



Celebration of World Investor Week, 2022



Financial Literacy and Financial Resilience

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Financial Literacy (FL)

“Everyone deals with finance, and finance is sufficiently complex that we cannot leave it to individuals to learn by themselves.”

**Prof. Annamaria Lusardi
Global Financial Literacy Excellence Center
The George Washington University**

An illustration of a woman in a pink top and grey skirt pointing towards a glowing lightbulb with a dollar sign inside. The background features a green and blue gradient with a white line graph showing an upward trend and a large white arrow pointing towards the top right. There are also some green and yellow abstract shapes on the right side.

Financial Literacy (FL)

- People are well equipped to make financial management decisions if they have a basic understanding of financial concepts (Klapper, & Lusardi, 2020).
- They also recommended that People need to be financially literate to make informed financial choices regarding saving, investing, borrowing, risk, and more.

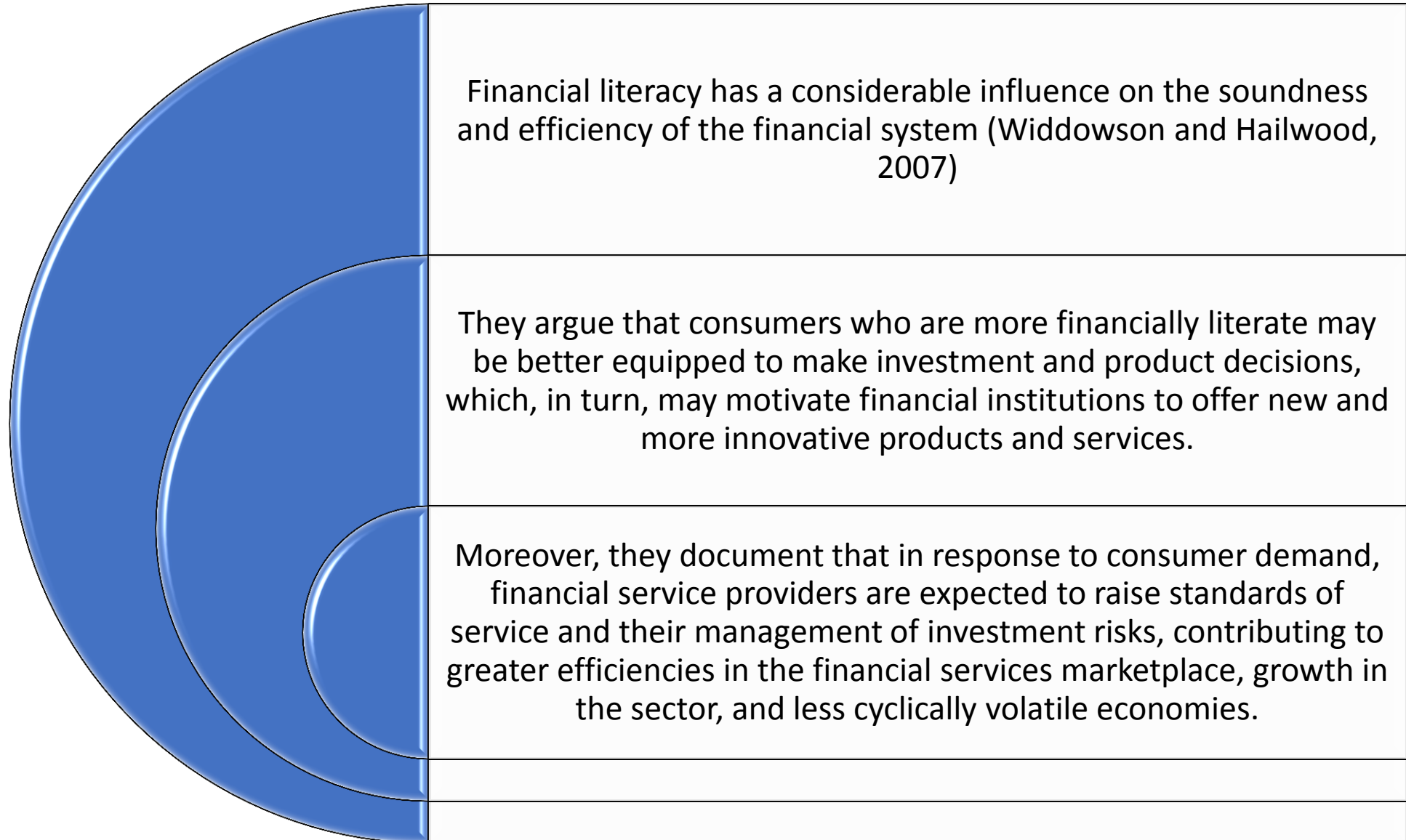
- There is an increasing need for basic financial knowledge in a world of increasing financial complexity (Lusardi & Mitchell, 2014).

Benefits of Financial Literacy

The potential benefits of financial literacy are diverse, such as

- Individuals are **more likely to participate in financial markets and invest in stocks**, who have a greater understanding of financial concepts (Almenberg & Dreber 2015; Christelis, Jappelli, & Padula, 2010; Van Rooij, Lusardi, & Alessie, 2011).
- People with strong financial skills **do a better job planning and saving for retirement** (Behrman, Mitchell, Soo, & Bravo, 2012; Lusardi & Mitchell, 2014).
- Greater financial literacy can **increase financial resilience and reduce risks** (Gerardi, Goette, & Meier, 2013).
- Adults with higher “debt literacy”—for example, greater understanding of debt concepts and ability to do calculations of future debt payments—are **more likely to pay their credit cards in full and less likely to be over-indebted** (Lusardi & Tufano, 2015).

Impact of FL on Financial System



Financial Literacy (Around the World)

Standard & Poor conducted a survey in association with GFLEC on Financial Literacy in 2014.



They accommodate five questions on four fundamental concepts for financial decision-making—risk diversification, inflation, basic numeracy, and interest compounding.




More than 150,000 representative and randomly selected adults (age 15+) in more than 140 countries were interviewed. This is the first and most comprehensive global measure of financial literacy to date.

Financial Literacy (Around the World)


The S&P Global FinLit Survey found, Worldwide, just one in three adults are financially literate.



This means that around 3.5 billion adults globally—most of them in developing countries—lack an understanding of basic financial concepts.



The countries with the highest financial literacy rates are Australia, Canada, Denmark, Finland, Germany, Israel, the Netherlands, Norway, Sweden, and the United Kingdom, where about 65% or more of adults are financially literate.



On the other end of the spectrum, South Asia is home to countries with some of the lowest financial literacy scores, where only a quarter or fewer of adults are financially literate.

Financial Literacy by Country

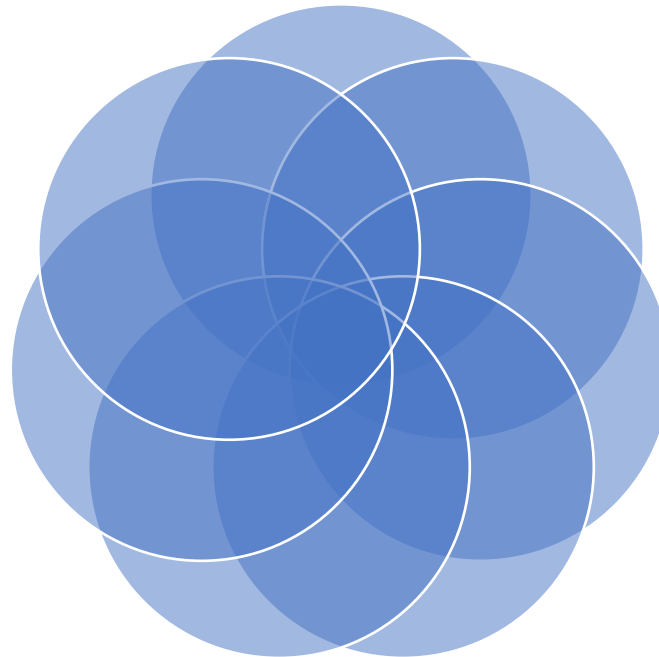
The percentage of adults who answer at least three out of five questions correctly.

Country	Financially Literate
Bangladesh	19%
Sri Lanka	35%
India	24%
Pakistan	26%
Singapore	59%
United States	57%
Denmark (Highest)	71%
Afghanistan (Lowest)	14%
United Kingdom	67%

Financial Literacy (Across Demographics)

Financial literacy grows with income and employment

Worldwide, 35 percent of men are financially literate, compared with 30 percent of women.



Financial literacy is lowest among adults age 65+

60% of the richest are financially literate compared with 40% of their counterparts who are poor.

Country-Level Institutions Relate to Financial Literacy

Regulatory Intervention

Financial consumer protection laws, regulations, and supervisory and oversight structures constitute an essential element of the modern financial system (Allen, Demirguc-Kunt, Klapper, & Martinez Peria, 2012).

Consumer protection is positively correlated with financial literacy and risk diversification (Klapper, & Lusardi, 2020). Furthermore, they find that disclosure requirements are significantly positively related to higher financial literacy rates.

Country-Level Institutions relate to Financial Literacy

Practical Experience

People may have a better understanding of financial concepts when they are confronted with them in their daily lives.

For example, Argentina struggled with hyperinflation in the late 1980s and early 1990s

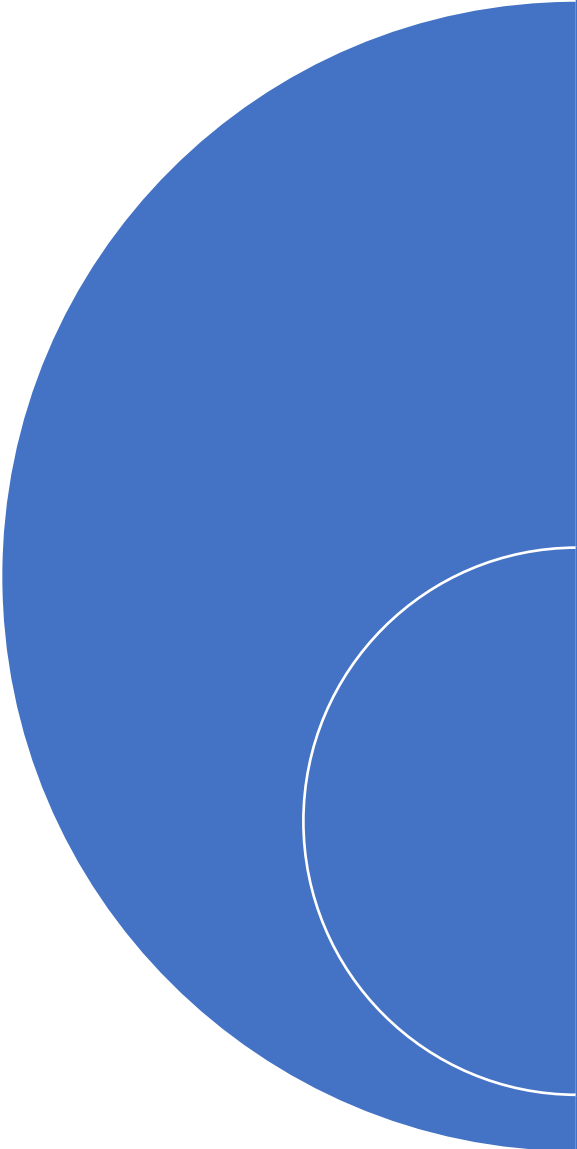
While their overall financial literacy rate of 28 percent is lower than the world average, 65 percent of Argentine adults have an understanding of inflation

Cultural Perspective

Cultural differences can also play a role in financial literacy because different populations have dissimilar norms, attitudes, and experiences related to managing money.

According to Guiso, Sapienza, and Zingales (2006), culture is a set of beliefs, norms, and preferences that are shared among the members of a cultural group and that transmit unchanged from generation to generation.

Resilience



“Capacity of human beings to **overcome extreme adversity and to show positive adaptation** in the face of that adversity, a phenomenon also described as resilience” (Schoon and Bynner 2003).

The concept of resilience takes its roots in the field of **ecology** (Holling 1973), and later developed in several disciplines, including, **behavioral science** (e.g. Norris 2010), **psychology** (Donnellan et al. 2009), **economics** (e.g. Pant et al. 2014), **ecological economics** (e.g. Gunderson 2009); **global environmental change** (e.g. Janssen et al. 2006), and **disaster risk management** (e.g. Cutter et al. 2008).

Resilience



Resilience comprises “multiple interrelated dimensions, which fluctuate over time” (Buikstra et al. 2010).

For this reason, it is best described as a dynamic process characterized by adaptability (Adger 2000) rather than stability (Bonanno 2005)—i.e. “the process of ‘bouncing back’ from harm rather than immunity from harm” (Norris 2010).

But resilience is not only the process of bouncing back from adverse events, “it is also about the opportunities that disturbance opens” (Folke 2006).

Benefiting from such opportunities requires a high ‘capacity of response’ (or ‘adaptive capacity’). It is an individual’s ability to “adjust to a disturbance, moderate potential damage, take advantage of opportunities and cope with the consequences of the transformation that occurs” (Gallopín 2006: 296).

How do we adjust or cope with adverse events?

Everyone will not adjust and copes with adverse events the same way (Gallopini 2006). Previous studies documented five potential outcomes:




• **‘bounce back better’** (i.e. the individual benefits from the adverse event);



⑩ **‘resistance’** (i.e. the individual remains unaffected);



• **‘resilience’** (i.e. the individual is able to draw on appropriate resources to maintain a stable equilibrium);



⑩ **‘recovery’** (i.e. the individual’s equilibrium is lost before slowly returning fully or partially to pre-event levels); and



• **‘reconfiguration’** (i.e. the individual does not adapt to the adverse event and has to make major changes to normal behavior) (Norris 2010; Lepore and Revenson 2006).

Resilience and Resources

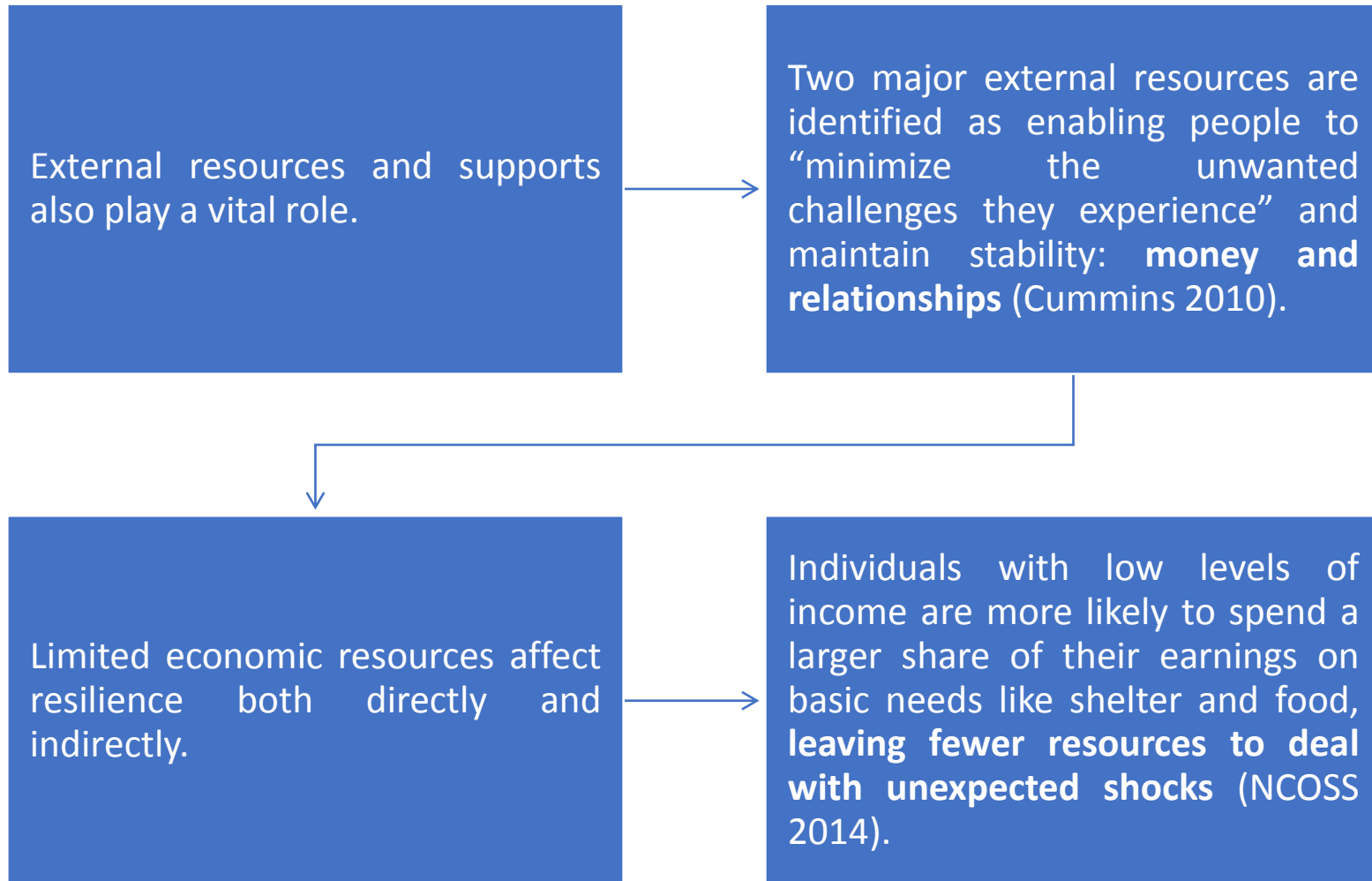
Individuals have two types of resources: **internal and external**.

For example, **cognitive skills, positive views of self, focus, hope, flexibility, proactive, and optimism** are personal characteristics that can have stress-suppressing effects (Donnellan et al. 2009; Masten 2001).

Internal resources can improve the individual's capacity for response—they are the **“relatively stable personal characteristics that protect individuals from stress”** (Norris, 2010).

These are not “simply inborn attributes that are somehow immutable” but rather “dynamic characteristics” that evolve with the individual's social context (Donnellan et al. 2009).

Resilience and Resources




Resilience and Resources

Further, economic vulnerability has been associated with increased stress, although this can be **mitigated through positive social interactions** (Conger and Conger 2002).



Relationships indeed are an important contributor to resilience, including **community ties, connections to family and friends, as well as support services** (Orthner et al. 2004).



Social capital, an individual's network of relationships, can help provide access to and sources of **"information, advice, and assistance"** (Morrow 2008) thereby **reducing stress and promoting adaptation** under changing conditions (Norris 2010).

Financial resilience framework components

Salignac et al. (2019) has given a financial resilience framework

Economic resources

- Savings
- Debt management
- Ability to meet cost of living expenses
- Ability to raise funds in an emergency
- Income

Financial resources

- Access to a bank account
- Access to credit and needs met
- Access to insurance and needs met

Financial knowledge and behavior

- Knowledge of financial products and services
- Confidence in using financial products and services
- Willingness to seek financial advice
- Proactive financial actions

Social capital

- Social connections
- Access to social support in time of crisis
- Access to community and government support when needed

Financial Practices and Financial Resiliency

Prior studies documented some financial practices that can enhance financial resilience:

-Maintain a low **debt-to-income ratio**

-Maintain an **emergency fund** of at least three months' expenses.

- Generate income from different sources

-**Never consider our education or job training finished.** Increase our knowledge of financial topics so that we make smart financial decisions.

-**Purchase adequate life insurance** to protect dependents against the loss of a breadwinner's income

Financial Resilience (Bangladesh Context)

Hussain et al. 2019 conducted a study on Bangladesh and they documented some issues such as..

Respondents with at least a secondary or **higher level of education are about twice as likely to be financially resilient** compared to respondents with a primary level education or below.

Financial education can improve levels of financial literacy, help individuals to overcome financial vulnerability caused by personal circumstances, and potentially break down their psychological barriers (Atkinson and Messy 2013).

Females are less resilient than male respondents.

Their results indicate that females are less resilient than male respondents. Likewise, Holloway, Niazi, and Rouse (2017) argue that women in developing countries not only have poor shares in account ownership but also minimal formal saving experience.

Financial Resilience (Bangladesh Context)

The higher the household's **economic condition**, the **respondents are more likely to be financially resilient**.

Among the households, the richest 20% of respondents are about six times more resilient compared to the poorest 20%.

Respondents with a financial account have around **1.4 times higher possibility** to be financially resilient compared to respondents without financial accounts.

Likewise, **respondents with savings are almost three times more likely to be resilient compared to respondents without savings**

Remaining Question



Do we think that we will be able to build financial resilience through financial education?



INVESTMENT TRUSTS JANUARY 10, 2011 / 6:38 PM / UPDATED 12 YEARS AGO

UPDATE 1-Bangladesh police, investors clash as stocks go into free fall

By Ruma Paul

3 MIN READ



(Adds market reopening on Tuesday, quotes)

DHAKA, Jan 10 (Reuters) - Bangladesh police fired tear gas and water cannon to break up violent protests by investors on Monday after stock trading was halted when prices went into free fall.

The benchmark index shed 8.9 percent in less than an hour of trading, its steepest-ever slide, according to updated figures from the stock exchange. That followed a 6.7 percent drop on Sunday after the market had been battered for weeks.

Thousands of angry investors vandalised cars and blocked roads around the Dhaka Stock Exchange, the main bourse, before police moved in. Protesters chanted slogans complaining of manipulation of stock prices by dishonest brokers and traders.

Percentage of Population Investing in Capital Market

Country	Percentage
U.S.A	58%
China	12.7%
India	3.7%
Bangladesh	1%
United Kingdom	33%

Source: <https://www.statista.com/>

Recommendation

Maintain a low debt-to-income ratio

Purchase adequate life insurance to protect dependents against the loss of a breadwinner's income

Maintain an emergency fund

Try to generate income from more than one source

Bring cost-effective, high-impact, and scalable financial education within reach

To inform policy focused on transforming education

Financial education should be in every school around the world

Need to measure its success and fix what is not working

Financial education is about building our future

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