Our financial illiteracy

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STANDARD & Poor's (S&P) has defined financial literacy as "the ability to understand how money works in the world, how someone manages to earn or make it, how that person manages it, how he/she invests it, or how that person donates it to help others." Without financial literacy, one cannot make important decisions regarding investment, savings, borrowing and, most certainly, about insurance. Indeed, it has been found, for example, that lack of understanding about interest rates has placed creditors at risk.

S&P conducted its 2014 S&P Rating Services Global Financial Literacy Survey, touted to be the "most extensive measurement of global financial literacy to date," and discovered that the Philippines ranked in the bottom 30 of 144 countries surveyed. Only 25 percent of adult Filipinos are literate on the basics of finance. The survey was conducted by interviewing 150,000 adults throughout 144 countries on four basic financial concepts: numeracy (interest), risk diversification, inflation and compound interest. The study was conducted with the participation of the Gallup World Poll, the World Bank and the Global Financial Literacy Excellence Center (GFLEC) based in George Washington University.

Among the surprising findings is that two-thirds of adults worldwide are financially illiterate. And that only one-third of adults worldwide are financially literate. This means that around 3.5 billion adults worldwide are financially illiterate. It also noted that those most likely to be financially illiterate are women, the poor and the less educated. Men were found to be more literate (35 percent) than women (30 percent). Interestingly, the study found that those availing themselves of financial services, such as those of banks and credit-card companies, would most likely have higher financial literacy, regardless of wealth or educational attainment. Nonetheless, the study concluded that generally, the rich have better financial skills than the poor. Interestingly also, financial literacy increases as income increases and educational attainment goes higher. Another astonishing finding is that financial literacy improves from general proficiency in mathematics.

In terms of world ranking, Denmark, Norway and Sweden had the most financially literate adults, all at 71 percent. They are followed by Canada at 68 percent; Israel also at 68 percent; United Kingdom at 67 percent; Germany and the Netherlands both at 66 percent; Australia at 64 percent; and Finland at 63 percent. Northern Europe is the world-leader in financial literacy. South Asia placed at the bottom. In the Asian region, Singapore ranked the highest at 59 percent adult financial literacy. It ranked number twelve worldwide. And together with Bhutan, are the only Asian countries in the top 20. At the bottom of those surveyed were Yemen at 13 percent, Albania and Afghanistan both at 14 percent. Notably, the US had a financial literacy rate of 57 percent, ranking 14th worldwide.

In the Asean, Malaysia has 36 percent; Thailand has 27 percent; Indonesia 32 percent, Vietnam at 24 percent; and Myanmar at 52 percent. This places the Philippines second from the last.

In a 2012 study on the Asia-Pacific region, the Philippines ranked 12th out of 15 countries in measuring the proportion of working-age population who have bank accounts. In a study by the US Agency for International Development, only 26.56 percent of Filipinos aged 15 and above have accounts with banks or financial entities. World Bank’s own study concludes that only 31 percent of adults in the country own a bank account.

As of 2014, per Bangko Sentral ng Pilipinas (BSP) data, 595 municipalities in the country have no banks. This is out of a total of 1,490 municipalities in the country. This is notwithstanding the fact that domestic banking offices increased from 7,585 in 2001 to 10,315 by the end of December 2014. A significant increase can also be observed in the distribution of automated teller machines, which grew from 3,882 in 2001 to 15,562 by the end of December 2014.

In terms of savings, only a dismal 40 percent of adult Filipinos save. Of those who save, 68 percent keep their saved money at home. Thirty-three percent (33 percent) keep their money in banks, 7.5 percent save through cooperatives and 2.6 percent keep their money in group savings (or paluwagan).

In terms of loan availments, 2014 World Bank data shows that the percentage of adult Filipinos who obtained a loan from a formal financial institution was 11.8 percent, which is lower than that of Indonesia at 13.1 percent, Thailand at 15.4 percent, or even Kenya at 14.9 percent. Most loans were availed from informal sources, such as friends and relatives (at 62 percent) and informal lenders (at 10 percent). Others obtained credit from cooperatives (10.5 percent), microfinance non-governmental organizations (9.9 percent). A mere 4.4 percent borrowed from banks.

In the insurance sector, as of 2013 figures, life-insurance coverage was only 32.5 percent of the population. Three point 2 percent of the adult population is covered by microinsurance. On July 1 the National Strategy for Financial

Inclusion (NSFI) was launched. It is an interagency initiative, among which is the Insurance Commission. Financial inclusion or inclusive financial system is defined as "a state wherein there is effective access to a wide range of financial products and services by all." The NSFI identified four key areas where to promote financial inclusion: a) policy and regulation; b) financial education and consumer protection; c) advocacy programs; and d) data and measurement. It also identified six financial product and services: a) savings; b) credit; c) payments; d) remittances; e) investments; and f) insurance.