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FINANCIAL EDUCATION

Testing times

In times of economic crisis,
citizens need the financial literacy
to remain economically resilient

“If there is a moment for [financial education] it is now.” So said Mario Nava in March 2020, when he was director of horizontal policies in the European Commission’s directorate-general for EU policy on finance. He was speaking during a webinar on building financial resilience in turbulent times, which was organised by the European Banking Federation and in which Insurance Europe also participated.

It is certainly true that in the difficult economic environment created by the COVID-19 pandemic and government lockdowns it is more important than ever that individuals and companies have the skills to make appropriate financial decisions and choose the right financial products for their situation. As bankruptcies and unemployment rise and recessions loom, it is also worth remembering that it is those with low literacy skills who are more likely to have financial problems and could be more tempted to make the short-term decisions to raid pension pots or cancel insurance policies that have such serious long-term consequences.

The increasing shift to digital activities and transactions that was prompted by national lockdowns and social distancing have also dramatically altered how people access financial services, bringing into the spotlight the importance of including digital skills in any financial education efforts. Insurance Europe was therefore pleased to see the Commission referring to the promotion of financial education and digital financial skills in the April 2020 consultation

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on its new digital finance strategy, which is expected in the third quarter of 2020.

Not a new problem

Stark figures showing how much individuals struggle with financial matters are nothing new. "Large groups of citizens are lacking the necessary financial literacy and financial resilience to deal effectively with everyday financial management," concluded an international survey of adult financial literacy carried out by the OECD/International Network on Financial Education (INFE) in 26 countries and economies in Europe, Asia and Latin America, which was published in June 2020.

Scoring the maximum of 21 in the OECD/INFE test would demonstrate a basic level of understanding of financial concepts and the application of some prudent principles in financial dealings, yet individuals across the entire sample averaged a score of just 12.7. "These scores suggest that there is plenty of room for improvement across all the elements of financial literacy," said the OECD.

Gaps in financial literacy are clear from an early age. Around one in four of the 117 000 15-year-olds from 20 countries and economies who took part in the latest OECD PISA test¹

of financial literacy are unable to make even simple decisions on spending. And only one in 10 students from the 13 OECD countries and economies who took the test performed at the highest level of financial literacy.

Financial education should, of course, be a lifelong process and Insurance Europe's own recent pan-European survey of adults' retirement saving habits (see p40) confirmed the pressing need to improve levels of financial literacy and awareness among adults, since it revealed that nearly half of Europeans are not saving for their retirement.

And a US survey, the third annual TIAA Institute-GFLEC Personal Finance Index² of adults in 2019, confirmed clear variations between demographic groups, with women, the young, those with lower levels of education, the unemployed and the disabled all more likely to be less financially literate. Worryingly for the insurance industry, understanding risk was the area in which financial literacy was found to be the lowest in the TIAA Institute/GFLEC study.

New Insurance Europe publications

Insurance Europe and its member associations have long been actively engaged in efforts to raise levels of financial literacy,

1 Programme for International Student Assessment, OECD, 2018

2 "Financial Literacy in the US and Its Link to Financial Wellness — The 2019 Teachers Insurance and Annuity Association Institute-Global Financial Literacy Excellence Center Personal Finance Index"

InsureWisely campaign: new publications



specifically in relation to risk awareness, insurance and long-term saving for retirement.

Since 2018, Insurance Europe’s work in this area has come under the “[InsureWisely](#)” label. December 2019 saw publication of the fourth in its thematic infographic factsheets, this time on natural catastrophes. The [one-pager](#) sets out advice on reducing risks, choosing the right policy and making a claim. And, in June 2020, Insurance Europe published a booklet entitled “[Insure yourself wisely](#)”. The booklet offers useful tips on how best to insure for key life events such as buying a house or car, going on holiday or retiring.

Welcome for EU action

While education is a matter for national governments, Insurance Europe welcomes efforts at EU level to promote financial literacy. It was pleased to see in the December 2019 conclusions of the Council of the EU on the initiative to deepen the capital markets union (CMU) that to increase retail participation in capital markets the Council proposed to “promote financial literacy (for both retail investors and SMEs) and facilitate the exchange of best practices and views on national measures in this regard”.

Likewise, it is pleasing that the final report that was published in June 2020 by the High-Level Forum on the CMU — which

was set up by the Commission to review progress on the initiative and propose new actions — recognised financial knowledge and skills as a priority. The Forum proposed an EU framework on financial competence, suggested that the EU fund financial literacy projects and the exchange of best practices, and recommended requiring member states to promote measures to support financial education.

While it is encouraging to see such recognition of the importance of financial education, EU policymakers and regulators could play a greater role. A starting point could be a European Day of Financial Education organised by the EC, on which policymakers, citizens, the financial sector, education providers and social partners could share best practices and new approaches to financial education. EIOPA could also do more to fulfil the obligations in its founding Regulation to coordinate financial literacy and education initiatives by national authorities.

However tempting the need for budget savings might currently be, now is certainly not the time for the many players who do such great work improving financial education — among them governments, schools, international organisations, NGOs and financial services providers — to scale back their efforts. The financial resilience and well-being of citizens is too closely linked to their levels of financial literacy. ■