

Why do you think financial literacy is important?

What steps should be taken to improve the level of financial literacy, especially amongst young people?

## Table of Contents

<b>Introduction.....</b>	<b>3</b>
<b>Financial literacy - one of the most important skills for financial independence .....</b>	<b>3</b>
<b>What is causing the importance of financial literacy to increase? .....</b>	<b>4</b>
<b>Improving financial literacy through different channels .....</b>	<b>4</b>
<b>Concluding Remarks .....</b>	<b>5</b>
<b>References.....</b>	<b>6</b>

## **Introduction**

Enhancing financial literacy is crucial for a country aiming to have a financially independent society and a well-functioning economy. Better management of personal finances has the potential to curtail poverty and inequality problems, as well as problems of over-indebtedness and reduce the strain on public finances.

## **Financial literacy - one of the most important skills for financial independence**

With better financial education, individuals are more likely to succeed in their financial prospects. Recognizing the importance of budgeting, saving and investing, is crucial to accomplish long-term financial goals. Financially illiterate individuals may find managing their finances problematic and may be unaware of services offered by financial institutions. On the contrary, financially literate individuals should be able to understand the importance of good financial management and the services offered by financial institutions. Such individuals, should also be able to understand how one can grow their wealth through investments which correspond to their level of risk aversion.

Financial literacy also means that individuals are aware of the various options to finance major expenditures. Many individuals would not be able to afford certain expenditures, such as buying a house. They would need to request credit to finance such expenditures, which implies that it is of utmost importance that these individuals understand the different lines of credit available, the terms and conditions, the repayment period, the rate of interest, as well as other related information. Additionally, a financially literate individual should be aware of problems which may arise from irresponsible borrowing. Enhanced financial understanding should diminish the problems of over-indebtedness in the society.

Another advantage of financial literacy is that these individuals are more likely to shift to private pension schemes, rather than relying on government pensions. A forward-looking financially literate individual should notice that it is not wise to rely on government pensions to finance their retirement. Financial literacy results in a forward-looking society, which analyses the current economic situation, makes predictions about the future and base financial decisions on these predictions. Private pensions significantly reduces the strain on public finance.

Considering the previously mentioned advantages, it is evident that increased financial literacy does not only benefit the society on a household level, but also on an economic level. Teaching people how to manage their wealth, may lead to less poverty. There are many other factors which cause poverty, however bad management of finances is one of them, and through financial literacy this can be reduced. A financially stable society results in an overall better economy and inequality can be alleviated. Financial education is therefore important for the overall economy and it is worthwhile for the government to invest in it.

## **What is causing the importance of financial literacy to increase?**

Recent trends have shown that the importance of financial literacy is on the rise. Making informed decisions about finances is of utmost importance. Due to constant advancement in technology, individuals need to keep themselves updated in order to make informed financial decisions.

The shift to digital banking has resulted in financial markets becoming more accessible to smaller investors and these investors need to be educated to be able to take sound financial decisions. There are constantly new products and more complex financial instruments being invented, which means that there is a critical need for continuous education.

Furthermore, people are enjoying longer life spans, and they need to have a good financial standing for them to enjoy their longer life adequately. This increases the need for private pension schemes and safe investments which provide periodical income. Financially literate individuals recognise the need to plan for their retirements, and know what kind of pension schemes or investments are adequate to ensure reliable finances at pension age.

## **Improving financial literacy through different channels**

Financial literacy can be improved through widespread education, aimed at different age groups and levels of education.

Firstly, it is important to start the financial education from a young age, because children will get used to managing their finances and will keep doing so in their adulthood. It would be a great idea to organize sessions for primary school children and their parents, in which the importance of budgeting is discussed. The parents should be encouraged to give their children a small amount of pocket money and teach them to budget the money and not spend it all at once. Moreover, it would be very beneficial to educate the parents about the importance of opening up savings accounts for their children, to save for their future financial needs.

This education should continue at secondary schools, with more advanced topics. At this stage, it would be beneficial to teach about basic financial principles, the importance of managing finances and the dangers of over-indebtedness. It is important to teach them basic finance, such as basic investment knowledge, how to request a loan from the bank and how banks work. Additionally, it is important for them to be aware of the consequences of being irresponsible when borrowing money, so that they avoid problems of over-indebtedness. Education at this level may also encourage some of the students to pursue education in finance related subjects, to continue enhancing their financial literacy.

It is important to make these training sessions easily accessible. The INVEST+ sessions organised by the Malta Business Bureau are a great initiative which is definitely succeeding in educating people, however I believe that there needs to be more accessibility. Open-for-all

sessions at local councils, online courses and TV programmes, are all very accessible options which are ideal for people who are unable to attend sessions at specific times, but would like to continue enhancing their financial knowledge.

### **Concluding Remarks**

The OECD compiles statistics to assess financial literacy in each OECD country. In one particular statistic, it ranked countries according to how many adults are able to take their own financial decision within their households. Malta scored at the lower end, with 85%, compared to the average of the OECD countries at 91% (Sammut, 2019). This clearly shows that, there is a need for more initiatives to boost financial literacy in Malta.

## **References**

Sammut, J., 2019. *Financial literacy – are we doing enough?*. [Online]  
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