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Financial Education in Chile: Evidence and Proposals for Implementing the National Strategy for Financial Education*

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Executive Summary

In the last decade, Chile, as most of Latin American economies has shown a sustained growth, which has in turn led to the growth of the middle class. However, there are still stumbling blocks to this economic growth, which mainly reflect in financial inequality and financial exclusion, especially in rural areas.

It is not surprising that once immersed in a climate of economic growth, the population demands more services and knowledge about how to manage their personal finances and, in turn, benefit from more developed financial markets. Through this lens, financial education becomes relevant as it delivers knowledge and promotes the development of responsible behavior and attitudes for improving the management of personal finances. Without a doubt, a national financial strategy is vital in order to deliver to the entire population a basic standard for a good financial performance.

So far, different governmental and non-governmental agencies have developed financial orientation programs. Some programs seek to improve financial knowledge; others, to promote financial inclusion and/or deliver costumer protection tools. While it is true that most of the institutions claim to carry out activities that aim at providing financial education or at promoting a financial culture, only some of them carry out activities that the Organization for Economic Co-operation and Development (OECD) categorizes as financial education. Therefore, it is necessary

* The complete document is available at the Capital Project: <www.proyectocapital.org>.

to reach a common definition of what is understood by financial education as well as to establish what to educate financially consists of, in order to be able to create a strategy for promoting financial education.

It is equally important to consider that up to now there is no instrument that allows to measure the level of financial education and financial culture in the country. Given the myriad of different initiatives it is quite difficult to reconcile the already existing instruments in order to reach a common or a baseline indicator so to be able to move forward in public policy related matters. It is recommended therefore to promote the development of a measuring methodology of national scope, that will allow to standardize the indicators validated by OECD for measuring financial culture levels, and in turn carry out a country-wide analysis comparable to other developing countries.

Introduction

According to the OECD, financial education is the "process through which financial consumers (or investors) improve their understanding of financial products, concepts, and risks; and through which by means of information, instruction, and/or objective recommendations develop skills and confidence to become more aware of financial risks and opportunities in order to make informed decisions, to know where to look for help, and to take other effective actions that will improve their financial well-being" (Atkinson and Messy, 2012). At the light of this definition, it can be stated that if people acquire better knowledge in terms of financial education, they will make better decisions, which will result in positive effects for the financial markets and the overall economy (Grifoni and Messy, 2012).

In this context, in 2012, the *Mesa de Educación Financiera*-MEF (Board for Financial Education) was created thanks to the coalition of twelve institutions that look to promote the debate on financial inclusion in Chile. The objective of the board is to "contribute to people acquiring a better understanding of financial concepts and products so that they can make informed decisions, evaluating risks and opportunities".[1] Also, the MEF sought to promote a National Financial Education Strategy with a scope wider than that of the programs currently being developed in the country. Since the beginning, the MEF has had the support of the *Instituto de Estudios Peruanos* - IEP (Institute of Peruvian Studies), the International Development Research Centre (IDRC) and the Ford Foundation, through *Proyecto Capital* (Capital Project).

Proyecto Capital is an initiative that supports public policy implementation processes that link social protection to financial inclusion in Latin America and the Caribbean. Today, through the Instituto de Estudios Peruanos, Proyecto Capital contributes to the

1. The institutions are: *Banco Central de Chile* (Central Bank of Chile), *Ministerio de Hacienda* (Treasury Department), *Ministerio de Desarrollo Social* (Ministry of Social Development), *Fondo de Solidaridad e Inversión Social*-FOSIS (Solidarity and Social Investment Fund), *Servicio Nacional del Consumidor*-SERNAC (National Costumer Service), *Superintendencia de Bancos e Instituciones Financieras*-SBIF (Superintendency of Banks and Financial Institutions), *Superintendencia de Pensiones* (Superintendency of Pensions), *Superintendencia de Valores y Seguros* (Securities and Insurance), *BancoEstado, Fundación Techo-Chile, EducarChile and Fondo Esperanza*.

implementation of different actions in Chile within the framework of a working plan created in the MEF's Planning Workshops, amongst them this research study.

Prior research has accounted for financial education concepts adopted by the different institutions, the type of programmatic offer, the quantity of programs, courses or initiatives, the duration of the programs and the targeted population. However, in 2013, according to their Working Plan, the MEF chose to tackle the challenge of contributing to the design of an instrument for gathering information that could be applied at a country level; and like so replicate the experience of the countries members of the OECD.

Financial Culture in Chile

What type of financial concepts do we, Chileans, use? When we want to access credit, are we able to choose the best option? Do we know how to which pick the pension fund administrator (AFP) or the multifund that is most profitable? Do we have savings? Do we know how to manage a budget? The development of public policies aiming at financial education should focus, mainly, in raising awareness among the population in order for it to be able to answer these questions with a "yes".

Along these lines, measuring the level of financial culture is a necessary step for countries looking to efficiently design and implement financial education programs as well as to evaluate these programs' impacts. This can only be achieved if policy makers possess a clear idea of the population's level of financial knowledge and understanding regarding finance management (García et al., 2013).

What Is Financial Culture?

As it is often the case in economic and financial literature, there isn't a unique definition of financial culture. Therefore, different definitions of this concept were revised in order to determine the one we will use in this report. One of the first definitions of financial culture agreed upon was proposed by the President's Advisory Council of Financial Literacy (PACFL, 2008) which defines financial culture as "the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being." However, not all authors accept this definition as they also contemplate definitions that cover additional concepts such as: (a) a specific form of knowledge, (b) the ability to apply financial knowledge, (c) the financial knowledge perceived by the population, (d) good financial behavior, (e) financial experience (Hung, Parker and Yoong 2009).

OECD's financial definition is based on PACFL's proposal. Therefore, OECD defines financial culture as: "A combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing" (Atkinson and Messy, 2012).

Financial Culture in Chile

In Chile, literature about financial culture is quite scarce and it tends to refer to the results of the *Encuesta de Protección Social* –EPS (Social Protection Survey) of 2006 and 2009. At first, the EPS was intended to measure elements such as the population's labor and pension situation. Therefore, at first it was only applied to people affiliated to a pension fund administrator or to the *Instituto de Previsión Social* – IPS (Social Security Institute), formerly called *Instituto de Normalización Previsional* – INP (Social Security Normalization Institute). A second version of the survey, however, included a sample of people who were not affiliated to the pension system. The third and fourth rounds of the survey included a module about "financial knowledge and non-cognitive skills".

Overall, the results of the 2006 and 2009 surveys showed a troublesome reality: more than half of the population did not use correctly financial concepts when making savings, credit or investment decisions. Namely, only 50% of the people surveyed had an idea of what concept of compound interest meant. Furthermore, this percentage drops to half when they are asked about economic variables such as hyperinflation; and it is almost null when asked to estimate the compound interest. In addition, only a low percentage claimed to know how much they contribute to their pension fund administrator (37%) and how to estimate their pension—it must be noted that approximately half of the people surveyed had arithmetic knowledge.

The latter contrasts with a high knowledge of important variables regarding retirement, such as knowing the legal age to retire both for men and for women, how much is the minimum pension and what is the *Ahorro Previsional Voluntario* – APV (Voluntary Retirement Savings). This reflects the low level of financial culture regarding the pension system, which can be explained both by the lack of relevant information given by the pension funds administrators to the population and a general lack of interest on the part of the population to know about their retirement savings.

Using results from the EPS, Behrman et al. (2010) found, along the same lines as other international research, a positive and significant correlation between financial culture and accumulation of wealth. On the other hand, when looking atdata provided by the EPS, Landrretche and Martínez (2012) found a positive correlation between financial culture regarding pensions and keeping savings outside the formal financial system. At the same time, they show that people with greater financial knowledge are more daring to change funds with greater frequency and that the probability of independent workers contributing to a pension fund administrator increases.

However, these studies seek to answer long term questions, such as those related to retirement savings. This is due to the nature of the Social Protection Survey that presents a bias towards those who contribute to pension fund administrators. This implies that their universe of surveyed people takes into account those who contribute to the pension fund administrators' system and leaves out those who don't. At the same time, the EPS focuses in specific groups of the population, which makes it difficult to evaluate financial education programs targeting high school or university students.

Finally, Homazábal and Valenzuela (2013), using a sample of 513 observations related to the surveys applied in 2012 to students at the Universidad de Concepción (Campus Chillan) and the Universidad de Bio-Bio (Campus La Castilla and Fernando May), found a positive difference between the level of financial culture among students pursuing degrees related to business and students pursuing other degrees. They also found that students in the first years show a smaller possibility of possessing a level of financial culture higher than average. On the other hand, according to the authors, there no significant relation between financial culture and gender, personal or family income, or the parent's level of education. In conclusion, this study shows that possessing a banking instrument, checking or savings accounts), does not stimulate students to know in detail how these instrument should be handled, except in the case of students who have debts with the university, group among which one finds the students with higher levels of financial culture.

Can Financial Education Improve the Population's Financial Culture?

In general, all initiatives that seek to improve the population's financial culture point towards the same mechanism: financial education. But, what do we understand by financial education? Is this concept universal for all financial education promoters? Are all financial education programs a true education mechanism? Is financial education effective per se when looking to increase the population's levels of financial culture?

In every study related to the topic of financial culture, the concept of financial education, unlike other definitions used in social studies research, tends to be univocal. For the purposes of this study, we will use the OECD's official definition. Therefore, we define financial education as:

> […] the process by which financial consumers/investors improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice develop the skills and confidence to become more aware of (financial) risks and opportunities to make informed choices, to know where to go for help, and take other effective actions to improve their financial wellbeing". (OCDE 2005)

In this sense, the concepts of information, instruction and objective advice play an important role in the structure of any financial education program. Consumers should be given information consisting of facts, data and specific knowledge for them to become aware of financial opportunities as well as of the financial decisions they might have to make and of the consequences that result from them. Financial instruction should ensure that individuals acquire the skills and tools necessary to understand the financial terms and concepts through training and a handbook. Also, objective advice should provide consumers with guidelines about financial issues and specific products that will allow them to make better use of the information and the financial instruction they have received (OECD, 2005).

One of the advantages of using OECD's definition is that it allows to easily discriminate the programs that are truly devoted to financial education from those that aren't. However, this definition puts at the same level programs with a great number on-site activities related to the concept of education (in person classes, for example) as programs that only provide information (delivery of informative brochures). Therefore, in order to distinguish among the variety of financial education programs, we propose the following complementary definitions:

i) Financial education: any program that follows the concepts proposed by OECD. That is, that through information, instruction and objective advice, increase the population's financial culture level. For example, in-person classes.

ii) Financial dissemination (costumer protection): any program that through any information, instruction or objective advice mechanisms helps people take effective financial actions. For example, distribution of informative flyers, SERNAC Financiero (Chile's National Financial Cosumer Service).

iii) Dissemination of financial products (financial inclusion): any program that, in spite of contemplating the delivery of information to make financial decisions, does not fulfill the guidelines proposed by OECD's definition. For example, recommendations for acquiring an X product offered by Y bank.

Finally, although both concepts have much in common, financial education is not to be confused with financial protection. In this sense, both concepts aim at assuring the wellbeing of consumers and protecting them against any damage. Also, delivery of information plays a key role in order to protect consumers.

Financial Education in Chile: Evidence

Each and every individual needs financial culture, given that its impact on people and households' financial decision making cuts across all age and socio-economic groups. Therefore, every financial education program in order to be efficient should be broad and dynamic. In addition, every financial education program should be able to improve individuals' skills regarding decision making relative to the financial sector. Also, it should improve the population's math skills so that they are able to calculate anything they require. It is equally important to give individuals the cognitive tools that will allow them to distinguish which information they are given is true and which is false when making any decisions. In that sense, every financial education program that considers such recommendations would cover a wide spectrum of people and households' everyday issues, and achieve in turn the promotion of financial well-being.

However, in their case study Early Intervention and Credit Cardholders: Results of Efforts to Provide Online Financial Education to New-to-Credit and At-Risk Consumers, Brown and Gartner (2007) when analyzing the behavior of individuals who possess credit cards but show a lack of interest in participating in a financial education program, claim that these individuals should be the first interested in participating in a financial education program. However, only 0,4% of defaulters accessed an online financial education course. This reflects a lack of interest among such programs' target populations. The latter raises a challenge: How to motivate people whose past behavior shows a lack of skills for managing financial decision making tools? How to motivate them to participate in a financial education program?

The above mentioned situation could also correspond to what is observed in Chile, specifically regarding the financial education programs' target population. According to data from the *Encuesta del Instituto Nacional de la Juventud* – INJUV (National Youth Institute's

Survey), the lack of financial culture among people under the age of 30 results from irrationality, impulse and the easy access to credit that young people have. As a result, young people easily default, even when being unemployed or not having a stable source of income. At the same time, this can cause a decrease of their employability levels, once they have finished their studies. Or in more extreme circumstances, in the cases of people who do not study or work, the possibilities of improving their wellbeing might even decrease when defaulting.

Different financial education programs implemented by the institutions that are part of Chile's MEF can be distinguished by following the complementary definitions proposed in the previous section of this document, which refer to i) financial education; ii) financial dissemination; iii) dissemination of financial products (financial inclusion).

According to the survey applied to the institutions that are part the MEF, it can be observed that:

i) Thirty-nine percent of the institutions define the concept of "financial education" according to the OECD.

ii) Six percent of the surveyed institutions do not have a formal definition of financial education.

iii) Twenty-eight percent of the institutions propose a definition of financial education that is more related to costumers' protection.

iv) Twenty-eight percent of the institutions propose a definition of financial education that is more related to financial inclusion.

However, almost 40% of all institutions surveyed acknowledge and have adopted OECD's definition, following an international standard. Adopting this definition, nevertheless, does not necessarily mean that it will thoroughly followed during the execution of the offered program. That is to say, that the methodologies used for the design and implementation of the programs to do not necessarily correspond to the search for a change in behavior, as the international organization suggests.

The latter can be confirmed when analyzing the focus of the studied programs' promotion initiatives, which do not reflect a search for a change in behavior. In these cases, promotion and protection become more relevant. It can be inferred, therefore, that most of the programs developed by MEF's institutions claim to carry out financial education but they are actually limited to promoting and/or protecting the target population.

For further clarification, let's refresh some of the survey's outcomes.

i) Fifty-two percent indicates economic education as the focal point of promotion.

ii) Eighty-five percent indicates financial education as the focal point of promotion.

iii) Thirty-seven percent indicates financial inclusion as the focal point of promotion.

iv) Twenty-two percent indicates costumer's protection as the focal point of promotion.

v) Thirty-seven percent indicates another concept, such as retirement education, specific group education, promotion of entrepreneurship, civic education.

Conclusions

After analyzing the activities carried out by government and non-government agencies relative to the promotion of financial education in Chile, it must be noted that, at the light of the international experience, it is necessary to formulate actions that not only direct activities towards a common objective but that also point towards improving the concept of financial education. We believe that it would be worth bringing initiatives together in order to move forward towards the development of programs that substantially improve the population's financial knowledge, with the subsequent economic and social contributions. This follows the tone of OECD's general recommendations for the promotion of financial education and inclusion among its member countries.

Adopting and/or formulating a common and consented definition of financial education among the institutions that participate in the Board of Financial Education is key. In order to achieve that goal, it is necessary to have a starting point, a common foundation and a clear vision of what financial education is and what it is not in order to socialize the formulated concept. The importance of all this lies greatly in, as it has been observed, that most of the institutions surveyed claims to carry out activities aligned with financial education. However, this is only the case for dissemination and/or academic outreach. In addition, more than moving towards a change in knowledge and financial conduct——bjectives that may be extracted from OECD's definition of financial education—, other programs carry out, in practice, activities closer to marketing and/or socialization of financial products.

Another no less relevant point is the need to carry out an initial evaluation of the state of the art regarding financial education in the country. Therefore, we propose to use the questionnaire designed by OECD, in order to have a valid instrument that would be comparable to the international experience in the field. Said questionnaire must be applied at a national level before carrying out the above mentioned activities, so that it would be possible to measure the initiative's impact. Another aspect to take into consideration in this search for consensus and for establishing foundations and products that are aligned within the new strategy of financial education, is the participation of a government actor that apart from bringing together different efforts, will deliver clear guidelines regarding the country's nation-wide strategy.

Lastly, we do not want to lessen the importance of—or underestimate the efforts that the institutions members of the Board of Financial Education have carried out and disseminated up to this date. The effort and dedication that they put into their work in order to promote the formation of a collective awareness regarding the way of handling personal financial are very important. However, we consider that such initiatives could be better taken advantage of and valued by the target population if they were framed within a clear concept and if they pursued a defined goal, making it possible to evaluate improvements periodically and, when necessary, correct what is required in order to continue in the path towards the construction of skills and knowledge that will contribute to achieve a standard of financial education at the level of the countries that participate in OECD.

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