

ASSURANCE OF FINANCIAL LITERACY: ISSUES & SUGGESTIONS

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MEASUREMENT APPROACHES

- There are 2 different approaches to measurement

1) PERFORMANCE TEST (PT) APPROACH

- Respondents are given an objective test that measures their knowledge and understanding of financial terms and their ability to apply financial concepts to particular situations
- Washington Financial Literacy Survey
- Survey of Consumer Finances
- Jump\$tart Coalition Survey
 - Conducted on K12
 - Conducted in 1997, 2000, 02,04, 06 & 08
 - 49 Questions – 31 M/C & 18 Demographic
 - Income, Money Management, Saving & Investing, Spending and Credit

MEASUREMENT APPROACHES



2) SELF ASSESSMENT (SA) APPROACH

- Respondents are surveyed for
 - ▣ their perceptions of their financial understanding and knowledge
 - ▣ their attitudes toward financial instruments, decisions, information and its receipt

MEASUREMENT TECHNIQUES

Publication	Operational Definition	Approach		Subject		
		PT	SA	S	I	D
Volpe et al, 96	% correct on 10 M/C questions	X			X	
Chen & Volpe, 98	% correct on 36 M/C questions	X		X	X	X
Volpe et al, 00	Correct responses on 10 M/C questions	X			X	
Hilgert et al, 03	% correct on a knowledge test	X		X	X	X
FINRA, 03	Correct responses to 10 T/F questions	X	X			
Moore, 03	Correct responses to 12 T/F questions	X	X	X	X	X

MEASUREMENT TECHNIQUES - Cont

Publication	Operational Definition	Approach		Subject		
		PT	SA	S	I	D
Mandell, 04	% correct on 31 item knowledge test	X		X	X	X
Agnew & Szykman, 05	Correct responses on 10 M/C & T/F questions & self assessment on 1-10 scale	X	X		X	
NCEE, 05	% correct on 24 item knowledge test	X			X	
Lusardi & Mitchell, 06, 08	Correct responses on 3 M/C & T/F	X		X	X	
Lusardi & Mitchell, 07a	Correct responses on 3 computational items	X			X	
Lusardi & Mitchell, 07b	A single weighted average of correct/incorrect responses of 5 simple	X	X	X	X	

MEASUREMENT TECHNIQUES - Cont

Publication	Operational Definition	Approach		Subject		
		PT	SA	S	I	D
Mandell, 07	% correct on a knowledge test	X		X	X	X
Van Rooji et al, 07	2 weighted average of correct/incorrect responses of 5 simple and 11 tough M/C items & 7-point self evaluation	X		X	X	
Lusardi & Tuffano, 08	Correct responses to 3 M/C	X	X			X
ANZ Bank	Mean score, based on target responses to 26 questions derived from an operational framework	X	X	X	X	X

PT= Performance Test, SA=Self Assessment, S= Savings, I=Investment, D= Debt

KEY FINDINGS



- **Financial literacy is not strong**
 - USA
 - The financial literacy of high school students has fallen to its lowest level ever in 2008, with a score of just 48.3 percent (Korea less than %60)
 - JAPAN
 - 71% of adults had no knowledge about investment in equities and bonds
 - 57% had no knowledge of financial products in general
 - 29% had no knowledge about insurance, pensions and tax

KEY FINDINGS



- **Financial literacy is correlated with various demographic characteristics**
 - ▣ The average score for American college students on the same 31 question exam, however, was 62.2 percent, nearly 15 percentage points above that of high school seniors.
 - ▣ Financial literacy is weak if
 - Less educated, unemployed, low skilled, low income, low levels of savings, single, too young or too old, less educated parents

KEY FINDINGS

- **Subjects often do not know they don't know**
 - Consumers often think that they know more than they actually do
 - Whereas actual and perceived knowledge are often correlated but this correlation is often moderate at best
 - Agnew & Szykman (05) found correlations btw actual and perceived financial knowledge that ranged from 0.10 to 0.78 (median=0.49)
 - 67% of respondents in Australia indicated that they understand compound interest. However, only 28% correctly answered a problem on compound interest

KEY FINDINGS



- **Financial information is difficult to find and understand for respondents**
 - ▣ Japanese felt frustrated about finding easy materials
 - ▣ British do not actively seek out financial info
 - Information is obtained by luck or chance
 - Perception of complexity is deterrent for search

KEY FINDINGS



There is no consensus yet on the definition.

- Presidency Advisory Council on Financial Literacy [08]
 - ▣ ***Financial literacy*** – the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well being
 - ▣ ***Financial education*** – the process by which people improve their understanding of financial products, services, concepts, so they are empowered to make informed choices, avoid pitfalls, know where to go for help and take other actions to improve their present and LT financial well being

DEFINITION – No Consensus



- OECD [2005]
 - ▣ ***Financial education*** – the process by which financial consumers, investors improve their understanding of financial products and concepts and through information, instruction, and/or objective advice, develop 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
 - ▣ Lusardi & Mitchell (07c) use the OECD definition for their review of financial literacy

DEFINITION – Overall Suggestion

- To have an effective measurement, we must first have a consensus
- After studying various definitions, Hung, Parker & Yoong (09) suggest this definition:
- **Financial literacy** – *knowledge of basic economic and financial concepts, as well as the ability to use that knowledge and other financial skills to manage financial resources effectively for a life time of financial well-being*

COMMON MEASURES

- Performance tests are a better way of measuring financial literacy than self assessment surveys
- OECD countries conduct different surveys and tests
 - ▣ *To enable better cross country comparisons it would be useful to distribute a single questionnaire*
 - *Common Questions*
 - *Tailored Questions*
- Surveys can be conducted about
 - ▣ The availability, clarity, delivery methods of financial information
 - ▣ Demographic characteristics to determine which groups are in most in need of which type of financial education

Evaluation – Qualitative Assessment

- To supplement the quantitative research that highlights successful financial literacy programs, educators, national and regional governors, NGOs, employer can also use qualitative measures to gauge the success of these programs
- **Office of Financial Education (OFE)** of USA Treasury Department has published a list of 8 elements of successful financial education programs
- Indicators:
 - ▣ Content, delivery, impact and sustainability

Qualitative Evaluation Indicators



1. FOCUS ON BASIC TENETS

- ▣ Successful programs should focus one or more of basic tenets of financial empowerment
 - Basic savings
 - Credit management
 - Home ownership
 - Retirement planning

Qualitative Evaluation

Indicators 2



2. TAILORED TO TARGET AUDIENCE

- ▣ Successful programs should be tailored to it target audience, taking into account the audience's
 - Language
 - Culture
 - Age
 - Experience

Qualitative Evaluation

Indicators 3



3. LOCAL DISTRIBUTION

- ▣ Successful programs has the most profound impact when it is delivered through a local distribution channel that makes effective use of community resources and contacts
 - Partnerships with local organizations

Qualitative Evaluation

Indicators 4



4. PARTICIPANT FOLLOW UP

- ▣ Successful programs follow up with participants to reinforce the message and ensures that participants are able to apply the skills taught.
- Follow up paves the road to better access to financial services, opening a bank account, start saving for home purchase or retirement

Qualitative Evaluation

Indicators 5

5. SPECIFIC PROGRAM GOALS

- ▣ Successful programs establish specific program goals and uses performance measures to track progress toward meeting those goals.
- **To achieve goals, one must first set goals**
 - **Set a standard of excellence**
 - **Track progress toward excellence**

Qualitative Evaluation

Indicators 6

6. DEMONSTRABLE IMPACT

- ▣ Successful programs can prove its worth by demonstrating a positive impact on participants' attitudes, knowledge or behavior through **testing** and/or **surveying**
- Demonstrate if participants
 - Increased savings
 - Opened bank accounts
 - Saved for a home
 - Qualified for a mortgage

Qualitative Evaluation

Indicators 7



7. REPLICABILITY

- A successful program can be easily replicated on a local, regional, or national basis so as to have broad impact and sustainability

Qualitative Evaluation

Indicators 8

8. BUILT TO LAST

- A successful program is built to last as evidenced by factors such as continuing financial support, legislative backing, or integration into an established course of instruction
- Good programs is able to survive if they have strong impact
- They are recognized and awarded
 - ▣ John Sherman Award for Excellence in Financial Education