

FINANCIAL EDUCATION – A MUST HAVE

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Abstract

The complexity of financial products increased substantially over the past decade. In addition financial risks have been transferred to households. So pressure and responsibilities on the shoulders of financial consumers have risen enormously. As most consumers only have low levels of financial literacy, they are not equipped to handle their increasing financial responsibilities. An OECD survey even shows that financial illiteracy has worsened the financial crisis.[1] Supranational entities like the World Bank, OECD and the EU-Commission claim that financial education must be increased in broader classes of population to reach a better use of financial services products.[2] The EU-funded Comenius project “Financial Education – Levering the Implementation Efficiency in Schools” targets to foster the implementation of financial contents in compulsory schools. The curricula of these schools have been analysed in Germany, Austria, Belgium and Latvia. In most of the regions subjects like *Economics* are only offered in commercial schools but not in general compulsory schools. Pupils’ knowledge concerning financial issues is rather poor. As most of young people are realizing the necessity of financial knowledge they are willing to improve in this field. The survey of John shows that 70% of youngsters in Germany want to be informed about financial issues at school.[3] The installation of new subjects in schools is a longsome process. As the improvement of financial knowledge is a short term issue the consortium of the above named EU project proposes to include financial topics in different existing subjects. Friebel and Kaminski introduced the competence model for financial education. They define four relevant fields: *use of money, handling of life risks, asset and retirement management and use of loans*.[4] According to this model three specific examples that fit to the needs of youngsters have been chosen in the project: *purchase of a mobile phone/tablet/PC, clothes, leisure and vacation and career and future perspectives*.[5] Teaching material for these examples is being developed, pilot project days will soon be realized by teachers’ in general compulsory schools. To ensure the sustainability of the project school managers will be informed and trained in additional workshops.

1 INTRODUCTION

The market of financial products is increasing continuously. The vast majority of private households solely have a low level of financial knowledge and are overextended with handling their own financial business. The OECD analyses have shown that this lack of financial literacy of people contributed to the global financial crisis.[6] In order to assure that in the long-term an increased number of people have a more profound knowledge regarding financial topics, different organisations like the German Bank, the European Central Bank, private organisations and companies are trying to establish financial education projects in schools.[7] One project regarding this matter is the EU-funded project “Financial Education – Levering the Implementation Efficiency in Schools” which is currently being realized in four participating countries: Belgium, Latvia, Germany and Austria. This project is concentrated on the financial literacy of pupils in compulsory schools. As the target of this project is levering the implementation efficiency of financial education in schools, two key players in the transmission of the financial educational content are addressed: Teachers and school managers. Consequently, pupils in school will get a higher financial competence during their life cycle. Fig.1 shows four essential steps of the EU project. With its realisation, economic stability and society as a whole should benefit.

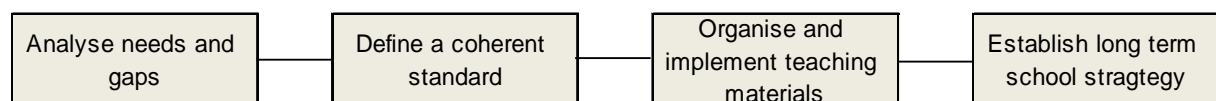


Fig.1: Steps of the EU-project “Financial Education-Levering the Implementation Efficiency in Schools”

2 STATUS QUO – FINANCIAL EDUCATION IN GERMANY

Financial products have become more and more complex over the past decade. In the recent financial crisis it was obvious that uninformed consumers became easy targets for products that were not appropriate for them. In addition, we could observe a financial risk transfer to households. Pension plans can serve as an example: Looking at defined benefit pension plans, which were standard in the past, longevity and investment risks are carried by companies. These risks are transferred to individuals if we take defined contribution pension plans, which are common nowadays. As a consequence, pressure and responsibilities on the shoulders of financial consumers have risen enormously. OECD surveys show that consumers have low levels of financial literacy. Furthermore, they often overestimate their financial skills and knowledge. As financial illiteracy has even worsened during the financial crisis, the OECD's expertise in the financial education field is now needed more than ever[8]

Different surveys have been conducted in Germany to analyse the financial and economic literacy of pupils and young adults. Forsa, a German institute for opinion research, interviewed 1000 pupils and young adults in 2011. The results show that only 15% did have a good or very good level of financial knowledge, whereas 85% reached a rather good or bad level.[9] In 2012 the German Banking Association conducted another survey among youngsters asking different questions with regard to economic and financial topics. Fig. 2 shows the distribution of the answers concerning different issues: So, for example, 27% of the interviewees did know the tasks of the ECB and 30% were able to correctly define the term *return*. In this survey 37% of the young people affirmed the statement: "I don't know anything about the stock exchange." Three years earlier only 30% had affirmed the same statement.[10]

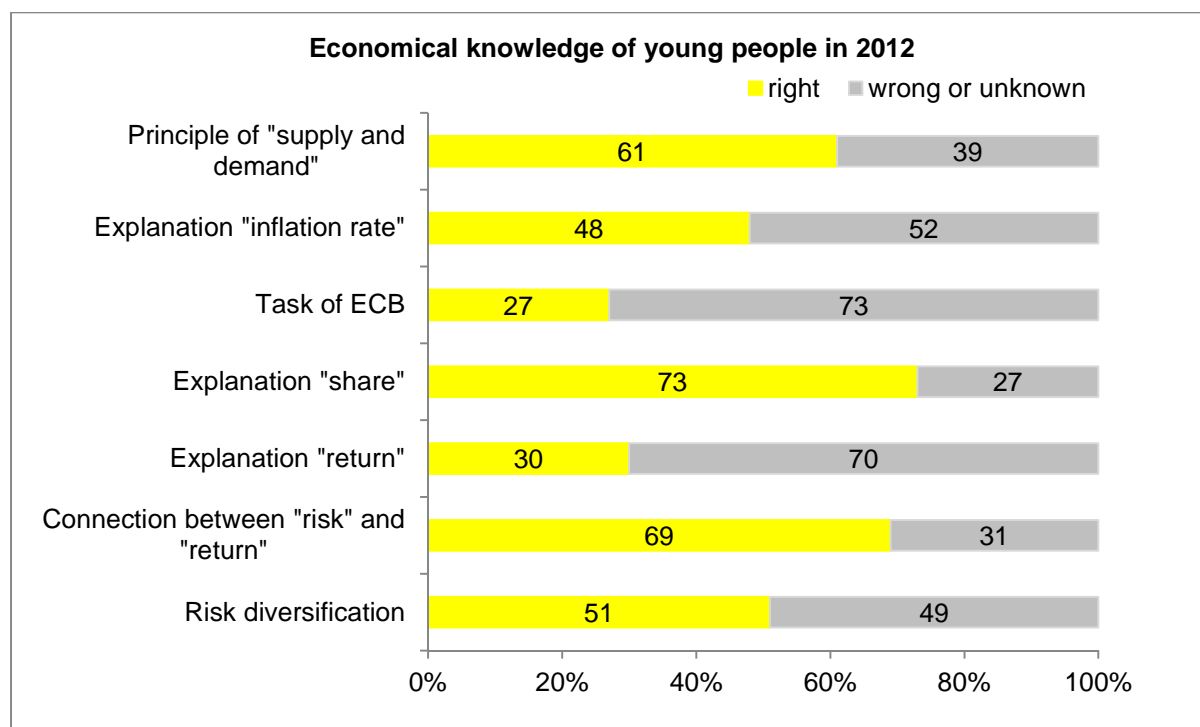


Fig.2: Economical knowledge of young people

The project partners in Austria and Belgium also confirm an existing lack of financial education in their countries. Surveys obviously show that in Austria's population – pupils as well as adults – are not sufficiently educated in the field of financial services and what is related to this topic. Results published by the Austrian Insurance Agency (VVO) in 2012 show that financial education is an issue that is demanded from Austria's population, as it is not part of the general education of pupils in secondary schools. This survey shows that only 4 % of 200 pupils between 14 and 21 years of age and 17 % of 301 grown-ups (older than 20) interviewed, are aware of the financial product's risks.[11] In order to get informed about financial literacy the Belgian Febelfin (the Belgian Federation of the Financial Sector) organized a national survey on the basis of a representative sample of the Belgian population in September 2009. The interviewees were asked to answer a series of sixteen specific questions of varying difficulty, ranging from questions about calculating the interest rate to how to

arrange a family insurance. Only 45 % of the interviewed young people between 18 and 24 years succeeded at this test. In other age groups, more than 50 % scored good results.[12]

Retzmann claims that all empirical studies show that financial literacy of the German population is rather poor.[13] In his opinion one of the reasons is that economic education has only played a minor role in the German education system. The EU-Project “Financial Education – Levering the Implementation Efficiency in Schools” proves that financial education has only been integrated in the curricula of few federal states, like Bavaria or Baden-Württemberg. There, pupils in compulsory schools have to study *Economics* as an independent subject. In this context the findings of John are interesting: 70% of German pupils would like an integration of financial and economic education in school subjects. 35% would even prefer the implementation of an independent subject *Economics*. [14] Nevertheless, the other federal states are aware of the importance of fostering financial literacy: Guidelines to integrate financial topics cross-curricular have been introduced by each Minister of Education and Cultural Affairs, but it depends on every school to integrate these contents into the existing subjects. Further difficulties arise from the teachers’ lack of knowledge concerning financial topics. Although some study courses include basic knowledge on financial and economic topics, it is usually not part of the teacher’s training in Germany. Putting theory into practice is difficult for teachers who have not been trained in financial topics.[15]

3 COHERENT FINANCIAL MINIMUM STANDARD

One of the first aims of this EU-funded project consisted in defining a coherent financial minimum standard of financial literacy. Friebel and Kaminski determine with the competence model for financial education four relevant fields which should be delivered to pupils of general secondary schools. The following Fig. 3 shows the four relevant areas (*use of money, handling of life risks, asset and retirement, use of loans*) and their corresponding contents.[16] According to this model, the consortium of the above named project defined three specific examples: *purchase of a mobile phone/tablet/PC, clothes, leisure and vacation* and *career and future perspectives*. They can be used to explain and teach the four relevant financial fields. All these topics deal with interesting contents for the given target group and fit to their needs.

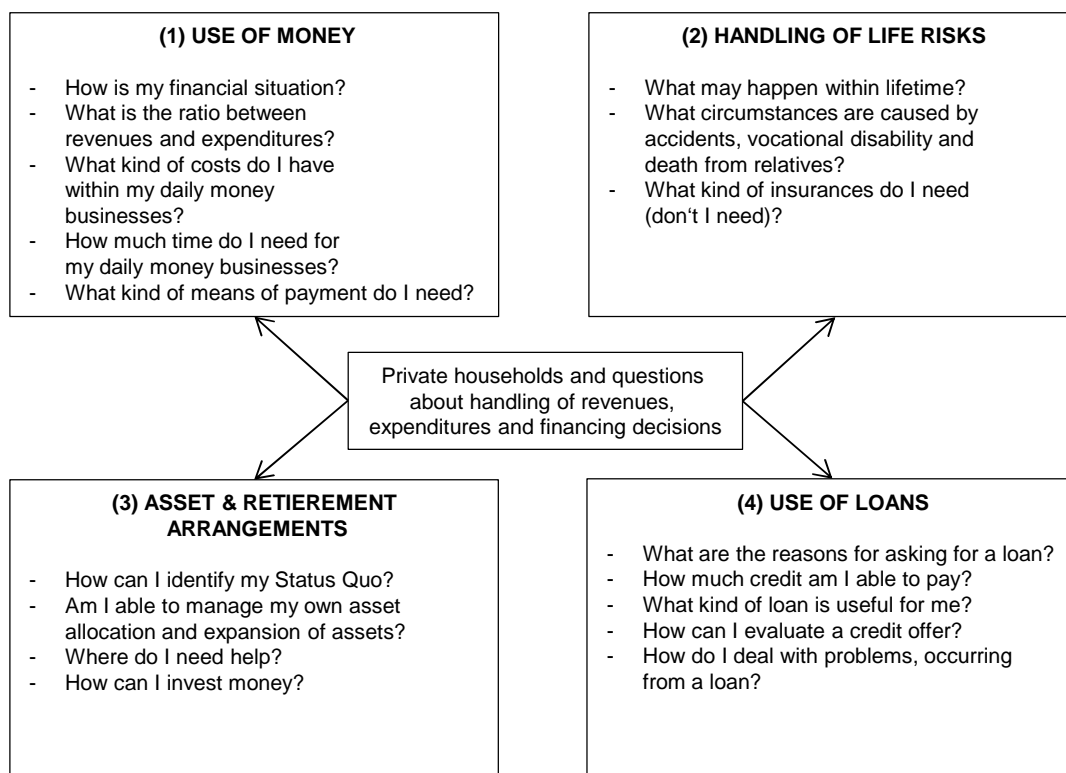


Fig.3: Competence model for financial education

The following Table 1 shows how the project consortium classified the relevant competences of the model, regarding of the topic *purchase of a mobile phone*.

Table1: Results of Needs Analysis (Extract)

General Competence	Partial Competence	Contents referring to purchasing a mobile phone
<ul style="list-style-type: none"> • Pupils are able to think in categories of economic behaviour. • How do people make economic decisions? 	<ul style="list-style-type: none"> • Differentiation between various needs and goods. • Exemplification of how shortage is the reason for the friction between unbounded needs and resources and how therefore people have to act in an economic way. • The variety of competing (own and external) needs, leads to conflicts in decision-making and allocation. • Economic players make decisions concerning alternatives, on basis of economic plans. • Economic decisions have to be made under uncertain conditions and are in so far risky, as relevant information cannot be collected completely. • Economic players take decisions, which provide the highest benefit, also considering own preferences and restrictions. 	<ul style="list-style-type: none"> • Buying a prepaid mobile card or concluding a contract with a mobile provider? • Since costs of prepaid cards are fixed, pupils are able to decide how much money they want to spend. In the case of a contract, the costs during a contract period are variable; the monthly income of people does therefore not meet the accrue costs. • Contracts normally include internet access. Do pupils need an internet access in order to do their homework? Should they be allowed to use mobile phones in school? • Taking a prepaid card does not mean that you are saving money. It is up to yourself how much money you spend for telephoning. • A contract implies a certain understanding of payment. Are you able to pay the monthly account for the whole next year? • A major advantage of a mobile phone contract, compared to prepaid-rates, lies in the lower phoning cost-rates.

4 TEACHING MATERIALS

Due to the fact, that the subject *Economics* is not yet integrated in the curriculum of most of Germany's general secondary schools (for example in the federal state of Rhineland-Palatinate[17]), there is a lack of textbooks and teaching materials explicitly focused on financial subjects. The book that is currently provided to higher grades of secondary schools in Rhineland-Palatinate in the school subject *social studies* solely approaches a few economic issues.[18] If one is eager to support financial literacy on the one hand, the according literature must be provided to both teachers and pupils on the other. However, the rapidly changing nature of economic and financial markets, make it difficult to ensure the necessary topicality that school books should have. Aspects like the frequent changes in the regulations of financial markets or the continual introduction of new financial products already would make a permanent revision of the literature unavoidable. In the end, the necessary expenditures for this matter would have to be covered by private households and local authorities.

However, one of the central requirements of the above illustrated EU-project is to provide current relevant textbooks and teaching materials, free of charge, to teachers and schools. In its *Directive on Economic Education*, the federal state of Rhineland-Palatinate not only refers to already existing projects but also to a number of different web pages which provide several teaching materials and ideas of didactical use.[19] Furthermore, various organisations, institutes, associations and business enterprises offer teaching models and training materials on economic and financial themes for teachers, pupils as well as for adult education on web pages especially created for this purpose. The subject area ranges from the circulation of money and wealth creation, to credits, debts, contracts and pension plans. Regarding to Friebel's and Kaminski's competence model, the project consortium determined the three above mentioned subject areas (*purchase of a mobile phone/tablet/PC, clothes,*

leisure and vacation and career and future perspectives), for which age-appropriate teaching modules and teaching materials were compiled.

A further request, especially defined for the secondary schools represented in the project, is the freedom of advertising materials. Banks as well as insurances provide a wide variety of teaching materials in order to establish financial topics in schools. Due to the up-to-date and profound financial knowledge but also to the know-how regarding *financially-uninformed* clients, the financial services sector is a suitable source of information. Nonetheless, whether essential financial data is imparted objectively remains questionable. This might be the case in situations where certain difficulties might arise. Due to problems that, for example, result out of the finalization of a credit agreement, specific points might not be explained sufficiently, for they could lead to certain disadvantages for clients under certain conditions. Furthermore, the question remains whether, for example regarding teaching materials made available by banks, the benefits of the competitors' financial investments are really perceived and portrayed in a critical and objective way. Hippe confirmed the above mentioned statements with his critical analysis on teaching materials that were made available to him by public-private partnerships.[20] Besides the teaching materials, banks and insurances also offer so-called business games; the most popular of them in Germany being the "Planspiel Börse" [Business game – Stock Exchange], which is established as an independent school project in many schools. The idea of this game is that, during a defined period of time, the participants buy and sell shares and investment funds out of a defined bandwidth with an virtual initial capital of € 50,000. The winner of the game is the participant who generates the highest return.[21] An analysis of the winners' investment strategies of the past 10 years showed, that the winning participants lead their depot without any apparent strategy. Nobert Kuhn of the *Deutsches Aktieninstitut* was quoted, that one has to place everything on one card in order to win. The for an asset accumulation needed analysis of the sustainability of an investment is therefore not mandatory for the participants of this business game.[22] Based on the given restrictions, seven different providers were selected who offer pedagogical edited teaching modules on financial topics, free of charge and free of advertising, on the internet (see Table 2).

Table 2: List of Teaching Materials (Germany)

Organisation/Institution	Title	Theme/Module
Ministry for Climate Protection, Environment, Agriculture, Nature Conservation and Consumer Protection of the German State of North Rhine-Westphalia (NRW); team "Network Financial Literacy NRW".	"Fit for your own Money: How to Manage your Income"[23] www.netzwerk-finanzkompetenz.de	<ul style="list-style-type: none"> • Desires and needs • Budget and financing • Necessary knowledge on banks • Saving made simple • Cope with crises- plan your future
German Federal Bank, Berlin	School book "Money and Monetary Policy"[24] www.bundesbank.de	<ul style="list-style-type: none"> • Cash and payment transactions • The banking and financial system • The Euro and the Euro system • Currency and international cooperation, European monetary policy, financial crisis and sovereign debt crisis
Stiftung Warentest, Berlin	"Youth and consumption"[25] www.test.de	<ul style="list-style-type: none"> • Youth and money • Virtual money • Sales contracts • Debts
Prevention network financial literacy registered association, Düsseldorf	"Teaching help-finance competence"[26] www.unterrichtshilfe-finanzkompetenz.de	<ul style="list-style-type: none"> • Finances under control • Driving licence and own vehicle • First apartment • Debts and mobile phone? • Provide for later • Spiral of debt

University of Mannheim, Project: Prevention Programme against excessive debts of adolescents	"Let's start!"[27] www.frei-starten.de	<ul style="list-style-type: none"> • Budget • Current account • Mobile phone contract • Delinquency procedure • Credits
Industry and School	"The Necessity of a Retirement Provision"[28] www.wirtschaftundschule.de	<ul style="list-style-type: none"> • Legal pension • Private pension • Company pension scheme
SCHUFA Holding AG	"The Small Print- Teaching Ideas for Contracts and Credits"[29] www.schufamachtschule.de	<ul style="list-style-type: none"> • Contracts, general terms and conditions • Credits

In the following two offers are exemplified. In the prevention project "Start Frei!" ["Let's Start!"] of the University of Mannheim, economy psychologists developed a prevention programme against the excessive debt of adolescents.[30] The main purpose of this programme lies in the aware and competent handling with financial- and consumption situations. The prevention programme is divided up into four main modules - each module contains two teaching units. The initial situation is illustrated using a contemporary film that addresses the difficulty of debt traps that arise through mobile phone usage. Further provided subject related materials are a Power Point presentation, board diagrams, worksheets and guidelines for role playing. The learning goals are, among others, the development of a budget, the information analysis regarding the thematic fields of current accounts, mobile phone contracts as well as the understanding of connections that lead to excessive debts.[31] With its programme for schools, the SCHUFA Holding AG, an independent company located in Germany, offers various age-related teaching modules for different types of schools. "Contracts and credits" is only one example of the multitude of topics analysed in the context of this project.[32] The teaching module consists of two lessons and focuses on the topic *mobile phone contracts* and the liabilities, rights and responsibilities connected to this issue. In order to give the target group an understanding of this topic, different types of credits and secondary financial terminology are illustrated based on a sales contract.[33] The materials used for further exemplification are of high pedagogical value and often include Power Point presentations, videos, role plays and working papers for the pupils.

5 CONCLUSION

In conclusion, it can be affirmed that in all participating countries financial literacy in general grammar schools is solely available to a certain degree, even though the responsible Ministries of Education are aware of the necessity. The integration of financial themes in schools is desired and demanded by pupils, for they feel overstrained by the available information overload. In Germany, directives regarding the interdisciplinary integration of financial themes in schools have existed for many years. The research has revealed that teaching materials on financial literacy already exist and that they are of high quality and free of advertising. Adding to that, the available teaching materials may be downloaded on the internet free of charge, for almost all themes. Nevertheless, in general grammar schools, financial literacy is still not covered sufficiently and also not integrated in lessons. Reasons for this can be found in the congested school curricula, due to the short time allotment, on the one hand and the lack of financial knowledge of teachers on the other. By means of the offered workshops in the context of the presented EU-Project, teachers will get the opportunity to acquire a more in-depth financial knowledge in the according subject areas. The objective of these workshops is not only to counteract the anxieties and uncertainties of teachers through the transfer of knowledge, but also to place these new themes in school. In combination with the development of a strategy for school managers on how to install the financial education process, the project „Financial Education – Levering the Implementation Efficiency in Schools“, makes an important contribution to the increase of financial literacy of young people.

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COMENIUS PROJECT INFORMATION:

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