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No time left to learn

In the COVID-19 crisis, individuals urgently need the skills to make good use of financial products

A year of deep crises and heightened uncertainty has pushed forward the need to improve individual financial literacy, broaden financial inclusion, and prioritise financial well-being. The global economy is currently facing unprecedented uncertainty as the evolution of the COVID-19 pandemic weighs heavily on the economic outlook. What is known is that the world will be much poorer than it would have been without the pandemic. In the wake of national lockdowns, the global economy plunged almost 8% in the second quarter of 2020, an unprecedented drop in peace time¹.

It is a time when individuals are having to use up their savings, fall back on any insurance they may have (be it unemployment cover, medical cover or others), and be extra careful managing their finances. Yet the OECD/INFE 2020 International Survey of Adult Financial Literacy², using data gathered just before the unfolding of the pandemic, reveals low financial literacy among individuals globally, low uptake of financial products and especially insurance products, as well as limited financial resilience and high financial stress.

The time for policy action is now. The pandemic has fittingly brought financial well-being to the policy fore and the multitude of support programmes already enacted must be flanked by actions to improve financial literacy, broaden financial inclusion and enhance financial resilience and well-being.

Gaps in financial inclusion ...

Widespread job losses, higher medical bills and failing businesses resulting from the COVID-19 pandemic all necessitate greater reliance on accumulated savings and available insurance policies, as well as an individual mindset prepared for financial resilience. The OECD/INFE survey

reveals that all are lacking. Some 26 countries and economies (of them 12 OECD members), drawn from Asia, Europe and Latin America, participated in this international survey of financial literacy competencies, elements of financial inclusion, and financial resilience and well-being.

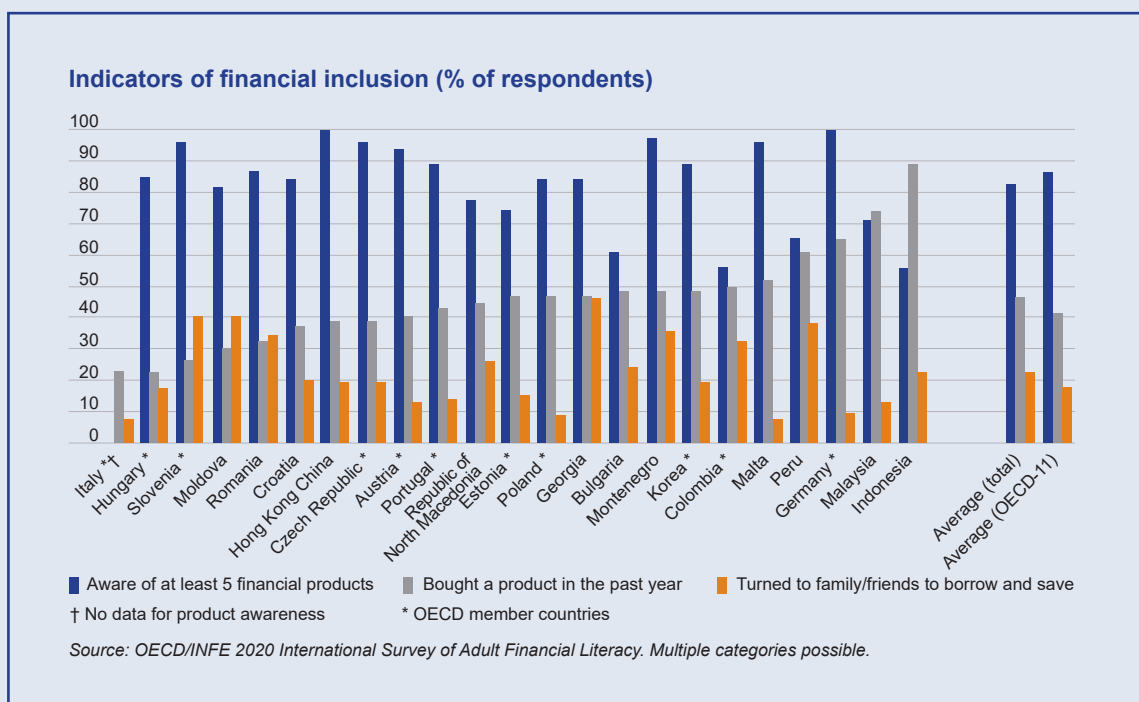
Globally, product awareness was relatively high with 83% of individuals aware of at least five financial products; however, product uptake and use were low. Less than half of the respondents (46%), for example, purchased a financial product or service in the past year. The global averages hide significant differences between countries (see figure).

Payment products are the most widely used, with about 70% of respondents suggesting they used a payment card, account or a mobile payment service (see OECD/INFE survey, Figure 11, p30). Least used were insurance products, with only 37% of adults saying they had purchased one in the past year. Around half of adults (51.3% globally) used a savings, investment or retirement product that was not mandatory in their jurisdiction. Less than half of the respondents (44% globally) purchased a credit product.

Whatever the reasons — underdeveloped product markets, low purchasing capacity or indeed low financial literacy and understanding of products — prior to the pandemic (and the resulting economic crisis) products designed to provide support in times of adversity (insurance) or a financial cushion (savings or retirement) were underutilised. In fact, the formal financial system was underused by individuals who were either financially excluded or opted to operate informally. About one fifth (23% globally) turned to close family, friends or their network of relatives to borrow or save money.

¹ "Coronavirus: Living with Uncertainty", OECD Ecoscope, September 2020 ([link](#))

² OECD/INFE 2020 International Survey of Adult Financial Literacy, OECD, June 2020 ([link](#))



... and financial literacy

The relatively low product uptake is accompanied with low financial literacy scores, as defined and calculated following the OECD/INFE methodology³. Individuals globally on average scored about 60% of the maximum financial literacy score, which represents a basic set of knowledge concepts and financially prudent behaviours and attitudes. Individuals exhibited low financial knowledge, one of the components of financial literacy according to the OECD, matched by low confidence in their own financial abilities. A mere 26% of all adults responded correctly to questions on simple and compound interest together; crucial concepts that affect basic money management and the accumulation of savings, Only about 17% of adults self-assessed their knowledge as high, 53% suggested it is average and 26% estimated it as low.

The OECD/INFE survey also suggests that financial knowledge and inclusion are connected. Individuals who held one product obtained higher financial knowledge scores than individuals who did not hold any products, and those who held more than one product scored higher than both these groups.

Pandemic undermines financial resilience and well-being ...

Low literacy and low inclusion levels appear connected to low financial resilience and well-being. Those who lack knowledge and/or are excluded from the formal financial system will also face a more precarious financial situation related to savings and feel under more severe financial stress.

According to the OECD survey, large groups within many economies have limited financial resilience, measured by the

availability of a financial cushion. Nearly a third (28%) report only having savings that can last about a week if they lose their main income. This is a pertinent finding to spur policymakers into action at a time of widespread job losses because of the pandemic.

Financial stress is also common and financial well-being below average. Across the sample, 42% of individuals noted that they worry about meeting their everyday living expenses. Furthermore, the average financial well-being score of all participants is below 50%. This is measured by the OECD from a set of self-assessed statements. A score below the average means that respondents are more insecure over control of their finances, feel less confident about their ability to absorb financial shocks, are more inclined to agree that their finances restrict their life choices and are ultimately lagging behind their long-term financial plans.

... and has pushed financial well-being to the policy fore

If there is a silver lining to the COVID-19 pandemic and the resulting crisis, it is the fact that policymakers are now prioritising the financial well-being of citizens, as income-support policies are being pursued. A stigma appears to have been removed from talking about money and how it (or the lack of it) affects our everyday lives. The OECD/INFE survey suggests that a policy approach to improving financial well-being needs to be comprehensive. It urgently needs to support structured and effective financial education initiatives, while also promoting broader financial inclusion with a view to boosting individual financial resilience through promoting savings, insurance and appropriate credit products. ➤

3 See the OECD/INFE 2018 Toolkit for Measuring Financial Literacy and Inclusion ([link](#))