

# Early financial literacy education key to informed financial decisions

By Peter Kell, Deputy Chairman, Australian Securities and Investments Commission

- Financial literacy has gained prominence since the global financial crisis as an important complement to financial market regulation, consumer protection and financial inclusion policies.
- Financial decisions are influenced by a range of shifting and sometimes conflicting internal and external factors.
- Financial literacy education should be introduced as soon as possible, particularly through established education pathways such as schools and vocational training, adult and community education.

**In July 2014, the Organisation for Economic Co-operation and Development (OECD) released the findings of the first international study of young people's levels of financial literacy as part of its Programme for International Student Assessment (PISA). Australian students scored fourth out of the 18 participating countries and economies.**

As well as representing a major step in the global knowledge of young people's financial literacy, this study supports the efforts of the Australian Securities and Investments Commission (ASIC), and other equivalent organisations around the world, to equip individuals of all ages with the knowledge, skills and behaviours to make confident and informed financial decisions. It is noteworthy that of the six jurisdictions which performed statistically higher than expected in the PISA study, five (Australia, Belgium, Czech Republic, Estonia and New Zealand) have started to develop school curricula for financial literacy, including the development of learning frameworks.

This article discusses the growing importance of consumer and financial literacy education, the role of ASIC in promoting confidence and trust in

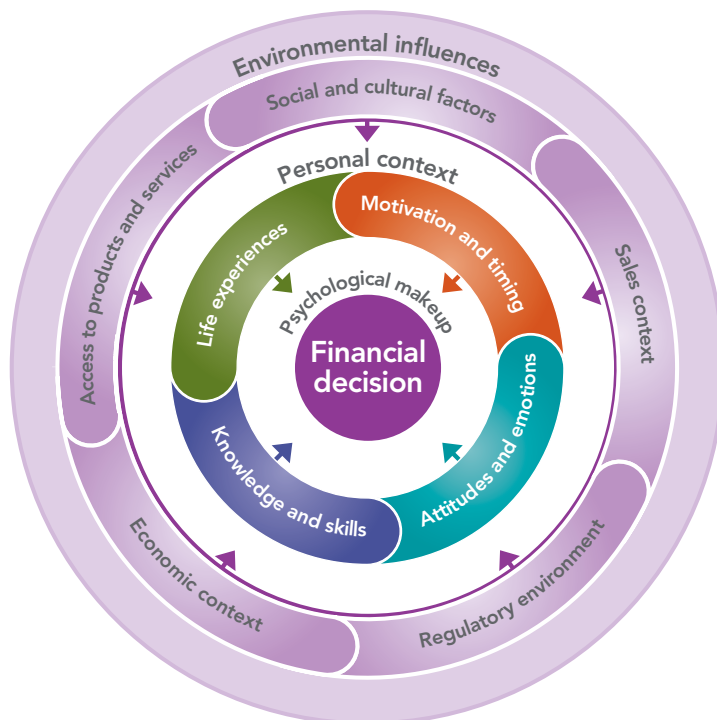
the financial system, and what ASIC is doing to build the financial literacy of young people under Australia's new *National Financial Literacy Strategy 2014–17*.

## What is financial literacy?

Australia's *National Financial Literacy Strategy 2014–17*, defines financial literacy as 'the combination of financial knowledge, skills, attitudes and behaviours necessary to make sound financial decisions, based on personal circumstances, to improve wellbeing'.

In other words, this means being able to understand and negotiate the financial landscape, manage money and financial risks effectively, and pursue and attain financial and lifestyle goals. Sound financial decision-making is strongly linked with improved financial wellbeing and greater participation in economic life; benefiting not only individuals themselves, but their families, communities and nations.<sup>1</sup> In short, it is a core life skill.

Over the past decade, particularly since the Global Financial Crisis, financial literacy has gained prominence on the agendas of many world economies, with many identifying it as an important complement to financial market regulation, consumer protection and financial inclusion policies.<sup>2</sup> In 2012, the OECD/International Network on Financial Education (INFE) High Level Principles on National Strategies for Financial Education were endorsed by G20 Leaders. As of August 2014, 55 countries are in various stages of

**Figure 1: Factors influencing financial decision making**

Source: ASIC, National Financial Literacy Strategy 2014–17, Figure 3.

developing, implementing or revising a national financial literacy strategy that accords with these Principles, compared with 26 countries in 2011<sup>3</sup> and 45 in 2013. A small number of countries are leading the way in terms of implementing a second national strategy based on their experience and evaluation of the first national strategy: Australia is one of these countries.

### Why is financial literacy important?

With almost every Australian owning one or more financial products and taking on more responsibility for their long-term financial security, financial literacy, including investor education, is an integral part of an effective financial services system.

By strengthening the demand side of the market, financial literacy enables people to be more confident and informed in the way they interact with industry participants and engage with financial products and services. It also helps them to understand their rights and responsibilities in relation to their financial decisions.

Whether individuals are taking out a home loan, planning for retirement, or investing in the market, there are many benefits from having engaged consumers that have trust and confidence in our financial system. In this way, ASIC's financial literacy work complements our activities directed at the supply side of the market, such as surveillance or enforcement work.

As the conduct regulator for financial services, all too often ASIC sees instances where poor decision making has led to a less than optimal financial outcome for a consumer or investor.

Coupled with this, financial products are often inherently complex, decisions typically require an assessment of risk and uncertainty, and many products tend to be purchased infrequently (for example, post-retirement products).

### Financial literacy in a broader context of consumer behaviour

There is no 'average' consumer. Consumers are people and people have different and changing needs,

preferences and confidence levels. As explained in the *National Financial Literacy Strategy 2014–17*, financial decisions are influenced by a range of shifting and sometimes conflicting factors, including an individual's life stage and past experiences, emotional impulses and cognitive biases, psychological, social and cultural factors, and other external environmental factors: see Figure 1.<sup>4</sup>

These contextual factors and personal attributes mean that a multi-faceted and sustained approach by multiple stakeholders is needed to reach people at key touch points throughout their lives.<sup>5</sup>

People face different financial decisions at different stages of their lives and also in the face of specific life events like buying a house, having a baby or losing a job. Some decisions are only made infrequently.

Ensuring people have access to impartial information and a range of tools and guidance across the age spectrum is a core part of building their financial literacy. At the same time, teaching young people foundational knowledge and skills and good money habits at school is the cornerstone to bringing about long-term generational change.

### National Financial Literacy Strategy 2014–17

In August 2014, ASIC launched Australia's new *National Financial Literacy Strategy 2014–17* representing an important milestone in our efforts to improve the financial literacy of Australian financial consumers and retail investors and the culmination of 12 months of extensive consultation with over 200 stakeholders from numerous sectors.

Under ASIC's leadership, the strategy provides a national framework for action to improve Australians' financial literacy and a roadmap for all those working in this area. It is built around the following strategic priorities:

1. Educating the next generation, particularly around the formal education system, including schools.

2. Increasing the use of free, impartial information, tools and resources, such as ASIC's MoneySmart website which helps over 400,000 Australians a month make informed personal financial decisions.
3. Providing quality targeted guidance and support.
4. Strengthening co-ordination and effective partnerships.
5. Improving research, measurement and evaluation.

The remainder of this article will discuss the first priority which involves using established educational pathways to effectively integrate consumer and financial literacy education into schools.

### Educating the next generation — a key priority

To have the best chance of success in improving Australians' financial wellbeing, it is important to teach our children how to manage money from an early age. Research into adults' financial literacy, including the ANZ survey of *Adult Financial Literacy in Australia*, indicates that 18–24 year olds are consistently among the demographic groups more likely to have lower levels of financial literacy.

According to the OECD's 2012 PISA study of 15 year olds' financial literacy skills, 19 per cent of Australian 15 year olds performed at the baseline of financial literacy proficiency and 10 per cent below it. Such research is essential for understanding how well today's youth are prepared to face new and challenging financial circumstances.

In particular, the PISA study highlights significant differences in financial literacy, both within and between countries, for example:

- Only one in ten students scored at the highest financial literacy proficiency level in PISA. At the end of the proficiency spectrum, 15 per cent of students, on average, scored below the baseline level of performance. At best, these students can recognise the difference between needs and wants, and make very simple decisions about everyday spending.

- On average, financial literacy is higher among more socio-economically advantaged students. Specific groups of the population such as immigrants and students living in rural areas display on average lower levels of financial literacy.
- In contrast with findings on adult populations, there were no marked differences on average by gender. Yet, there were fewer top performing girls than boys and more poorly-performing boys than girls. These results confirm the need to reinforce girls' financial abilities to allow them to reach higher levels of financial literacy (and be better able to manage their finances in adulthood), and highlight the need for boys at the bottom end of the proficiency scale to be supported.

The second PISA financial literacy study is scheduled for 2015, with results due to be released in 2016/17.

Financial literacy education, particularly through established education pathways such as schools and vocational training, adult and community education, is one of the strategic aims of the *National Financial Literacy Strategy 2014–17* — a focus which is consistent again with the guidance of the OECD which states that financial literacy education should be introduced as soon as possible, preferably in the school curriculum.<sup>6</sup>

Advocates of financial literacy education in schools suggest that this is not only the most effective place for this learning to occur but the best way of reaching a large number of young people from all socio-demographic backgrounds.

Here, in Australia, ASIC has worked with education authorities to develop 'MoneySmart Teaching' — a program which effectively uses consumer and financial literacy as an engaging and real life context for learning through the national curriculum. Trialled in over 90 Australian schools in 2012, the program provides primary and secondary teachers with professional development and quality resources aligned to the Australian Curriculum and the National Consumer and Financial Literacy Framework.



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The program has five key components:

1. Promoting a curriculum based approach to teaching consumer and financial literacy in Australian schools.
2. Providing teaching resources that use real-life consumer and financial contexts for learning.
3. Building teacher capability through professional development and personal learning.
4. Creating partnerships across sectors to develop and implement a nationally consistent and collaborative approach to consumer and financial literacy education in schools.
5. Fostering a whole school approach which recognises the significant role of families and the wider community in helping young Australians develop the knowledge, skills, attitudes and behaviours needed to make confident and informed financial decisions.

The first two components are focused on promoting a curriculum based approach to teaching financial literacy in Australian schools and providing teachers with engaging resources such as videos and multimedia activities to use in their classrooms. Rather than treat financial literacy as a separate subject, the program provides students from Foundation to Year 10 with real-life learning in important financial concepts such as planning, saving,

spending, investing and donating across curriculum areas such as English, maths and science and soon economics and business.

The third component builds the capacity of teachers to deliver financial literacy education through professional development (training). This is provided through state-based workshops in partnership with states and territories and is also available online for teachers based in regional and remote areas. Our training also has a personal learning component called 'Financial Health for Teachers' to help teachers with their own finances.

The fourth component is about creating partnerships — first and foremost with education departments, the Catholic and independent sectors and schools, but also across the Australian government, business and community sectors. Improving Australian's financial literacy is not the sole responsibility of one organisation or sector alone.

Lastly, ASIC's MoneySmart Teaching provides an opportunity for a whole school approach which includes parents and engages families in why financial literacy is an important skill for young people.

Through strong partnerships with the education sector, the program has made significant progress, with over 12,000 teachers completing professional development and more than 2,000 schools now engaged in some aspect of our program.

Ultimately, the objective is to have aspects of financial literacy integrated into all of our nation's schools, from Foundation to Year 12.

### Conclusion

To have the best chance of improving the financial literacy of Australians, we must build on the significant work done to date by programs like ASIC's MoneySmart Teaching and provide financial literacy education which has a long lasting impact on a child's behaviour and gives them valuable life skills. It requires sustained efforts from Australia's financial services, government, community and education sectors to bring together our expertise, resources and commitment to help young Australians along their journey. To that end, ASIC encourages organisations to link to the practical and helpful information and tools freely available on ASIC's MoneySmart website ([moneysmart.gov.au](http://moneysmart.gov.au)).

Through a combined effort across sectors, we will not only help young people, but all Australian consumers and investors, make confident and informed financial decisions and build more secure futures. ■

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### Notes

- 1 ASIC Report 403 *National Financial Literacy Strategy 2014–17*.
- 2 V Perotti, S Zottel, G Larossi and A Bolaji-Adio, 'Making sense of financial capability surveys around the world, report, International Bank for Reconstruction and Development/The World Bank, February 2013.
- 3 A Grifoni, F Messy, 'Current Status of National Strategies for Financial Education: A Comparative Analysis and Relevant Practices', *OECD Working Papers on Finance, Insurance and Private Pensions*, No 16, OECD Publishing, 2012.
- 4 Financial System Inquiry interim report: Submission by the Australian Securities and Investments Commission, August 2014.
- 5 ASIC Report 403 *National Financial Literacy Strategy 2014–17*.
- 6 OECD, 'Recommendation on principles and good practices for financial education and awareness', 2005.

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