

Why Financial Literacy Matters

Financial literacy has become a tour de force for all ages in today's society. Visa and the Chicago Federal Reserve's recent summit brought together a host of trailblazers in their field to discuss the best way to achieve the growth of a financially literate community. By Robert Terpstra

Powell Photography, Inc.



Panelists at the Financial Literacy & Education Summit discussed the challenges financial literacy faces throughout the world and how to overcome them.

The underlying message of the Financial Literacy & Education Summit 2012, sponsored by both Visa and the Chicago Fed, was to educate and promote financial literacy — knowledge in all matters concerning personal finance. In short, the goal is helping consumers make informed decisions in regards to money and allowing financial literacy to evolve from the niche pursuit of a handful of individuals to a global agenda of many leading financial organizations.

“It took a lot of people to spearhead financial literacy from a germ of an idea [...] and have Money Smart Week turn into the world’s greatest idea, with the most willing participants and great leaders to really turn it into a force,” says Terry Savage, a syndicated financial columnist of the daily *Chicago Sun-Times*.

Officially opened by Oliver Jenkyn, Visa’s group executive for North America, the summit brought together a host of distinguished trailblazers in their respective fields—from North Ameri-

ca’s premiere online personal finance columnist for parents and Canada’s strongest proponent of financial literacy in Parliament, to the general manager of Colombia’s central bank presenting sound initiatives for the developing world as well as researchers exploring the correlation between credit card usage and knowledge within the financial literacy field.

The day-long summit kicked off the 10th anniversary of Money Smart Week from April 22–28 and bookended Financial Literacy Month in the US during April. The focus was primarily on adults already cognizant of lapses in their financial literacy, however the summit and subsequent events were also aimed at stressing the importance of introducing financial management at an earlier age.

One of the presentations included Visa’s Global Financial Literacy Barometer, conducted from February–March 2012 and measuring the strength of a country’s financial literacy in five key categories. Full results can be found at PracticalMoneySkills.com. ▶▶

bt 100

Don't miss Business Today's
10th anniversary of the
bt100

The top 100 companies listed on the
Egyptian Exchange

July 2012



sales@businesstodayegypt.com
(02) 2755-5000 / 70

com and for a focus on Egypt, the Gulf, North Africa and the BRICs, see pages 28–29 of this month’s *Business Today*. Overall, Egypt ranked 14th out of 28 countries (the UAE was 11th; Saudi Arabia, 18th; and Morocco, 24th). Egypt scored 10th when asked to gauge when children should be taught money management under the purview of the government in schools, only slightly better than Saudi Arabia and the UAE at 11th and 12th, while Morocco lagged behind at 22nd. At the same time, Egypt ranked sixth to last when determining how many months of emergency savings they keep in their financial institutions, which is an average of only five weeks. The UAE, Saudi Arabia and Morocco all scored significantly better.

Janet Bodnar, the editor of *Kiplinger’s Personal Finance* magazine who presented the literacy barometer results, said the fundamentals of financial literacy need to be taught at a young age, otherwise money management becomes a handicap for those teenagers and adults trying to save, balance a budget or start a business. “Give kids actual responsibility, actually have them make those decisions — to buy, or save. If they physically handle money, it would develop confidence,” she said.

Bodnar believes children in the second and third world can be even more financially literate than children in developed nations. “Their experience, and that of their parents, is often the best teacher,” she said in an e-mailed response.

Visa’s Financial Football (see page 52) is comparative with games featured on Tykoon.com and ThreeJars.com, which allow children to deposit virtual currency, containing a link to their parents’ credit cards. Children then watch savings accumulate interest and when wanting to spend money or donate to a charity, the parents have the final say on whether to grant or deny the request. However, the advantage that Visa’s platform of PracticalMoneySkills.com does offer is the potential in reaching an international audience, with nearly 50 country-specific sites, excluding Egypt. English and Arabic, among other languages are options however for the Saudi Arabia and the UAE sites where more than half a dozen games are available. Additionally, within the user-friendly sites headlined ‘My Money Skills’ is a travel calculator where you can nominate the price category of each meal you eat while traveling as well as the amount you’ll lose converting your bank notes. It

“Banks should be a trusted source. Online tools are valuable. What’s going to win out is the simplest education.”



Powell Photography, Inc. (2)

Canada’s Member of Parliament, James Rajotte has initiated Financial Literacy Month in his country.

gives the appearance that for money management, it’s simple dollars and sense.

Second chance, third world

José Uribe, general manager at the Central Bank of Colombia for the last seven years and a panelist at the summit provided some poignant insights on the development of financial literacy in emerging economies.

After 1997, “the goal of our program was to build a good representation of the

bank,” says Uribe. “[We] built policy and a reputation in order for people to make rational financial decisions.” With the central bank’s initiatives, high school and university students were required to learn the principles of sound money management. The growing tendency toward education was further supported by an essay contest geared specifically for children and the response was surprising — thousands of participants took part, grasping how their



Powell Photography, Inc. (4)



Clockwise, from top left, Douglas Tillett of the Federal Reserve, Caryn Kaiser of Chase Blueprint, Oliver Jenkyn of Visa and William B. Walstad of the University of Nebraska-Lincoln talked financial literacy.

“Individuals without [...] emergency savings lack a buffer against unexpected financial shocks, threatening their personal financial stability, as well as decreasing [the] stability of the economy as a whole.”

money, must begin with teenagers, because “older people have only understood the hard way and they have forgotten.”

Have to give them credit

Two researchers at the University of Nebraska-Lincoln in the US have likewise underscored that the importance of being sound credit-wise translates into being financially literate and able to make sound decisions with one’s money. In a pre-released copy that *Business Today* obtained, Sam Allgood and William B. Walstad stated in ‘The Effects of Financial Literacy on Credit Card Behaviors,’ that approximately 5% of people overestimated their degree of financial literacy — that is, the deviation between their perceived knowledge was greater than their actual knowledge. Although the study of 1,500 respondents was conducted in the US where the payment motif is often plastic to ‘charge it,’ rather than Egypt’s and the developing world’s modus operandi where ‘cash is king,’ the results may be relevant in Egypt’s spending habits in the future when credit cards become more widely used.

Those that scored high (answering three or more of five multiple choice questions correctly to properly gauge the degree of financial literacy) and perceived themselves to be highly financially literate had sound credit card behaviors in all the tested categories. The categories were a) the credit card balance was not paid in full; b) a balance was carried over to the

own decisions involving money could affect their families. Uribe says that the bank’s stance toward financial literacy was “overall effective because the same message was repeated over and over again.”

Uribe recounts the tale of two instances that proved pivotal for his countrymen — the financial crisis and increasing bubble in real estate prices of 1998–1999 and the DMG Ponzi scheme that was disbanded in late 2008 after only a few weeks, robbing thousands of families of billions of pesos. The latter could have been avoided had the lessons of the former been taught at the time. This, Uribe believes, is where financial literacy can play a crucial role. “We should have used this period of crisis to learn, teach and explain main concepts,” Uribe says. “We found that you can only change behavior if you alter this [mode of thought] at the earliest stages.”

Uribe frets over the situation in a devel-

oping country whose demographics are increasingly shifting toward an older society — almost seven out of 10 people are between the ages of 15–64. “In Colombia, we are getting to be an older society and we have to teach people to prepare for retirement, when people are between 65 and 75.” The problems in both Egypt and Colombia seem to exacerbate when dealing with a workforce where one out of every four laborers is out of work according to CAPMAS and the CIA World Factbook estimates. These numbers fail to include those who are unemployed and have stopped looking for work — the chronically unemployed. For Egypt, the figures are the fifth worst in MENA, behind Jordan, Saudi Arabia, Tunisia and the West Bank. Correspondingly, Colombia’s figures are the second worst in South America.

Still, Uribe emphasizes that for the future, to nip similar trends in the bud, financial literacy and being smart with

next statement; c) only the minimum payment was made; d) a late fee was charged; and e) the credit limit was exceeded.

The most telling conclusion was the difference between those who possessed both high actual and high perceived financial literacy knowledge compared to those who scored low and perceived themselves as having little knowledge. The separation was 10–19%, depending on the five categories, but illustrated that the former group

better managed the use of credit cards than the latter of low actual and low perceived financial literacy.

“It is the combination of these two dimensions of financial literacy that is most likely to contribute to careful management of personal finances and [lead] to better financial behaviors recommended by financial experts. We recognize that credit card behavior is only one area of a person’s financial decision-making,” All-

good and Walstad said in their paper. “We are currently exploring how actual and perceived financial literacy relate to investment behavior, mortgage decisions, retirement planning, and financial counseling. Our preliminary results indicate that the predictive value of perceived financial literacy is directly applicable to these other financial behaviors.”

Although specific to the US, the National Financial Capability Study (USfinancialca-

Financial Football Scores

An innovative game teaches financial literacy

A scissor kick to find the back of the net, an 80-yard kick return to set up good field position – not normal everyday phrases you associate with kids high-fiving one another when addressing personal finance. Visa, the National Football League (NFL) and the 2014 FIFA World Cup in Brazil hope to change this.

Financial Football, referring to American football, where each team has four chances (or downs) to advance the ball 10 yards (9.1 meters) by either carrying the ball and running forward or throwing the ball to another player is enormously popular in the US. Historically, five out of the top-10 rated television events of all-time in the US have been the year-ending Super Bowl pitting the NFL’s top two teams together in an all-day extravaganza, filled with \$3.5 million (LE 21.14 million) 30-second commercials, in-depth analyses and commentary, intricate half-time shows, millions of wagers and of course, football. The precursor to Visa’s Financial Football template is undoubtedly EA SPORTS’ Madden football video games, incredibly popular on a number of mediums for gaming enthusiasts since 1993. Experiencing Financial Football for the first time as part of Visa’s Financial Literacy & Education Summit in Chicago, US, brought back many memories of Saturday mornings (that extended to Saturday nights) with my younger brother, David.

Financial Football achieves its primary goal in sustaining a heightened level of interaction with kids for a game that, although cannot compete with the graphics and options of Madden (and as Visa’s senior director of corporate global communications, Jason Alderman, says, isn’t intending to), is slick, realistic and possesses impressive graphics. The game’s secondary goal is teaching financial literacy, that is, enabling kids to think before they spend and with it come the rewards of winning in this video game and the game of life. Its tertiary goal is the application of a game that turns the brain on, not off.

The intended age demographic (11-14) in the introductory level, (14-18) in the intermediate level and 18 and above in the advanced version of the game is an ideal time to reach out to kids. According

to Janet Bodnar, editor of *Kiplinger’s Personal Finance* magazine, in an email response, “Sound investing is definitely *not* [italics author’s] inculcated in kids in the US. [...] But I do believe there’s hope, because I’ve seen firsthand that they are fast learners when

they have a lesson that engages their interest.” Furthermore, lessons from Financial Football permeate outwards, in that correct answers to questions about the proper use of credit cards, investing and savings, advance their progress in the game, psychologically reinforcing their confidence and advance their progress in life.

The initial session that I sat in at the Federal Reserve Bank of Chicago, emceed by Visa’s Alderman, pitted two teams with a professional NFL player and US congressman as ‘coaches’ against one another. Surprisingly, teenagers were interacting vehemently, correctly answering multiple choice questions close to 90% of the time. A question deemed ‘hard’ asked about saving money, whether a good way to do this was to set aside savings, divert a portion of each paycheck to a savings account, find alternative means in getting to work or all of the above was quickly answered correctly (all of the answers are correct).

Robert Dold, one of the team’s coaches and a Republican congressman running for re-election in November’s US election is also the father of three children, aged 5, 8 and 10. The congressman stated that he has already been teaching his children sound fiscal policies and asking whether they really need material items. “Financial literacy is a means of living. It’s sound advice – that’s really the message.” It is a message that is resonating loud and clear, and because advancements in financial literacy are not limited by fear or investing in new mediums, the result is a win-win situation.

Robert Dold, one of the team’s coaches and a Republican congressman running for re-election in November’s US election is also the father of three children, aged 5, 8 and 10. The congressman stated that he has already been teaching his children sound fiscal policies and asking whether they really need material items. “Financial literacy is a means of living. It’s sound advice – that’s really the message.” It is a message that is resonating loud and clear, and because advancements in financial literacy are not limited by fear or investing in new mediums, the result is a win-win situation.

You can play Financial Football at practicalmoneyskills.com/games/trainingcamp at Visa’s Practical Money Skills website. Financial Soccer, which has a similar premise as its counterpart can also be played online, at practicalmoneyskills.com/games/worldcup. The site has several other interactive games, budget calculators and including, but not limited to, educational resources for educators, parents and students.



Mohsen Allam



pability.org) also uncovered some interesting findings in regards to financial literacy. "Individuals need at least a fundamental level of financial knowledge. This knowledge, paired with financial decision-making skills, can best ensure an individual's financial capability." Perhaps relevant to Egypt's current financial situation and alluded to in Visa's February–April 2012 Global Financial Barometer, the study went on to say, "Individuals without [...] emergency savings lack a buffer against unexpected financial shocks, threatening their personal financial stability, as well as decreasing [the] stability of the economy as a whole."

This summit reflected a change in embracing the importance of financial literacy in developed and developing economies. "There is much more of an open mind now than before," says Bodnar. "Banks should be a trusted source. Online tools are valuable. What's going to win out is the simplest education [and] in other countries, a lot more parents spend a lot more time talking to their kids [about money]." **bt**

Visa and the Financial Times will partner together in Mumbai, India, on June 5 for the Visa-FT Financial Literacy Forum Series aiming to promote financial literacy on the subcontinent with leaders in the financial services sector, academia and various levels of finance and commerce. Further events will take place in July in Kenya as well as the Middle East and St. Petersburg in September. More information can be found at FTconferences.com/visa2012 and PracticalMoneySkills.com.

