

# Why is Financial Education Needed in Asia?

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# Outline

1. Benefits and costs of investing in financial education in Asia
2. Current status of financial literacy in Asia
3. Current policies and gaps in financial education in Asia
4. Conclusions and recommendations

# 1. Benefits and costs of investing in financial education in Asia

- Benefits

- Make better use by households and SMEs (including potential entrepreneurs) of increased access to finance
- Financial development implies greater financial sophistication required
- Aging of populations increases need for lifetime financial planning

- Costs

- Effectiveness and reach of programs unclear
- Capacity of teachers and educational systems to deliver limited
- Large financial costs of wide-reaching programs

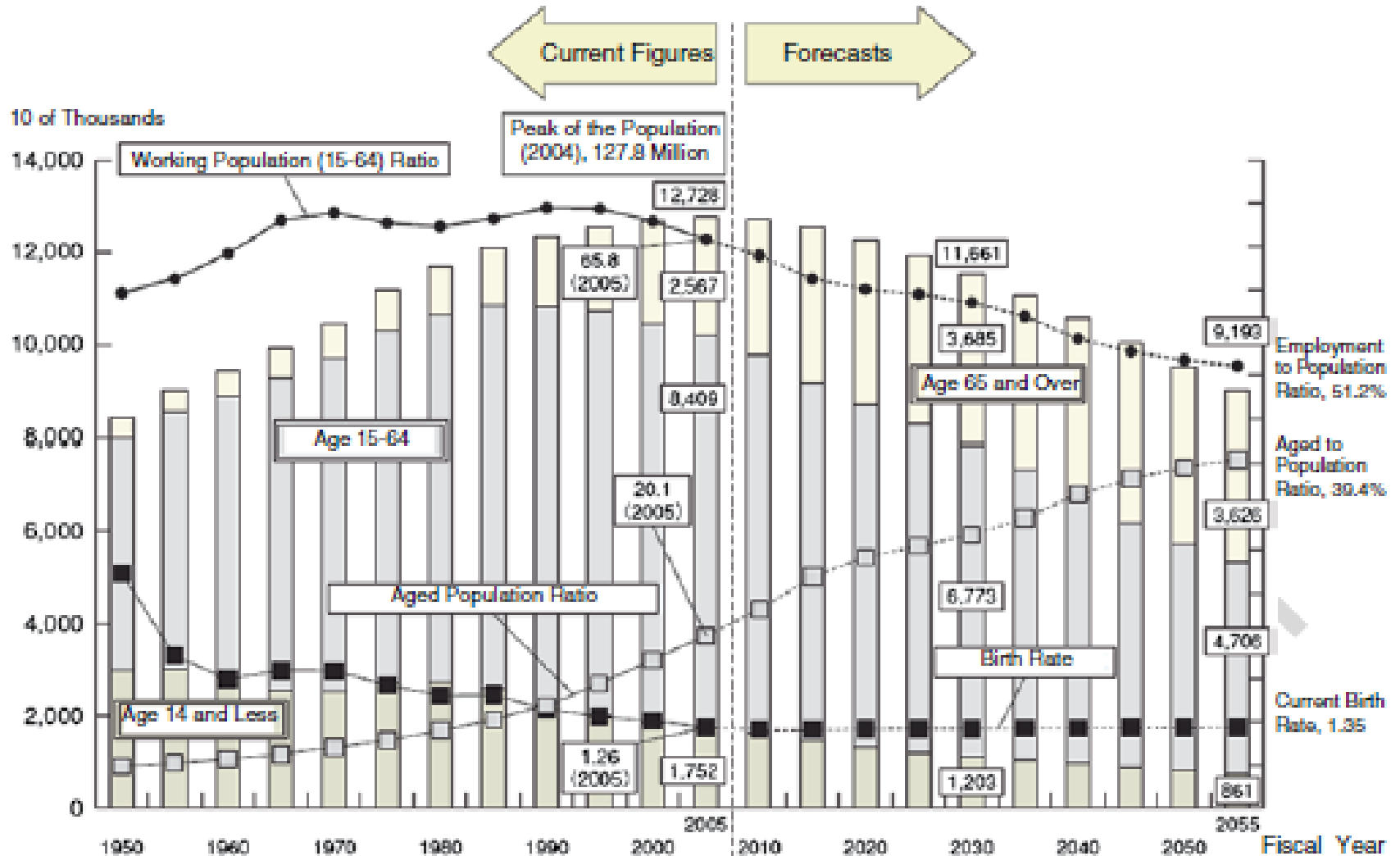
# **Transmission of Financial Education**

- 1, Efficient allocation of assets by households**
- 2, Long-term perspectives of households**
- 3, Enhance wellbeing of individuals**
- 4, Diversify corporate fund raising**
- 5, Efficient cash management of corporations**
- 6, Transparency of SMEs (small enterprises)**
- 7, Promotion of start-up businesses**
- 8, Enhance economic growth**
- 9, Efficient time allocation of financial institutions**

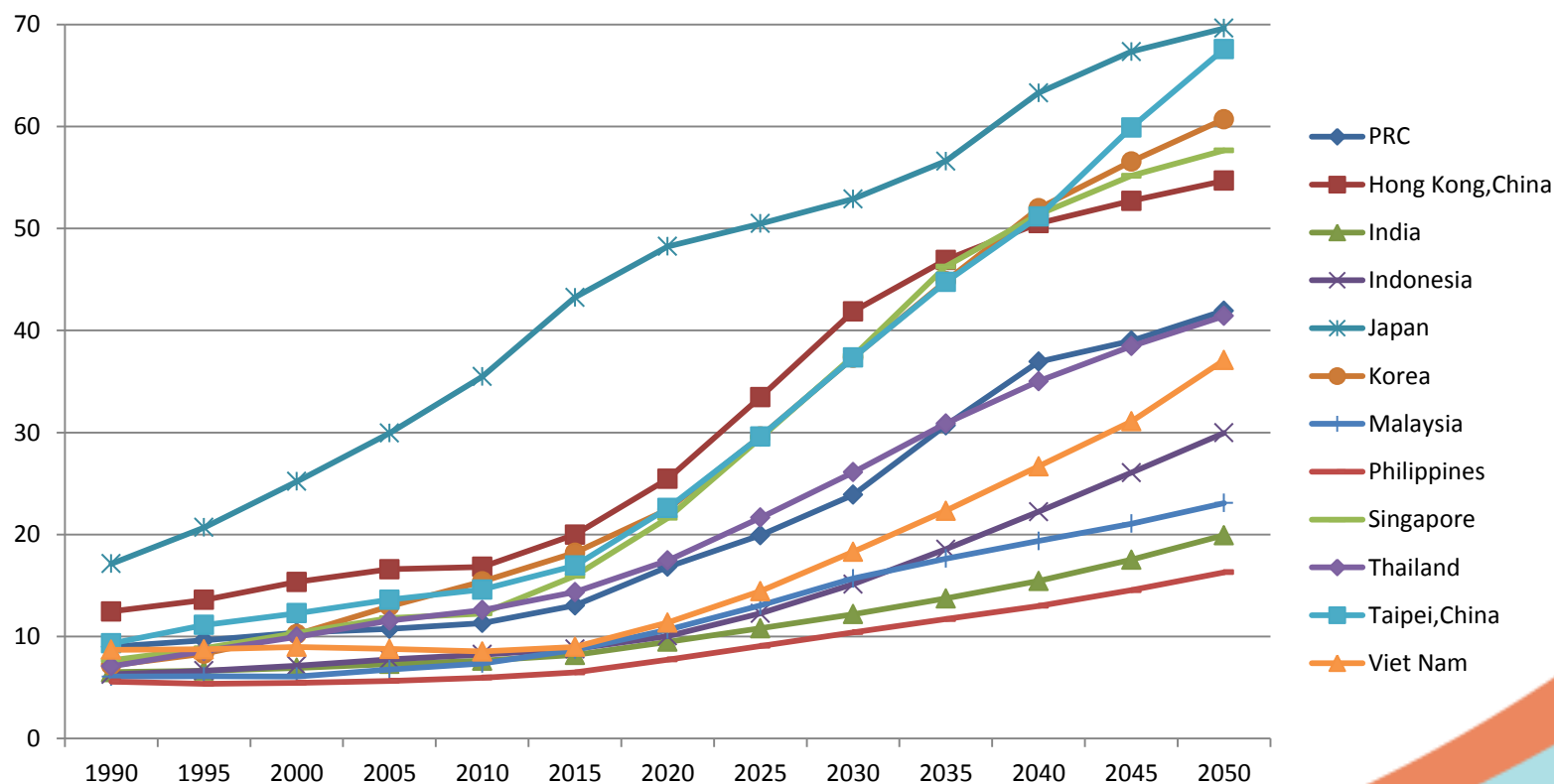
# **Financial Education to prepare for old age**

- 1, Government Support --- Pension System  
401K (Self protection for asset allocation)**
- 2, Life Insurance --- long term savings by  
individuals**
- 3, long term institutional investors  
infrastructure investment (long-term funding)**
- 4, Various financial products will be sold in Asia**
- 5, Risks and Returns, individual financial  
education**

# Population Ageing of Japan

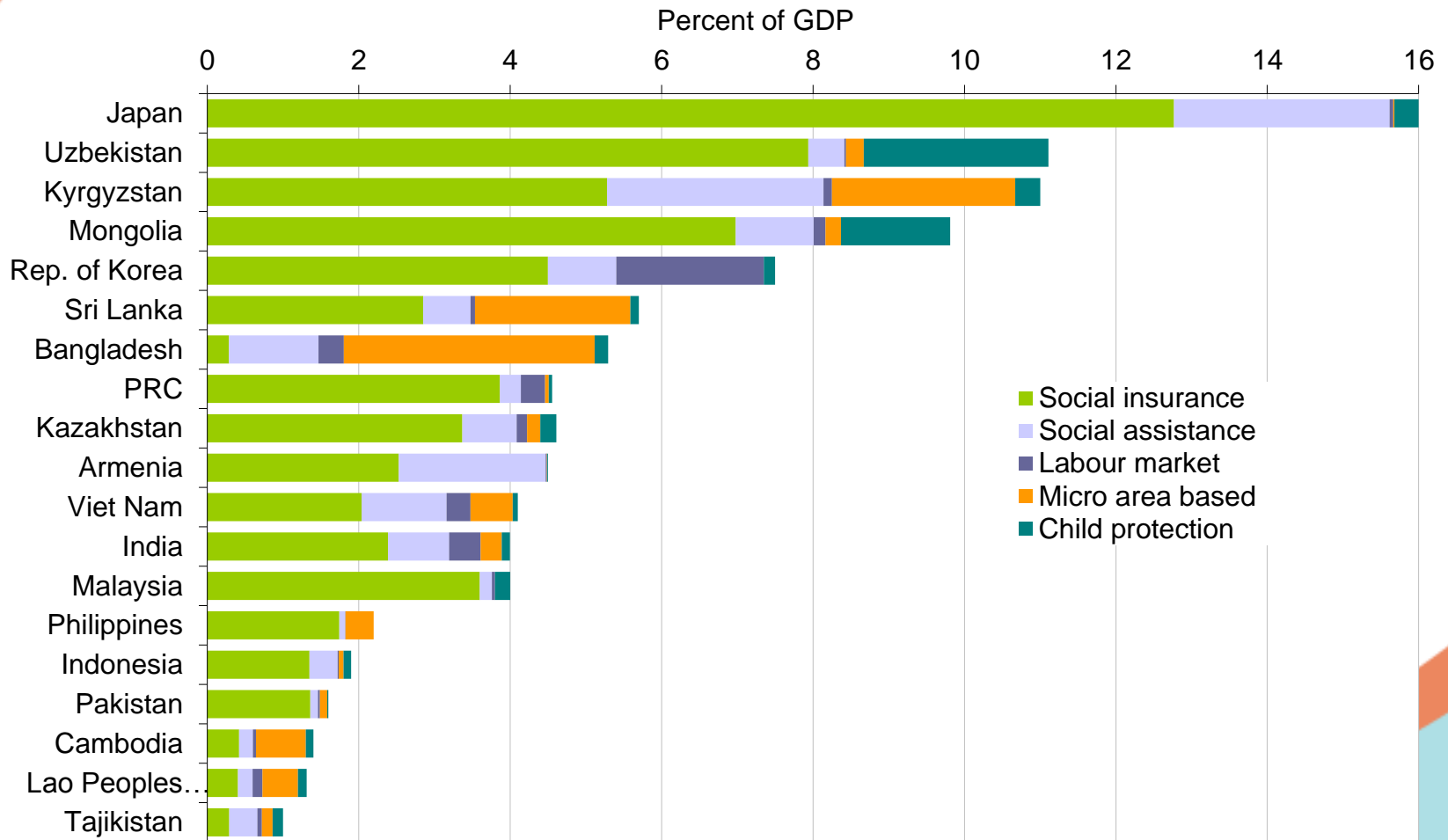


# History/projections of dependency ratio (age 65+/age 15-64)—highest in the Asian NIEs, followed by PRC and Thailand



Sources: World Population Prospects: The 2010 Revision of the United Nations Population Division, available at: <http://data.un.org/Data.aspx?q=dependency+ratio&d=PopDiv&f=variableID%3a44> and Council for economic planning and development (Taipei, China), available at: <http://www.cepd.gov.tw/encontent/m1.aspx?sNo=0001457>, accessed 28.12.2012

# Social insurance expenditures show a broad range in terms of GDP share



Source: ADB (2008)



# Financial Education for SMEs

- 1, Bookkeeping**
- 2, Daily revenue and expenses**
- 3, Long-term planning**
- 4, Accurate reporting of their business**
- 5, Reduce default loan losses**
- 6, Reduce information asymmetry**

# Macroeconomic Effects of Financial Education

**(1) Households' Asset Allocation (Diversification)**

$$Y-S = S + C = (D + B) + C \quad \dots\dots\dots(1)$$

**(2) Aggregate Supply Curve (SME and corporation)**

$$Y-Y_f = a_1 (P_e - P) + a_2 L + a_3 (B + v) \quad \dots\dots\dots(2)$$

**(3) Aggregate Demand Curve (Corporate fund raising)**

$$Y = b_1 + b_2 L + b_3 (B + u) + b_4 G \quad \dots\dots\dots(3)$$

**(4) Increase of Expected Outputs**

$$dE(Y) = -b_2 dE(S) + b_3 (dE(S) + du) \quad \dots\dots\dots(4)$$

**(5) Risks  $V(y) = b_3 V(S+u)$**

$$\dots\dots\dots(5)$$

## 2. Current status of financial literacy in Asia

- New area with limited data
- Survey coverage is relatively spotty, methodologies not consistent
  - Only limited number of countries surveyed so far
- Scores vary widely
  - Some relation with per capita income, but rankings differ significantly across different studies
  - Need more coverage of different target groups
    - Students
    - Seniors
    - SMEs and self-employed

# Selected financial literacy survey results from around the world

Country (Year of Survey)	Overall Ranking*	Q1: Compound Interest	Q2: Inflation	Q3: Risk Diversification	Survey Sample
<b>High Income</b>					
United States (2009)	60	65	64	52	1488
Italy (2006)	48	40	60	45	3992
Germany (2009)	74	82	78	62	1059
Sweden (2010)	64	35	60	68	1302
Japan (2010)	57	71	59	40	5268
New Zealand (2009)	65	86	81	27	850
Netherlands (2010)	71	85	77	52	1324
<b>Upper Middle Income</b>					
Russia (2009)	33	36	51	13	1366
Romania (2010)	34	24	43		2048
Azerbaijan (2009)	46	46	46		1207
Chile (2006)	25	2	26	46	13054
<b>Lower Middle Income</b>					
Indonesia (2007)	56	78	61	28	3360
India (2006)	38	59	25	31	1496
West Bank and Gaza (2011)	58	51	64		2022

Note: \* Calculated as average of questions 1, 2 and 3.

Source: Xu, L. and B. Zia, "Financial Literacy Around the World: An Overview of the Evidence with Practical Suggestions for the Way Forward," World Bank Policy Research Working Paper No. 6107, available at: <http://papers.ssrn.com/abstract=2094887>, 2012.

# MasterCard Index of Financial Literacy Report (2013)

- The index is based on a survey conducted between April 2013 and May 2013 with 7,756 respondents aged 18-64 years.
- The survey polled consumers on three aspects—basic money management (50% weight), financial planning (30% weight) and investment (20% weight)—to arrive at the overall financial literacy index.

## THE PECKING ORDER

Rank	Country	Overall financial literacy index
1	New Zealand	74
2	Singapore	72
3	Taiwan	71
4	Australia	71
5	Hong Kong	71
6	Malaysia	70
7	Thailand	68
8	Philippines	68
9	Myanmar	66
10	China	66
11	Bangladesh	63
12	Vietnam	63
13	Korea	62
14	Indonesia	60
15	India	59
16	Japan	57
Asia-Pacific		66

Source: Marstercard Index of Financial Literacy (2013)

# Other Surveys

- OECD – International Network on Financial Education (INFE)
  - Malaysia only Asian country included
- OECD – Program for International Student Assessment (PISA)
  - Shanghai had top rank
- Bank of Thailand Survey on Financial Literacy Survey
  - Patterned on OECD INFE study
- Japan survey of high school teachers
  - Focus on teaching conditions

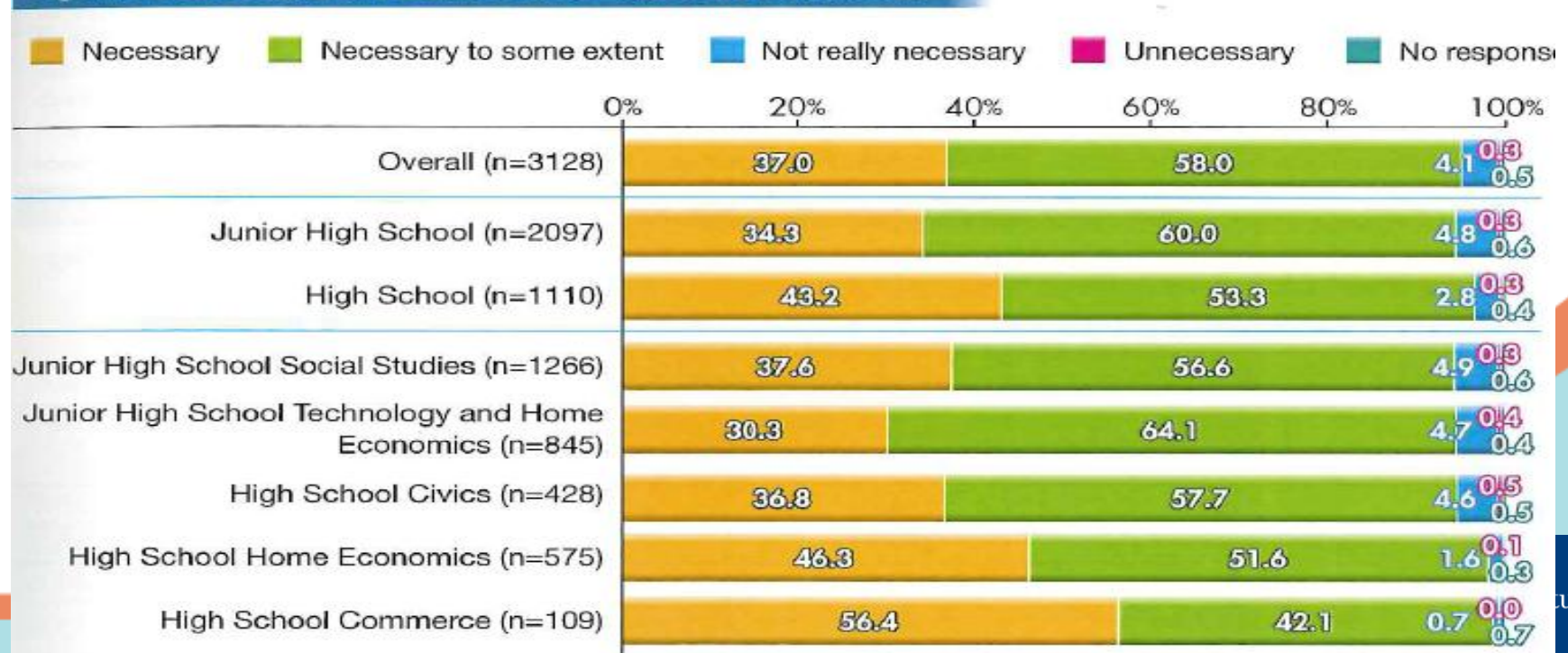
# Financial Education in Schools (Japan)

- 1, Secondary School and High School**  
taught in the courses of “Civics, Home economics”  
- Many teachers are not well trained.
- 2, Financial education in primary schools**  
is taught in “Homemaking courses”.
- 3, Very few hours are allocated to financial education**
- 4, It is regarded as a shame to make money**  
by financial investments
- 5, Retirees from financial institutions could teach**  
financial economics to students (Video lectures)

# Comprehensive Survey of Financial and Economic Education in Japan's Junior High and High Schools

During the period from December 2013 to January 2014, a survey was conducted by sending out postal mails to the teachers of social studies, civics, and other subjects in junior high and high schools throughout Japan. A total of 4,462 responses were received. The purpose of the survey was to grasp the status quo of financial and economic education in schools, the awareness of financial and economic education among teachers, and development of the teaching conditions. The results were to provide the basic materials for deliberations by the "Study Group on the Promotion of Financial and Economic Education".

Figure 24. Necessity of Financial and Economic Education





**Figure 8. Actual Lesson Time/High School**

**High School Grade 10**



**High School Grade 11**



**High School Grade 12**



# Why is it difficult to teach?

Difficult for students to understand	Lack of expertise among teachers	Not enough lesson time	Changes in the actual economy are too complex	No appropriate teaching material	Low level of interest among students	Little opportunity for teachers to obtain training	School unused to teaching the subject	Difficult to obtain understanding of parents or guardians
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Figure 29. Difficulties Encountered When Giving Lessons

		Number of questionnaires	Difficult for students to understand	Lack of expertise among teachers	Not enough lesson time	Changes in the actual economy are too complex	No appropriate teaching material	Low level of interest among students	Little opportunity for teachers to obtain training	School unused to teaching the subject	Difficult to obtain understanding of parents or guardians	Others	No response
Overall		4462	48.9	48.4	44.9	37.8	26.6	25.7	14.0	5.2	0.2	1.0	1.6
By school type	Junior high school	3085	49.9	49.4	44.4	38.9	28.3	22.4	13.6	5.4	0.3	0.9	1.6
	High school	1487	46.3	45.9	46.2	35.0	23.2	33.0	14.9	4.5	0.1	1.1	1.8
By subject responsibility	Junior high school social studies	1732	56.2	42.1	45.2	48.0	23.0	19.1	10.7	5.1	0.3	0.9	1.5
	Junior high school technology and home economics	1371	41.8	58.4	43.5	27.5	35.0	26.6	17.2	6.0	0.3	0.9	1.6
	High school civics	612	52.9	36.3	47.9	40.4	22.1	33.0	11.8	5.6	0.3	0.7	2.0
	High school home economics	738	40.1	54.7	48.5	30.4	24.3	31.8	16.4	3.3	-	1.2	1.6
	High school commerce	140	50.0	40.7	27.1	36.4	22.1	38.6	20.7	6.4	-	2.9	2.1

### 3. Current policies and gaps in financial education in Asia

- A wide range in terms of policy coverage
  - Indonesia and Philippines programs relatively strong, others less so
- Key gaps
  - National strategies
  - School curricula
  - Programs for seniors
  - Financial education for SMEs (including potential entrepreneurs)

# Policies and programs for financial education in Asia

	National strategy	Central bank programs/strategies	Other regulators' programs/strategies	Private bank, MFI, NGO programs	Coverage	Channels	Consumer protection	Curriculum
<b>Bangladesh</b>	None	None	None	None	None	None	BB: Guidelines on Mobile Financial Services	None
<b>PRC</b>	None	None	CBRC programs: - Website for public financial education - requested financial institutions to provide clients and public with basic financial knowledge	None	None	None	Only general consumer protection rules	None
<b>India</b>	Financial Stability and Development Council (FSDC) launched National Strategy on Financial Education in 2012	RBI programs: - Financial literacy project to enhance financial literacy among target groups - Standardized literacy material (2013)	None	Bank literacy centers that work with MFIs	School children, senior citizens and military personnel	Schools	RBI: - Various circulars - Grievance Redressal Mechanism in Banks - Banking ombudsman system	None
<b>Indonesia</b>	Financial education one pillar of Indonesia National Strategy for Financial Inclusion organized by BI and MoF - "My Saving" program (2010)	BI programs: - Financial education - "Let's go to the bank" (2008)	OJK program: - National Financial Literacy Strategy	None	Students, children and youth, migrant works, fishermen, communities in remote areas, factory workers	Schools, media	- National Consumer Protection Agency - Consumer Dispute Settlement Board - Credit Information Bureau	None
<b>Philippines</b>	None	BSP program: - Economic and Financial Learning Program to promote public awareness of economic and financial issues	None	None	N/A	None	- BSP: Consumer Affairs Group - SEC - NCC and NAPC Microfinance Consumer Protection Guidebook	None
<b>Sri Lanka</b>	None	Some activities	Some activities	Some activities	None	None	- Consumer Affairs Authority - Voluntary Financial Ombudsman system - Consumer Affairs Council - Credit Information Bureau of Sri Lanka	None
<b>Thailand</b>	None	BoT programs: - Financial education	Government "Debt Doctor" program	- Civil society groups and non-profit organizations financial education programs for low-income groups - BAAC teaches budgeting to rural clients	Private programs generally small-scale	None	BoT: Financial Consumer Protection Center	None

Note: BAAC = Bank of Agriculture and Agricultural Cooperatives, BB = Bangladesh Bank, BI = Bank Indonesia, BoT = Bank of Thailand, BSP = Bangko Sentral ng Pilipinas, CBRC = China Banking and Regulatory Commission, NAPC = National Anti-Poverty Council, NCC = National Credit Council, OJK = Financial Supervisory Agency, PBoC = Peoples' Bank of China, RBI = Reserve Bank of India, SEC = Securities and Exchange Commission.

Sources: ADBI (2014); BUCFLP (2014), Kathuria (forthcoming), Kelegama and Tilakaratna (2014), Khaliy (forthcoming); Llanto (forthcoming), Tambunan (2014), and Tambunlertchai (2014).

# Japan: New Law on Microcredit Regulation and Consumer Education

- 1, Total Amount of Borrowing < 1/3 of Income
- 2, Ceiling Interest Rate = 20%;  
more than 96% → 29% → 20%
- 3, Borrower information  
Aggregated total individual borrowings
- 4, Written examination to be a lender
- 5, Minimum capital requirements
- 6, Consumer complaints and advice

# 4. Conclusions and recommendations

- Financial education and programs lagging in Asia
  - FL scores generally low
  - Increasing need for FL due to increasing financial sophistication, aging of society
  - More surveys required
- Recommendations
  - Financial literacy measurement
    - Need more country studies with consistent and comparable methodology
  - Financial education—need to promote:
    - National strategies
    - Inclusion of financial education in school curricula
    - Programs for various age groups, including seniors
    - Programs for financial education for SMEs

# Thank you

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