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Analysis of Some Theoretical Aspects that Define Inclusion and Financial Education

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In this essay, a reflection is made regarding the subject of financial education nowadays seen from a global to local perspective. Also, it identifies the variables that have been studied and that measure the level of financial education in different populations such as: teachers, students, administrative personnel and homes, among others, in different world contexts. Additionally, the financial knowledge that people must have for better and reasoned decision-making in daily life is debated. In the end, the route for a conceptual model is proposed in order to develop the study, set the hypothesis and derives the corresponding operationalization of the variables so as to obtain indicators and instruments that will be used in the development of the respective field work.

Keywords: *Financial education, Financial Inclusion, Financial knowledge.*

Introduction

Nowadays, the subject of financial education has brought the interest of different actors in many forums and scopes, both in a worldwide scale as well as in a regional one. An example of this is how the interest from the OCDE regarding financial education has caused them to create strategies to improve it, since it is an essential daily-life competence and must be prioritized in the global public politics agenda from all countries. Because of the former, in their report, PISA 2012 Results: Students and Money Financial Literacy Skills For The 21st Century, the OCDE released the results of the PISA first international evaluation of financial competencies and knowledge applied to 15 year-old students in the 13 countries (Australia, the Kingdom of Belgium, Slovenia, Spain, France, Israel, Italy, New Zeland, Poland, Czech Republic and Slovak Republic) and five countries and associated economies (Colombia, Croatia, the Russian Federation, the Republic of Latvia and Shanghai-China).

Said report shows that in the 18 countries and economies from the OCDE which participated in the PISA first international evaluation about financial education, one in seven students are incapable of taking -even-simple decisions about everyday expenditure and only one in ten can solve complex financial tasks even though financial issues are part of the daily-life of many 15 year-old, who are already consumers of financial services such as bank accounts with access to on-line payment services.

In a recent poll made by the Jump $tart Coalition, 68.5% of secondary students report having a savings account (Mandell, 2005). The American Hispanic and African natives scored significantly lower (45%, 47% y 44% respectively) than white students (55%) in a financial knowledge test, and low-income family students scored significantly lower than those from higher incomes (Mandell, 2008).

The American Savings Education Council (ASEC, 1999) found that 15% of students said they understood very well financial issues, 67% stated fairly well and 18% did not understand financial issues at all. Similarly, 18% thought they did a very good job of money management, 38% that they did a good job, 37% considered they did an average job and 7% alleged they did a bad job.

Meanwhile, on its most recent study (December 2011), the National Bank and Values Commission shows the results that were published in the fourth report of financial inclusion 2012, where it is established that only 35% of the 2,456 municipalities of the country has commercial bank coverage, while the banking correspondents reach 55%. Despite the country´s heterogeneity, the fourth trimester of 2011 only 5% of adults did not have access to a bank office or a banking correspondent, and only 3% (29% of the country´s municipalities) was without any sort of access.

It is clear that the subject of Financial Inclusion and Education is of worldwide interest, therefore it has been brought to the agenda of all the involved actors because it is a fundamental element for the social development of the countries, helping to form financially competent people and thus, this people would be in better position to take the best decisions for their economy (De Vaney, Gorham, Bechman & Hadelman (1996), Garman, Kim, Kratzer, Brunson & Joo (1999), Ruiz, 2011). Following this idea, according to Hannig & Jansen (2010) financial inclusion aims to summon the "non-banking" population to enter the formal financial system in order for them to have the opportunity of access to financial services that go from savings, payments and transferences to credits and insurances.

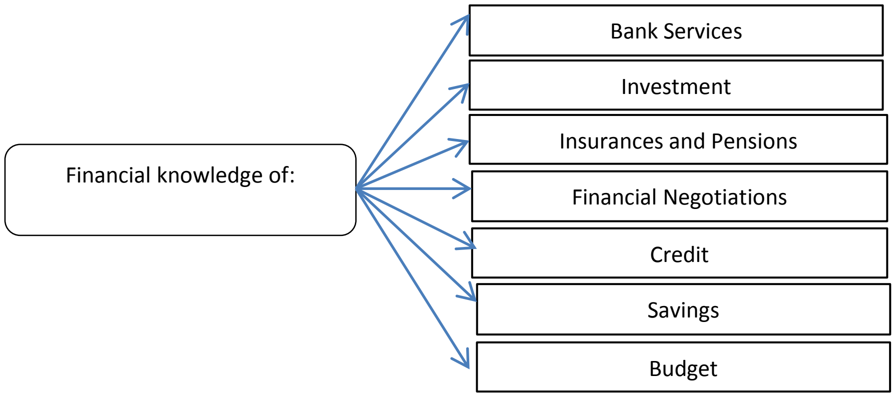
Also, the regulation framework presented by the Group of Twenty defines financial inclusion as the access to formal financial services, thereby education is needed because it is vital to the acquisition of assets, since it provides stability and progress to the families (G-20, 2012).

Financial education has an special importance for developing (merging) economies because they are the ones that nowadays have very low scores (and even null in some cases) of financial inclusion (CNBV, 2010). Additionally, CONDUSEF defines financial education as the process by which the needed knowledge is acquired and abilities are developed in order to make better financial decisions and with that, increase the level of personal and family wellbeing.

To Gomez (2009), financial education allows for the needed knowledge, abilities and attitudes so that the people can attain good money management practices for the generation of income, expense, saving, indebtedness and investment.

Beyond the theoretic definitions that have been presented surrounding financial education, we could think that besides the knowledge in this matter, it would allow people to have abilities about the functioning of financial systems and from there, we should question ourselves: why doesn´t people access the financial systems?

Which are the variables that have been in the subject of academic discussion? Which are the aspects or characteristics that have been considered in different empiric studies? Next a preliminary study model is shown that collects these variables.



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Literature Review

Several studies have been made in order to get information about consumer financial education, most of them focus on financial education for young people, adults and low-income homes, an example of this is the study made by Johnson & Sherraden (2006), who sustain that youth in the United States faces an increasingly complex financial world. With the acquisition power of $172 thousand millions a year, young people attract the interest of retailers and credit card companies, but they have little knowledge about how to make wise acquisition decisions.

In addition to this, there is evidence of a great quantity of studies regarding financial education, which have been approached from a political view (Bayer, Bernheim y Scholz, 1996; Bernheim, 1998; Braunstein y Welch, 2002; Caskey, 2001; Fox, Bartholomae & Lee, 2005), while other works have been approached from a pragmatic perspective (Bowen, 1996; Garman, 1998; Hogarth y Swanson, 1993; Montalto, 2000; Perry & Ards, 2001; Rand, 2004; Toussaint-Comeau y Rhine, 2000).

Unfortunately, the results of some studies provide evidence of the low financial education among young people and adults in the United States (Bernheim, 1998; Hilgert et al, 2003; Lusardi, 2009; OCDE, 2005). However there is evidence that the experience regarding money administration and exposition to the economical world are two of the factors for conduct development in kids (Sonuga-Barke & Webley, 1993 y Furnham, 1999).

Another subject approached by literature about financial education for youth is the importance of the family context and the participation of parents in financial education. According to a study, young people are prone to identify their parents and family members as the main source of their financial learning (Lucey & Giannangelo, 2006), and many teenagers prefer to learn about money from their parents (Capital One, 2007). Furthermore, Charles & Hurst (2003) find that the behavior of the investment transmitted from parents to children explains a fraction of the correlation of wealth through generations.

The OCDE defines financial education as the process by which the individuals improve their comprehension of the financial products and concepts. It is referred that by means of objective information, instruction and counseling, people develop the competences and the confidence to be more aware of the financial risks and opportunities. This leads the subject to make informed decisions, know where to go for help and take another effective measure to improve their financial well-being and protection.

According to Gnan et al. (2007) financial and economic education softens the performance of the financial markets and becomes a favorable extension in the decisions of all the citizens, which translates to an element that favors the reduction of the economic crisis and promotes stability in the financial system.

Growing evidence shows that those who have least financial knowledge are more likely to have a problem with debt, less prone to save and more likely to have high cost credits and less prone to plan for the future (BIRF/BV, 2009).

Some studies shown that financial education have positive effects on the saving behavior of adults (Fry et al., 2008; Meier & Sprenger, 2008, 2009; Schreiner & Sherraden, 2007). Other studies show that financial education is beneficial for young people (Sherraden et al., 2009). There is a growing amount of investigation about savings since it is a factor that contributes to the national economic growth, with regards to that matter, Karlan & Morduch (2009) study the difference between rich and poor in terms of saving. They find that the inferiority of access to financial products (savings account, automatic transference, saving bonds and deposit certificates) and the small and unequal income flows from poor homes are two main factors for their lower savings. Saving is important and a growing amount of evidence that has been obtained shows that saving is beneficial for the individual and homes, including those with low income (Sherraden, 1991; Schreiner & Sherraden, 2007;. Shanks et al, 2010; Chowa et al,. 2009, 2010).

In the last years there has been an effort to improve financial education, an example of it: in the private sector the Center for Retirement Research (2010) informs of the existence of over 4,000 personal finances web sites and divides web financial education in three categories: decision tools (adders of financial data), tools for financial decision making and online communities of personal finances.

In other efforts, from legislative and public politic initiatives there has also been an impulse and development in favor of financial education. Financial education is an important part, according to the stated in the document of "Individual Development Accounts (IDA)", a politic initiative launched at the late 1990s in the USA to help low-income families to build assets. The USA Department of Labor launches the Retire Savings Education, which has information for employees, small companies and employers about savings for retirement and the tools to begin with such saving[1].

Se suman nuevas actividades en el frente de la educación financiera, algunos investigadores (Vitt et al, 2000, 2005; Jacob et al, 2000) han estudiado una variedad de organizaciones de la comunidad educativa para determinar la disponibilidad y el alcance de las iniciativas realizadas en favor de la educación financiera. Vitt et al (2000) identifican 91 programas ofrecidos por: las escuelas, los programas de Extensión Cooperativa, colegios (incluyendo colegios comunitarios), los militares, organizaciones religiosas, grupos comunitarios, empresarios y otros.

Jump$tart Coalition has more than 560 resources in their data base regarding subjects about financial education. The National Foundation for Financial Education enlists more than 150 educational assets and study plans from a wide range of agencies and organizations, many of these materials are available in several languages (NEFE, 2001). The San Francisco Federal Reserve Bank includes 56 programs and resources in its Financial Education Resources Guide (Robinson, 2002).

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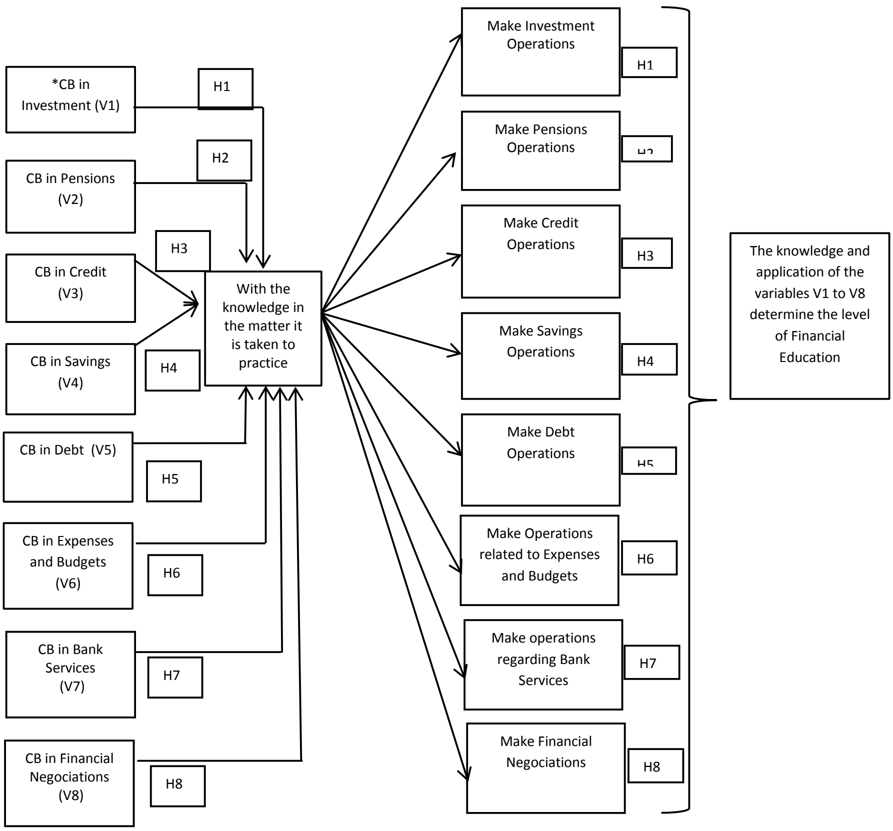
[1] For further information, the USA Department of Labor, website can be consulted: https://blog.dol.gov/tag/saving-matters/)

With all the elements explained before, there is a Study Model described next that is derived from this theoretic review, through which it is suggested how financial knowledge can be analyzed, from the variables involved in the debated financial education phenomenon.



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Conclusions

With the referred approach to the study model, it is pretended to empirically show that there is set of latent variables that allow the understanding of the financial education level, from the financial knowledge perspective.

By means of this study, the experience of individually developing, step by step, the construction of the main variables of the study object was shared, as well as the possible relation between them and that at the end, it is possible to integrate the model elements in order to know the level of financial knowledge that prevails in the study population.

With the identification of the theories and the empirical evidence to develop the study, now it is fully feasible to propose the hypothesis and derive from them the operationalization of variables to obtain the indicators and instruments of data gathering that will be used for the respective field work.

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