum of FK FB e FA some economic meaning?
- Missing important themes such as the issue of pensions

Conclusions

- Awareness is not considered but seems to have relevant policy implications:
 1. Knowing that you don't know is the first step for improvement;
 2. It seems to have great explanatory power on behaviour even after controlling for FK scores;
 3. Could over-confidence or under-confidence be a problem?
- Don't Know is considered as a «wrong answer»

DKs (and the final score) depend on the method of interview and on respondents' risk aversion