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**Youth knowledge and financial education in Spain**

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Good morning, ladies and gentlemen.

I would like to begin my address by expressing my satisfaction at the organisation of this conference. Its aim is to make society and market participants aware of the significance of financial education and of the importance of improving citizens' financial literacy. I also wish to thank the organisers for this invitation. It gives me the opportunity to set out the Banco de España's view on such a relevant topic.

It is not overstating matters to say that, in my opinion, the level of financial literacy directly affects citizens' welfare, their capacity to choose, and the capacity of the financial sector to offer their products and to strengthen their reputation.

The goal of financial education is, precisely, to ensure that people are able to take responsible financial decisions throughout their lives, in awareness of their rights and obligations as financial product users.

Financial education is thus a vital tool for the authorities that oversee the protection of financial users. It adds to and complements the traditional tools of bank regulation and the supervision of bank solvency and conduct. And ultimately it also contributes to financial stability.

I would like to focus today on certain aspects of financial literacy in Spain, from an internationally comparative perspective. Further, I would like to offer some conclusions in relation to youth in society. This group is closely tied to some of the initiatives that are part of the Financial Education Plan (FEP), about which I will also speak.

I shall be beginning in a somewhat dismal tone, "dismal" being the label that has been attached to those of us practising as economists since the times of Thomas Carlyle, back in the 19<sup>th</sup> century. And the situation is that, despite all the efforts made in terms of private initiatives (as exemplified by this EduFin Summit, now in its third edition) and by the public sector [specifically the FEP initiatives under way since 2008 jointly launched by the Banco de España, the CNMV (National Securities Market Commission) and other collaborators], and also despite the general increase in the educational level in Spain, we have not managed to instil the youngest cohorts with better financial literacy than we have the population as a whole.

### **Adult financial literacy in Spain, from an international perspective**

We are, at least, now in a position to make this diagnosis. This is thanks to the information drawn from the recent Survey of Financial Competences, an initiative of the Banco de España and the CNMV, as part of the FEP. Thus, since last year, our knowledge on the status of Spaniards' financial literacy and on their interaction with the financial system has improved decisively.

The Survey is a very extensive study in which over 8,000 people were interviewed and asked – among other issues – about their financial knowledge; their holding and acquiring of saving, credit and insurance products; their work-related expectations; and their attitudes to consumption and saving. It is the most comprehensive, representative and internationally comparable information source available on Spanish citizens' financial competences.

It is, therefore, a most useful survey. And it is novel regarding the additional information it provides on the social and economic context in which Spaniards take their financial decisions. In this connection, it measures competences which, without being strictly financial, can indeed affect peoples' decisions, such as their degree of reading comprehension and their ability to understand specific graphics.

The Survey thus provides us with a sound database for assessing our efforts to increase financial literacy. I encourage you, as specialists in this area, to exploit it by using both its aggregate findings and its microdata, which are available for research on the Banco de España's Internet portal.<sup>1</sup>

With regard to the population's financial knowledge, the Survey shows that an extensive group of Spaniards are not familiar with basic concepts such as inflation, interest rates or risk diversification.

To answer correctly the question on **inflation** in the Survey requires understanding that an amount of money loses purchasing power when prices rise. 42% of interviewees are not able to answer this question correctly.

To answer correctly the question on **compound interest rates**, the interviewee must understand that the changes in an amount saved in an account depends not only on the annual interest rate applied to the amount saved the first year, but also on the interest accumulated thereafter. 54% of interviewees do not manage to correctly answer this question.

The question on **risk diversification** measures whether the interviewee understands that the risk associated with investing in variable income diminishes if a broad range of shares is purchased instead of a single type of share. In this case, 51% of interviewees are unable to answer this question correctly. Even if analysis is confined solely to the one-third of the population that holds some type of financial asset (which, in Spain's case, usually involves investment funds, pension schemes, shares and bonds), the percentage of incorrect replies to this question is still 40%. This result would be indicative of the fact that a high number of financial market participants appear not to be aware of the advantages of a fundamental aspect for reducing risk in financial decision-making, namely diversified investment.

In any event, the low level of the Spanish population's financial literacy evidenced by the Survey is not something exclusive to Spain; rather, it is seen worldwide.<sup>2</sup>

However, in the particular case of knowledge on diversification, and unlike the other questions, the percentage of correct replies in the population as a whole is significantly lower than that in other developed countries (49% in Spain, compared with 62% in the OECD or EU countries).

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<sup>1</sup> The Survey microdata are freely accessible for scientific research purposes and are available on the Banco de España website at: [https://app.bde.es/gnt\\_seg/controlAccesoEmail.jsp?pas=ecf&lang=en](https://app.bde.es/gnt_seg/controlAccesoEmail.jsp?pas=ecf&lang=en).

<sup>2</sup> OECD (2017), *G20/OECD INFE report on adult financial literacy in G20 countries*, [http://www.oecd.org/dat/fin/financial-education/G20-OECD-INFE-report-adult-financial-literacy-in-G20\\_countries.pdf](http://www.oecd.org/dat/fin/financial-education/G20-OECD-INFE-report-adult-financial-literacy-in-G20_countries.pdf).

The results reveal some sex and age-based heterogeneity in the degree of familiarity with these basic financial notions. This heterogeneity in financial knowledge has been related in some international studies to actual financial decision-making in households<sup>3</sup>, such that the level of financial literacy would be higher in the individuals that actually take these decisions. That might suggest either some specialisation in this area within the household, or that financial literacy is acquired through practice.

The results of the Survey also show that the level of financial literacy in Spain increases in step with the level of educational attainment<sup>4</sup>, as occurs in other developed countries.

The age profile observed is also relatively common. In Spain, the percentage of correct replies increases with age up to 54 years. Above that age, the percentage of correct replies falls and the percentage of interviewees replying “Don’t know” increases. Moreover, the percentages of correct replies are particularly low among youths. Allow me to focus on this particular group.

### Youth financial literacy

According to the results of the Survey, one in five adults in Spain answers the three above-mentioned questions correctly. This proportion is lower among the young. Specifically, only one in eight of those aged 18-34 correctly answers the three questions.

This gap in knowledge between youths and the total population is somewhat wider in Spain than in other developed countries<sup>5</sup>, and is particularly significant in the case of their familiarity with the effects of inflation<sup>6</sup>. Regarding this latter question, a high percentage of youths do not know the effects of the change in the inflation rate on the real value of fixed-rate mortgage payments. Given that, at that age, mortgages are frequently taken out, doubts arise once more as to whether all the relevant financial factors are being taken into account when financing a house purchase.

The Survey information also lets us know that both the under-35s and those who live with their parents tend to delegate their financial decisions to others.<sup>7</sup> Specifically, in the total

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<sup>3</sup> See the results in “Own your worth”, UBS.

<sup>4</sup> The percentage of correct replies is 13-22 percentage points higher among interviewees with a university qualification than among those with a primary education.

<sup>5</sup> In Spain the percentage of the under-35s who answer the three questions correctly is 72% compared with the population as a whole. The figures for other countries are:

- In Canada: 28% of the population answer the three questions correctly. The percentage is 23% for youths aged 18-34. Gap 18-34/total: 82%

- In The Netherlands: 34% of the population answer the three questions correctly. The percentage is 26% for youths aged 18-34. Gap 18-34/total: 76%.

- In the United Kingdom: 14% of the population answer the three questions correctly. The percentage is 11% for youths aged 18-34. Gap 18-34/total: 78%.

<sup>6</sup> In terms of the specific questions, those showing the biggest differences are that on inflation (compared with 58% of correct answers in the total population, 49.5% of individuals aged 18-34 reply correctly) and that on risk diversification (compared with 49% of correct answers in the total population, 43% of individuals aged 18-34 reply correctly).

<sup>7</sup> Specifically, individuals are defined as delegating when, in the Survey, they have answered “No” to the following question: “We wish to know whether you are familiar with your household’s finances. We refer **not only** to whether you are familiar with the household’s properties, financial products and debts, **but also** the reasons for specific spending and investment decisions.”

population, 6% of individuals state they are not familiar with their household's finances, while this figure triples for youths aged 18-35.

These results might be influenced by the high percentage of Spanish youths that live with their parents compared with other developed countries. Indeed, among the under-35s who live with their parents, one in three is not familiar with the household's finances.

One novel characteristic of the Survey is that, in those cases in which an interviewee says he/she is not familiar with household finances, the financial competences of an informed member of the household have been measured along with the financial competences of the interviewee. It is seen that, although the percentage of those aged 18-34 who answer the three questions on inflation, interest rates and risk diversification correctly is scarcely 11% among the non-informed, the percentage of informed individuals to which the decisions have been delegated who respond correctly to these three questions is 22%.

These results point, firstly, to the importance of bearing in mind household structure and, specifically, the different patterns of communal living arrangements of youths in different countries when making international comparisons in financial literacy.

Secondly, they illustrate the importance of the moment in the life cycle as regards individuals acquiring financial knowledge.

Moreover, these results, along with those from other available studies, suggest that one of the main sources of financial literacy in the population is derived from their actual experience with financial and credit markets, and with economic phenomena. Evidently, the risk is that the acquiring of knowledge through practice also entails economic costs associated with inappropriate decisions, or a lack of decisions, derived from an insufficient understanding of the main financial elements at play. Hence the importance of the initiatives to raise the population's knowledge and financial education.

### **Initiatives to raise youth knowledge and financial education in Spain, and the evaluation thereof**

Since 2012, various international OECD and G-20 initiatives have given expression to the importance of implementing national financial education strategies.

Hence, since the end of the last decade, various initiatives have been launched in Spain in this area in the public and private sectors alike. Since 2008, the Banco de España and the CNMV have, in collaboration with other public and private agencies and institutions, committed themselves to contributing to improving citizens' financial literacy through the National Financial Education Plan. The Plan has three basic features: i) generality, so as not to exclude any segment of the population and to cover all financial products and services; ii) cooperation, within both the public and private spheres; and iii) continuity over time, given the very nature of the objectives.

As earlier stated, one of the population groups showing the lowest levels of financial literacy is that of young adults. A key element of the FEP is, then, the promotion of financial literacy in schools. In the case of schoolgoers, the notion of "financial education" refers to the teaching of knowledge, skills, behaviour, values and aptitudes that help students take

informed and sensible financial decisions in their everyday life, preparing them to better face the basic financial challenges they will encounter throughout their adult life.

Starting in the 2012-2013 academic year, and following the pertinent evaluation of a pilot scheme<sup>8</sup>, a programme aimed at secondary education students has been developed. It has been rolled out in educational centres that voluntarily decide to participate in this initiative and to impart financial education. Indeed, some 500 centres each year throughout Spain have taken part. The participant centres have educational material provided by the Plan itself, through the Gepeese portal, so they may be used by teachers according to their own criteria and programmes.

Complementing this is specific training for teachers, who are provided with supplementary educational resources (such as games and workshops). There is also an annual competition for participating pupils. In fact, on 1 October 2018 I had the opportunity to congratulate the winners of this competition from a school in Plasencia.

In order to gauge the impact of this school programme, inform society of it and seek to continually improve it, an exhaustive evaluation of the programme was conducted in the 2014-2015 academic year.<sup>9</sup>

The evaluation of the short-term impact of the programme showed that:

- Pupils following the financial education course obtained better results in financial literacy tests at the end of the year than pupils who did not.
- In terms of theme-based content, it was found that the financial education course especially increased pupils' knowledge in "bank relations" (e.g. opening and closing bank accounts, the consequences of an overdraft and knowledge of bank fees, along with the notion of interest rates and their calculation). The impact of the course was less evident on matters such as saving, means of payment and responsible consumption.
- The financial education course was not detected, however, to have any significant impact on pupils' decision to have a bank account or card, or on the amount of money they report they save weekly.
- The financial education course did significantly raise the proportion of pupils who talk to their parents about economic matters.
- After having followed the course, the percentage of pupils doing a job at home to obtain income also increased, which suggests that financial education may lead to greater pupil involvement in their household's financial matters.
- A change in pupils' attitudes was detected regarding their temporary consumption preferences six months after the financial education course, with their "patience" increasing when it came to hypothetical money choices. This observed result did not disappear in an exercise performed three months afterwards, in which it was

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<sup>8</sup> An initial pilot programme was carried out in 2010-2011.

<sup>9</sup> Bover, O., L. Hospido and E. Villanueva (2018): "The Impact of High School Financial Education on Financial Knowledge and Choices: Evidence from a Randomized Trial in Spain", Banco de España WP 1801.

proposed to students that they distribute their present and future consumption with real payments.<sup>10</sup>

These results point to the pertinence of monitoring over time the pupils evaluated, with the aim of analysing the effects of financial education in the long term. This is in light of the potential significance of consumer attitudes in financial decision-making throughout the life-cycle of individuals. Indeed, such monitoring has already been implemented and will result in the improved implementation of the programme at educational centres and the improvement, in turn, of the evaluation of the Survey as a whole.

## **Conclusion**

Allow me to draw some conclusions.

The results of the Survey of Financial Competences show that a very broad group of Spaniards are not familiar with basic financial concepts that are essential for informed decision-making in respect of investment and debt.

The lack of financial knowledge is particularly high among youths and the over-65s. These results justify financial education actions focusing particularly on these groups, as has been the case with the Financial Education Programme developed by the Banco de España and the CNMV in recent years.

In any event, it is crucial to systematically evaluate the measures adopted in order to identify and prioritise those which are most evidently effective. The regular and rigorous evaluation of public policies is vital for a better definition of their effectiveness, and access to reliable statistical sources is an essential step for performing these evaluations. All institutions should contribute, within the scope available to us, to making progress in this area.

In any event, I should clarify that the Financial Education Programme is only a part of the set of basic training actions in market conduct, reporting transparency, good practices, consumer information, financial education, conflict resolution and other similar areas that the Banco de España, the CNMV and other public and private institutions are developing. I would thus like to thank BBVA for all its contributions over the years towards achieving this objective which, as I have said, is so important for society and its future. The organisation of this conference testifies to this. It allows us to learn from the experiences of others and, in that way, to better pursue the joint effort of raising citizens' financial literacy.

Thank you.

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<sup>10</sup> Specifically, pupils were asked to assign €6 among various present and future consumption options, with three different interest rates (0%, 100% and 150%) and three different time horizons (today as opposed to a week's time, today as opposed to two weeks, and one week from now as opposed to two weeks from now). In recompense for the different options, USB memories with different capacities were used. In each class, a pupil was randomly selected to obtain, also randomly, one of the options chosen.