

## THE SPANISH SURVEY OF FINANCIAL COMPETENCES 2016: MAIN RESULTS

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*The new Survey of Financial Competences was fielded between 2016 Q4 and 2017 Q2, measuring the knowledge and understanding of financial concepts by the Spanish adult population, as well as its holding, acquisition and use of various savings, debt and insurance vehicles. This article provides an overview of the methods and main results of the survey.<sup>1</sup>*

### 1 Introduction

Surveys conducted in several countries have shown that many individuals are not familiar with basic concepts related to inflation, compound interest and risk diversification. Related studies also have documented a strong correlation between this lack of knowledge and poor financial outcomes. In addition, given the growing complexity of financial products, the lack of basic financial competences may make it increasingly difficult for individuals to choose the savings, insurance and debt vehicles best suited to them.

In this scenario arises the Spanish Survey of Financial Competences (ECF by its Spanish abbreviation), a joint initiative of the Banco de España (BdE) and the CNMV, under the Financial Education Plan. Included in the National Statistics Plan, this survey has key characteristics that provide for a rigorous and comprehensive description of the Spanish adult population's financial literacy and of their relationship with the financial system.<sup>2</sup>

First, the study has had the collaboration of the National Statistics Institute (INE), which has provided a large sample of randomly selected individuals representing the Spanish territory as a whole and each of its 17 regions.

Secondly, the ECF is part of an international project coordinated by the OECD that measures the financial literacy, attitudes and behaviour of the population from a broad set of countries between 2015 and 2016. The ECF helps to set Spaniards' financial literacy and interaction with the financial system in an international context.

<sup>1</sup> For a more complete summary, see "The Survey of Financial Competences (2016): main results", available at [https://www.bde.es/f/webbde/SES/estadis/otras\\_estadis/2016/ECF2016-en.pdf](https://www.bde.es/f/webbde/SES/estadis/otras_estadis/2016/ECF2016-en.pdf)

<sup>2</sup> Previous studies on the financial competences of the Spanish population in an international context are Klapper et al. (2015) and Allianz (2017).

Finally, in addition to including the questions proposed in the international study, the ECF also adapts the questionnaire to the Spanish case incorporating three important novelties: (i) the study includes information on both the financial competences of the sample individuals and on those of the household; (ii) it also includes measures validated in international studies of individuals' cognitive skills, beyond those of a strictly financial nature; and (iii) there is a module on the main residence from which information is obtained on the decision regarding owner-occupation, expectations about the price of the dwelling and, where appropriate, on how the purchase was financed.

### 2 Description and methodology of the survey

The INE provided a sample of more than 21 thousands individuals aged 18-79 and living in private households in Spain that is representative of the entire territory and of each of its regions.

An introductory letter signed by the Governor of Banco de España and the President of the CNMV was sent to the address of each sample member. Following this, 100 interviewers specially trained for this survey contacted them to conduct a face-to-face interview using a CAPI questionnaire.

The questionnaire includes information on the demographic characteristics and labour market status of sample interviewees, their portfolio and the means of acquisition of the information, income sources in old age or inactivity, attitudes toward saving, financial and economic literacy. Information on the main residence, expenses and financial fragility is obtained at the household level.

Interviewers asked interviewees about their consent to audio record selected parts of the interview. Audio recording serves the dual purpose of guaranteeing that the interview follows the protocol and checking how interviewees understand difficult questions. Interviewers were monitored at most 48 hours after each interview. Each of the resulting 8,952 successful interviews, once anonymised, were uploaded to a secure platform to be reviewed on-line by a team of 4 reviewers of the fieldwork company in close communication with the staff of Banco de España. The process involved recontacting the interviewees if strictly necessary. After that process, 8,554 complete interviews were considered valid.

Finally, the INE provided weights calibrated by age, gender and nationality at the regional level.

### 3 Main results

#### 3.1 Financial literacy of the Spanish Population aged 18 to 79

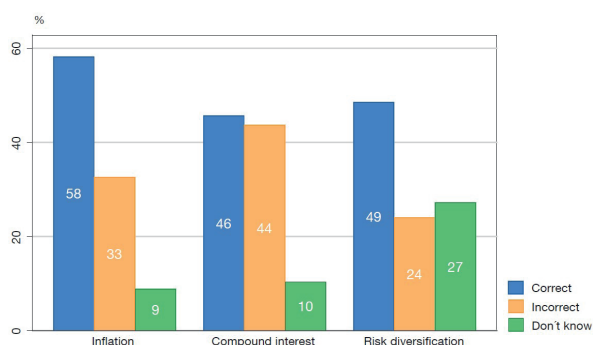
The three questions on financial literacy analysed have been used previously in several international studies.<sup>3</sup>

Responding correctly to the first question (inflation) requires understanding that money loses purchasing power when prices rise. The percentage of interviewees answering the inflation question correctly is 58% (see Figure 1).

To answer the second question correctly (compound interest rate), the interviewee must realise that the changes to an amount saved in an account over five years depend not only on the annual interest rate applied to the amount saved the first year, but also on the interest accrued thereafter. Less than half of the interviewees respond correctly to this question (46%).

Finally, the third question (risk diversification) measures whether it is understood that the risk associated with investing in equities diminishes if a broad range of shares is acquired rather than a single type of share. Again, less than half of the interviewees respond correctly (49%).

REPLIES TO FINANCIAL LITERACY QUESTIONS FIGURE 1



Two common patterns across the responses to those three questions are noticeable. Firstly, comparing across individuals with different level of schooling, the percentage of correct answers is higher (between 14 and 22 percentage points, pp) for those with a university degree than for those with primary education. Those differences in the fraction of correct answers

<sup>3</sup> See Lusardi and Mitchell (2014).

across educational groups have been detected in previous international studies –see Lusardi and Mitchell, 2014.

Secondly, comparing results by gender, the percentage of correct answers among women is lower (8-12 pp) than among men. Women respond "do not know" more frequently than men (5-11 pp). Similar gender gaps have been documented in numerous countries (the Spanish figures are in line with those found for instance in the United States or Germany).<sup>4</sup>

Comparing men and women with similar demographic characteristics, it can be seen that the literacy gaps narrow especially among younger interviewees and among those individuals who live in households with other adults, but without a partner. According to the survey, both youths and individuals living with adults other than their partner are disproportionately likely to delegate their financial decisions to other adults.<sup>5</sup> The absence of financial literacy gaps among groups that do not face financial decisions suggests that gender gaps are low to start with, but evolve once individuals are exposed to financial decisions.

#### 3.2 Holding and acquisition of financial products

A common measure of financial inclusion is holding a bank account.<sup>6</sup> 97% of individuals in Spain hold a current account, this percentage being lower among immigrants (92%), individuals with primary schooling (96%) and those living in households whose income is lower than €14,500 (94%).

As already hinted from previous studies, the percentage of individuals holding (individually or jointly) a savings vehicle – a concept including savings accounts, pension schemes, investment funds, shares and fixed-income assets – is much lower (43%). 41% of individuals hold some type of debt (mortgage or personal loan).<sup>7</sup>

Less was known about the regional distribution of the percentage of individuals holding a savings or borrowing product. When comparing regions, at least 50%

<sup>4</sup> See Figure 1b in Lusardi and Mitchell (2014).

<sup>5</sup> Specifically, in the ECF, individuals are deemed to delegate when they have replied "No" in the survey to the following question: "We wish to know whether you are familiar with your household finances. We refer not only to whether you know the overall household's properties, financial products and debt, but also the reasons behind specific decisions on spending and investment."

<sup>6</sup> See Demirguc-Kunt et al, (2015).

<sup>7</sup> See Banco de España (2017) and Household Finance and Consumption Network (2016).

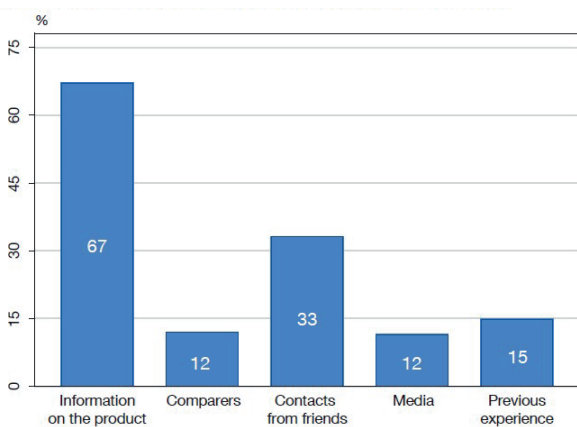
of individuals aged between 18 and 79 have some type of savings vehicle in Aragon, Castile-Leon, Madrid and the Basque Country, whereas in Andalusia, the Canary Islands and Extremadura the percentage is around 35%. The change from region to region in the proportion of indebted individuals is less marked than it is in the holding of savings vehicles.

The ECF contains information not only on the holding of financial products but also on whether such products have been recently acquired and on the information sources Spaniards use when choosing savings, insurance, means-of-payment and debt vehicles.

The proportion of the population that has acquired (individually or jointly) a financial product in the two years prior to the survey is 38%. However, this percentage increases dramatically across income groups, a pattern that is more salient in the case of saving vehicles than for insurance products or credit cards.

An analysis of the search practices of those who have recently acquired a financial product gives hints on how likely it is that individuals find the savings, insurance or credit vehicle most suitable for their needs. Around two out of three people (62%) who have acquired a financial product in the past two years have confined themselves to those offered by a single company or financial institution. Moreover, 67% of those who have acquired a financial product in the past two years state that the information source being most influential in their final decision was the information on that specific product, i.e. that provided by the staff of the company offering the product or through brochures (see Figure 2).

**MOST INFLUENTIAL INFORMATION SOURCES WHEN ACQUIRING A NEW PRODUCT** FIGURE 2



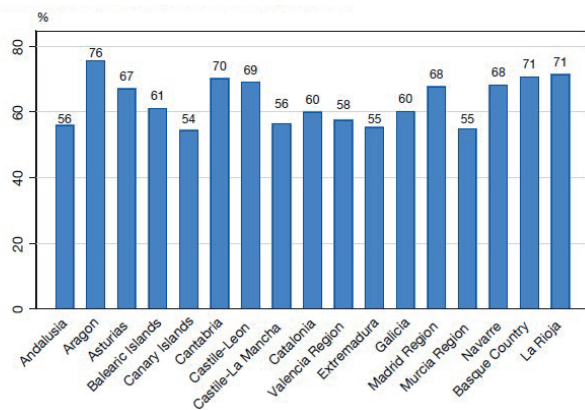
### 3.3 Vehicles used for saving

61% of individuals say that they have been saving over the past 12 months. Moreover, 8% of interviewees claim

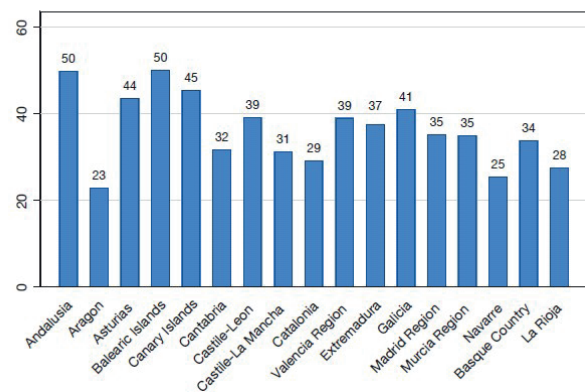
not to have saved but to be paying a mortgage loan for the acquisition of property. The most frequent means of saving, mentioned by 63% of those doing so, consists of accumulating funds in a current account. The percentage of the population that uses other financial vehicles to channel their saving is lower: 14% use their savings account, while 11% have contributed to their pension scheme. Indeed, a significant proportion of individuals saves outside the financial system. For example, 38% of the population who save do so in cash.

Figures 3 and 4 illustrate the cross-regional differences both in the proportion of individuals who have saved over the past 12 months and in the savings vehicles used.

**HAVE BEEN SAVING IN PAST 12 MONTHS (%), BY REGION** FIGURE 3



**HAVE BEEN SAVING IN CASH (% OF THOSE WHO HAVE SAVED), BY REGION** FIGURE 4



### 3.4 How do these numbers compare with those from peer countries?

The percentage of correct answers to financial knowledge questions is around the average of the countries for which comparable information is available, with the exception of the concept of risk diversification, for which the percentage of correct answers is lower in the case of Spain (see Table 1).

## INTERNATIONAL COMPARISON

TABLE 1

% of the population	Spain	Average for all countries (a)	Average OECD countries (a)	Average EU countries (a)
Inflation	58	60	65	66
Compound interest	46	42	47	44
Risk diversification	49	60	60	62
Has a current account	97	72	87	89
Has a savings vehicle (including life insurance)	55	61	66	60
Recently acquired a financial product	38	61	54	50
Expenditure has exceeded income in the past 12	28	35	28	27
Expenditure exceeding income has been financed by credit (b)	17	21	15	14

a Countries with available information.

b Includes credit from friends and family.

Holding of means of payment (current account) is generalised (97%) in Spain and higher than the average for EU (89%) or OECD (87%) countries, and well above the average for all countries (72%). Holding of savings products and life insurance (55%) is slightly below the three averages (61% for all countries, 66% OECD and 60% EU).

38% of individuals have acquired some financial product in the last 2 years, below the average for EU countries (50%) or for the OECD (54%), and well below the total average (61%). Spain is close to the OECD average and slightly above the average for EU countries in expenditure exceeding income and the financing using credit (including family and friends) thereof.

#### 4 Conclusions

The main results of the ECF offer a comprehensive overview of the financial knowledge of the adult population in Spain. However, research is needed on the relationship between that financial knowledge and the savings, spending and investment decisions of individuals and households in Spain.

In this regard, the anonymized micro data from the survey are already available to researchers on the Banco de España web page.

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