RESEARCH REPORT

New Applied Financial Literacy Index

ADĀJC Accès au Droit et À la Justice

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KEY FINDINGS

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- When it comes to financial products and services, the level of financial literacy of consumers depends on three dimensions: attitude, competence and experience.
- Attitudes of financial prudence and consumers' competencies are directly correlated with the holding of financial products.
- Financial literacy is therefore achieved through hands-on, if not empirical, experience.
- The level of applied financial literacy measured using the 2022 edition of the Index was 54 on a scale of 0 to 100.
- The level of financial literacy is lower among people who hold few products due to, among other things, a lower income and reduced financial activity.
- The level of financial literacy is also lower among less educated consumers and those who are in a fragile economic situation from a wage or debt perspective owing to precarious employment or personal or family circumstances.
- Conversely, the diversity of products held by consumers is generally greatest among those with a higher level of financial literacy; this diversity increases and then decreases with age.
- In terms of patterns, the most prudent financial practices are generally associated with a higher level of literacy.
- However, a detailed budget, often considered a prudent practice, has little to do with the level of financial literacy. Budgeting is more common among middle-income consumers than among low- or high-income consumers.
- The level of financial literacy is higher among holders of investment products than among passive consumers. Here again, the level of financial literacy is related to a consumer's interest in financial matters resulting from owning such products.
- They are also more informed about the terms under which investment and insurance advisers may pursue their activities and are remunerated for the services they offer.[1]
- The study also shows that less than 50% of consumers are aware of the remedies available to them in the event of financial fraud, even though 75% know that the Autorité des marchés financiers exists.

[1] For the purposes of this report and to make it easier to read, the research team has employed the term "financial adviser" to refer to the various designations and statuses on the market, e.g. financial security adviser, insurance agent or broker, registered mutual fund representative.

INTRODUCTION

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2022 Applied Financial Literacy Index

The 2022 Applied Financial Literacy Index (referred to herein as the “2022 Index”) is measured using three dimensions:

- Consumers’ attitude to money, depending whether it is based on prudence or a tendency towards higher or more casual spending
- Consumer financial competence, i.e. how well they understand a certain number of reasonings and calculations of a financial nature
- Financial product ownership, based on an empirical measure of consumers’ experience with financial products

Together, these three components make it possible to structure and measure an index capable of reporting consumers’ level of financial literacy.

This study shows that the above dimensions are associated with differentiated, even divergent, behaviours.

For example, the attitude of the most prudent consumers is strongly associated with the search for financial information. Unlike consumers with more indifferent or casual attitudes, prudent consumers tend to inquire more about the value of the products they buy and the training of the advisers offering these financial products and services. Moreover, there appears to be a strong correlation between these attitudes and consumers’ level of education and income.

METHODOLOGICAL OVERVIEW 3

The 2022 Index is built on an empirical measure of consumers' attitudes, behaviours and competencies in matters of finance. It therefore extends beyond the limits of previous measures, which were based primarily on respondents' perceptions and representations. It is therefore an **index of applied financial literacy**.

The *Organization for Economic Co-operation and Development* (OECD) developed a toolkit for measuring financial literacy based on research conducted in 2009.[2] The toolkit has been widely used in more than 20 countries since 2013. Financial literacy is assessed using a survey questionnaire based on a broad range of variables.[3] The survey questions focused on consumer knowledge, skills, attitudes and behaviours.

The current study draws on that body of research and presents the parameters of an index based on equivalent measures, clarified by the work of the *Accès au Droit et à la Justice* (ADAJ) research team. This approach ensures the external validity of the proposed measure.

The designers of the 2022 Index therefore included several questions directly inspired by wording proposed by OECD researchers,[4] especially for measures of consumers' attitudes toward financial issues.[5]

[2] Kempson, E. (2009), "Framework for the Development of Financial Literacy Baseline Surveys: A First International Comparative Analysis," OECD Working Papers on Finance, Insurance and Private Pensions, No. 1, OECD Publishing. doi: https://www.oecd-ilibrary.org/finance-and-investment/framework-for-the-development-of-financial-literacy-baseline-surveys_5kmddpz7m9zq-en

[3] See the G20/OECD INFE report on adult financial literacy in G20 countries http://www.oecd.org/finance/g20-oecd-infe-report-adult-financial-literacy-in-g20-countries.htm

[4] OECD/INFE Toolkit for Measuring Financial Literacy and Financial Inclusion (2018) http://www.oecd.org/financial/education/2018-INFE-FinLit-Measurement-Toolkit.pdf

[5] Measuring Financial Literacy: Questionnaire and Guidance Notes for Conducting an Internationally Comparable Survey of Financial Literacy. https://www.oecd.org/finance/financialeducation/49319977.pdf

Our team also benefitted from a secondary analysis of 2018 Index data. In rereading the data, the team was able to realize the potential of a variable that was not taken into account in the previous index: very significant disparities in financial product ownership among consumers. What is more, this analysis showed a link between the number and variety of products held by consumers and consumers' competencies and attitudes in financial matters. It revealed that financial literacy is acquired "empirically." In other words, it is acquired not through books but through financial experiences. The 2022 Index also takes into account financial product ownership. It became very clear that this metric was far more relevant than respondents' assessment of their own understanding of financial matters.

The 2022 Index therefore considered three variables:

- An attitude variable
- A competence variable
- An ownership variable

Attitude

To determine whether consumers had a prudent or imprudent attitude, a series of statements was used to understand their views on financial issues. Attitude was measured with the following question:

Would you say that the following statements describe your personal attitude very well, somewhat well, somewhat poorly or very poorly?

- *I tend to live from paycheque to paycheque.* (A3a)
- *I tend to save rather than spend.* (A3b)
- *I always pay my bills on time.* (A3c)
- *Money is meant to be spent.* (A3d)

Competence

Another measurement, drawn from the OECD's studies and used in the 2018 AMF Index survey, made it possible to gauge consumers' financial competence. The questions were as follows:

- *If you invested $100 at 2% interest per year, would you have more than $102, exactly $102 or less than $102 after five years?* (L1)
- *If you had $200 to put toward payments you are behind on, which should you pay first, your credit card or your mortgage?* (L3)
- *True or false: The interest you would have to pay on a bank loan payable over 15 years would be higher than for a 30-year loan.* (L4)
- *True or false: Holding shares in a single company provides a safer return than holding investments in more than one company.* (L5)

Ownership

Lastly, the volume and nature of financial products held by consumers were taken into account. Four consumer categories were established. The simplified definitions of these profiles formed the following gradation:

- *Holders of a mortgage loan and at least one product in each of the other financial product categories.*
- *Holders of a mortgage loan and a partial range of other products.*
- *Consumers with no mortgage loan but with at least one other financial product.*
- *Consumers without a mortgage loan and without automobile insurance.*

The Index is an additive variable built from the three variables defined above, i.e. attitude, competence and ownership.

This report presents the results of a survey of 1,002 respondents[6] conducted for the 2022 Index from July 12 to August 5, 2021. It only includes figures showing significant differences, unless “N.S.” appears in the legend.

[6] The data file, which was in “.sav” format, was analyzed using IBM’s Statistical Software Package for the Social Sciences (SPSS), version 22. We used four analysis algorithms: 1) Principal components factor analysis to produce factor scores for the attitude and financial competence scales; 2) Analysis of variance (ANOVA) to detect significant results for a significance level < 0.05 of the scales’ mean factor scores crossed with nominative or ordinal variables; 3) Chi-square analysis for the frequency cross tabulation for the nominal or ordinal values with a significance level < 0.05; 4) Correspondence analysis with a multidimensional presentation of a few significant variables selected to produce profiles that accurately summarize the findings from this research.

ATTITUDES

ADĀJ Accès au Droit et À la Justice

Attitudes

To capitalize on the attitude measurement used for the Index, we performed a factor analysis. This allowed us to identify, on a graduated scale, consumers' propensity to adopt a prudent (above the horizontal axis), or indifferent or risky (below the horizontal axis) financial attitude. The figures below are all statistically significant, which means they reflect an actual trend that is observable in reality. Therefore, consumers who have a detailed personal budget score significantly higher on the attitude scale (above the horizontal axis) than those who do not (below the horizontal axis) (Figure 1).

Figure 1

Financial prudence and budgeting

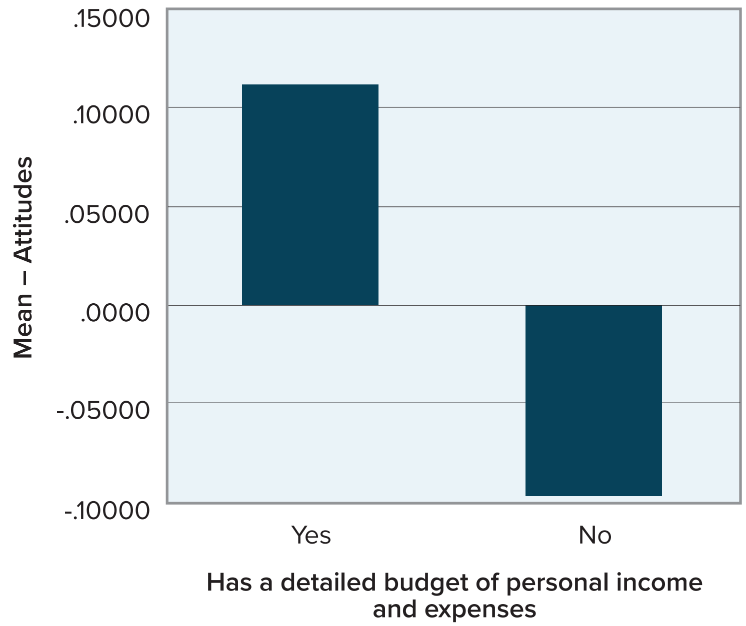
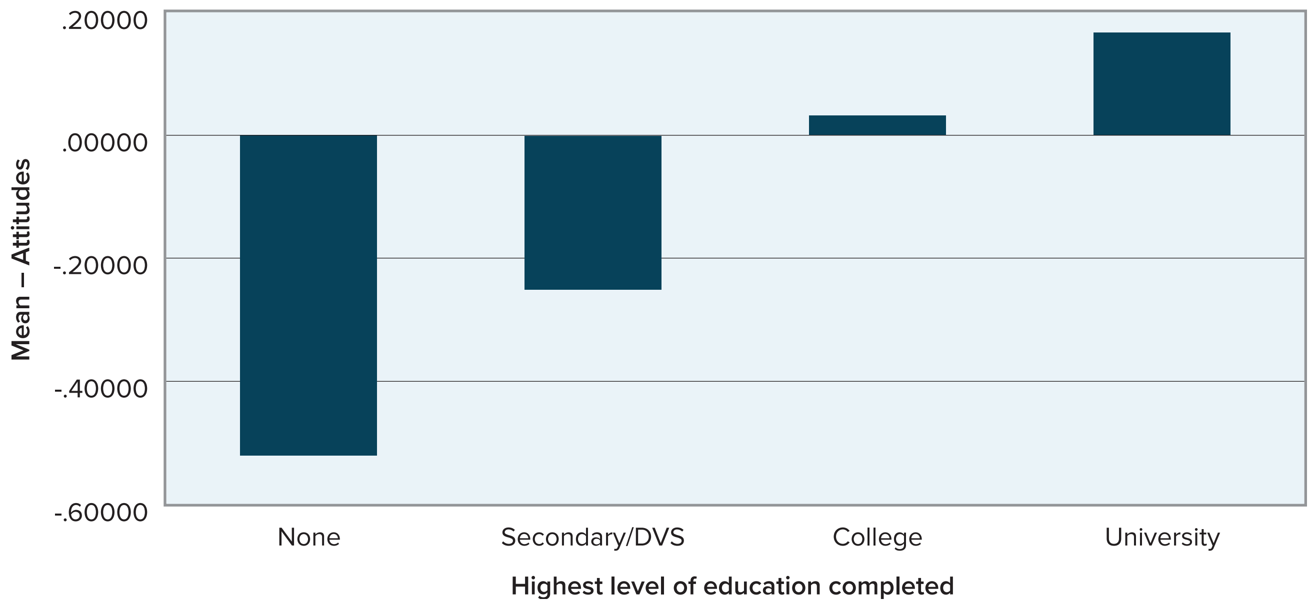


Figure 2

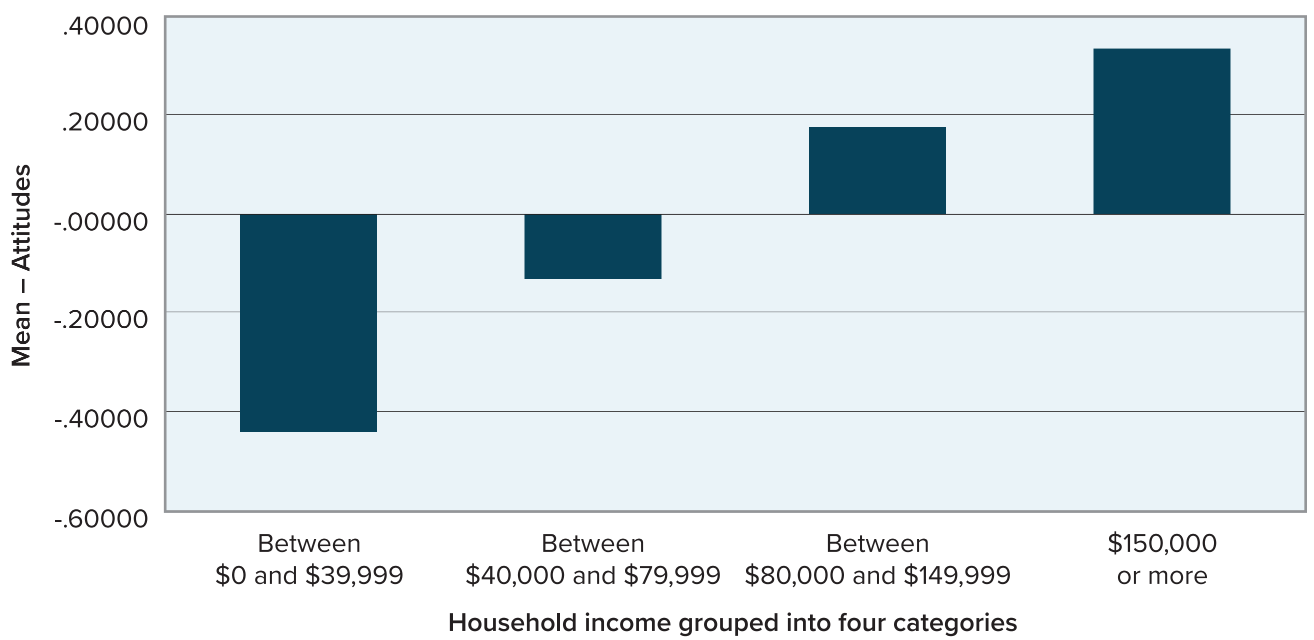
Financial prudence by level of education



There were also significant differences based on level of education and level of income (Figures 2 and 3); the higher respondents' level of education or income was, the more financially prudent they were.

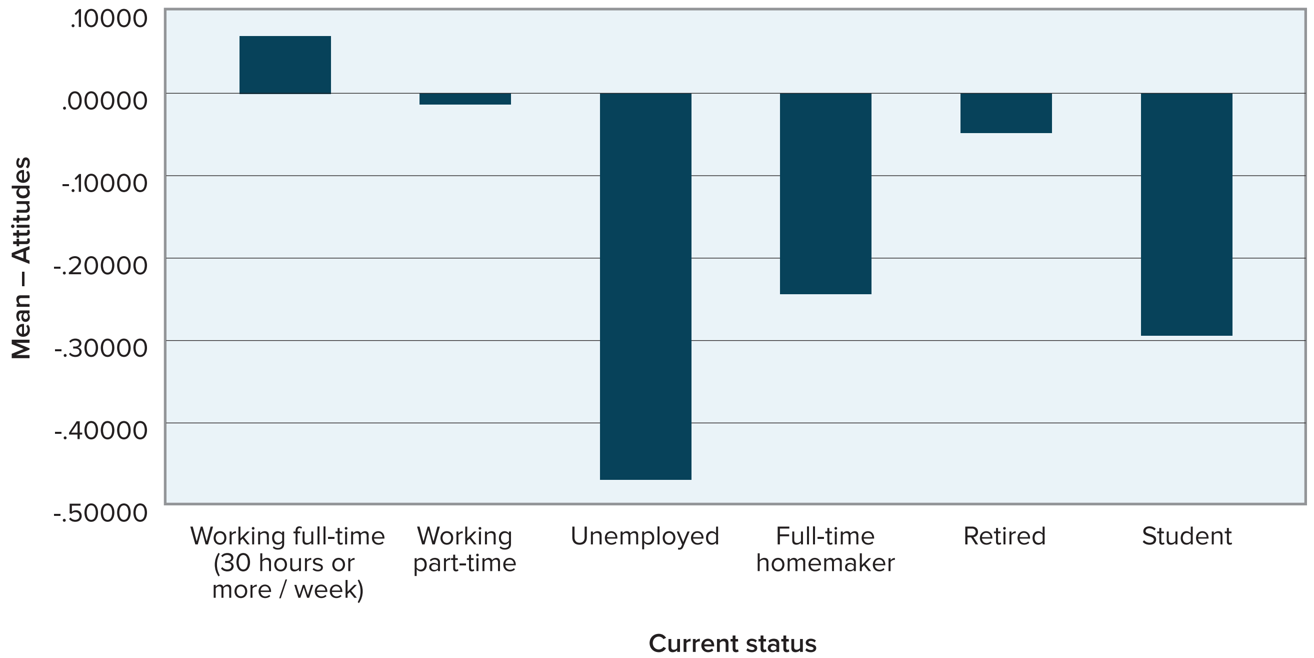
Figure 3

Financial prudence by household income



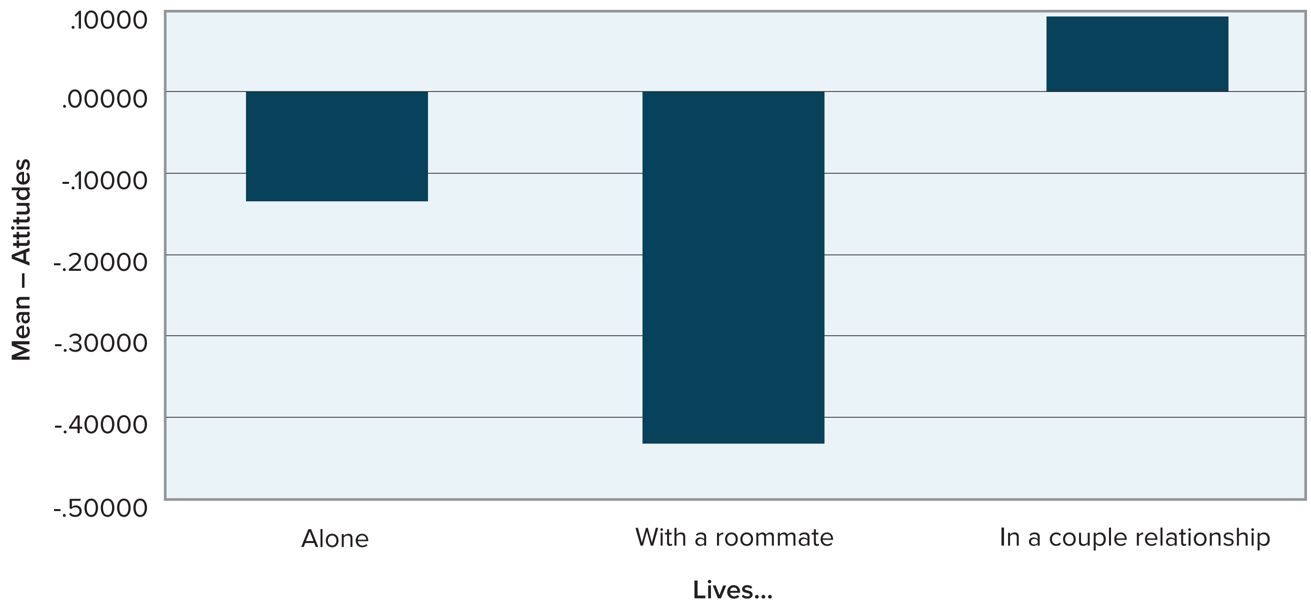
Respondents who were unemployed, at home full time or students, and, to a lesser degree, retirees and part-time workers, appeared to be the most likely to have an indifferent or relaxed attitude toward financial asset management (Figure 4).

Figure 4
Financial prudence by occupation



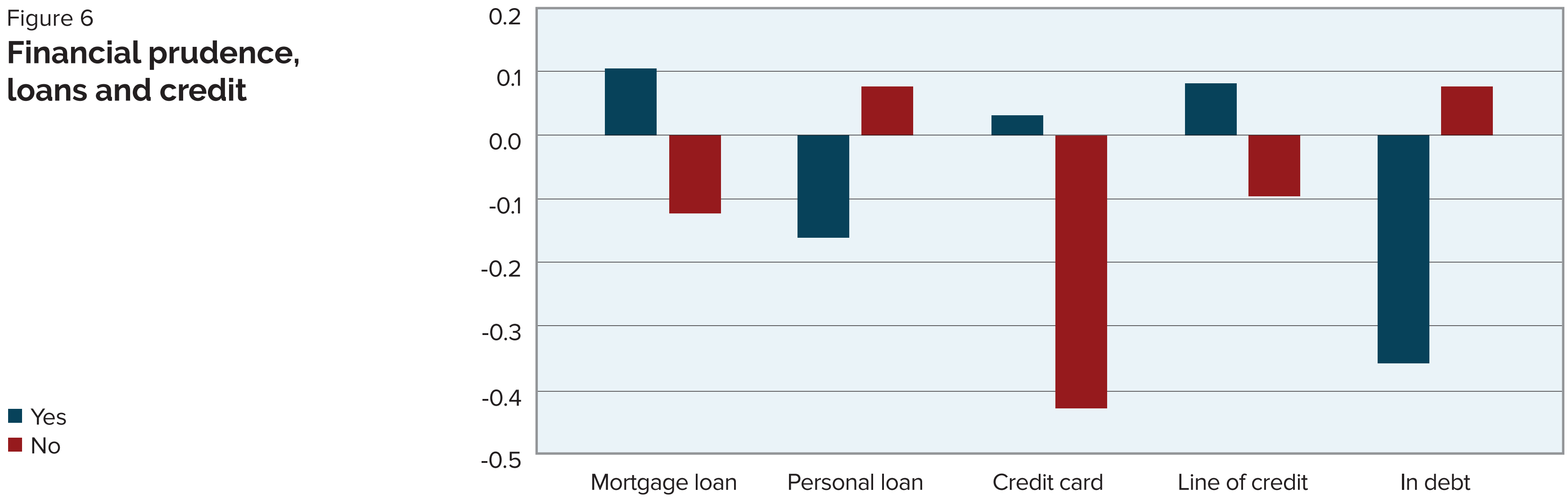
On average, respondents living as a couple had rather prudent financial attitudes, whereas single respondents, and, to an even greater degree, respondents living with a roommate, were less cautious (Figure 5). This suggests that stability in interpersonal relationships contributes to the development of financial prudence, because financial choices either benefit from an outside opinion or involve someone else (the spouse), are made together, or reflect a lifestyle that requires more financial planning.

Figure 5
Financial prudence by household composition



One of the most important conclusions of the analysis concerns the relationship between consumption patterns and financial prudence. Respondents vary where financial prudence is concerned. Those holding mainstream products (mortgage, credit card or line of credit) were generally more financially prudent than those who had less typical and riskier products (personal loans) or who were in debt (Figure 6). Consumers with no mainstream products (mortgages, etc.) were more unconcerned about financial asset management. As also discussed below, this shows that prudent attitudes evolve with changing consumption patterns, and that financial literacy is directly associated with financial experience; **it does not emerge from mere theoretical curiosity**. Therefore, **financial literacy must be considered in terms of experience, not viewed as an abstract skill**.

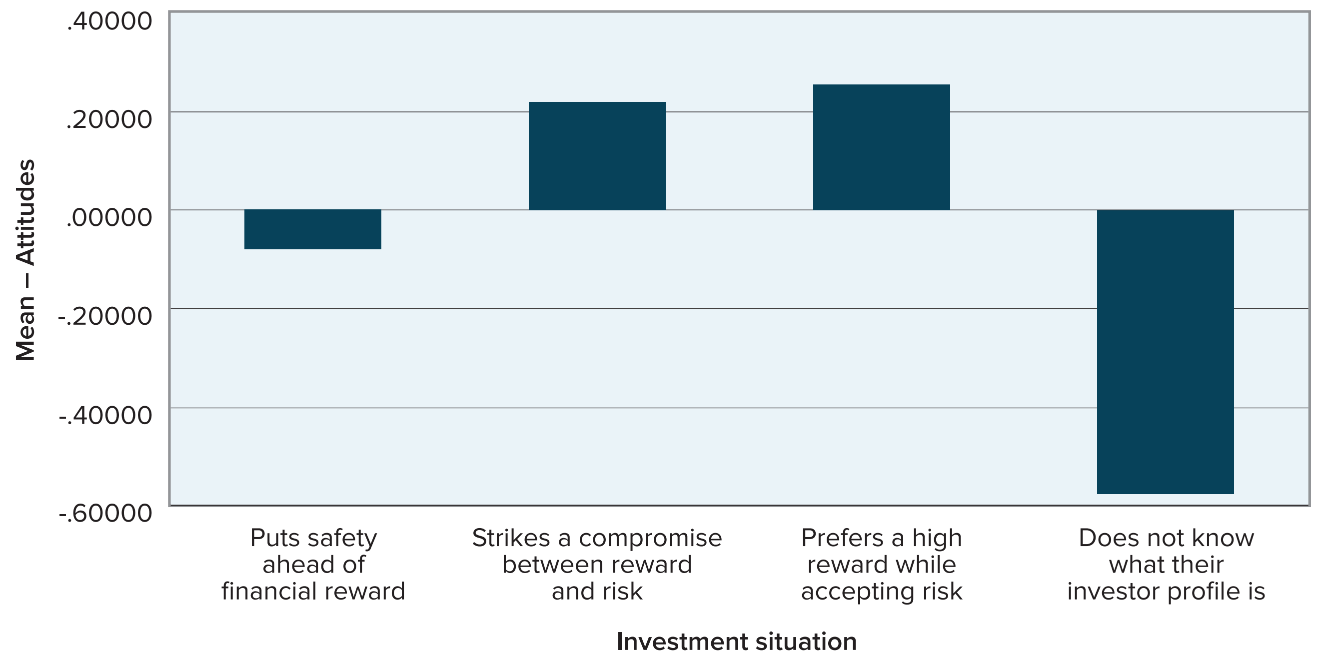
Figure 6
Financial prudence, loans and credit



Consumers able to define their financial profiles and balance *performance* and r*isk management* for themselves also have a more prudent attitude than those who do not know their investment profile (Figure 7). The predisposition to financial prudence is therefore directly correlated with the ability to define oneself as an investor, which is obviously only conceivable for people who have, or believe they will one day have, the means to become one. Consequently, financial prudence is not an abstract quality. Once again, it appears to be rooted in consumer experience. It can reasonably be inferred that it stems from an actual situation.

Figure 7

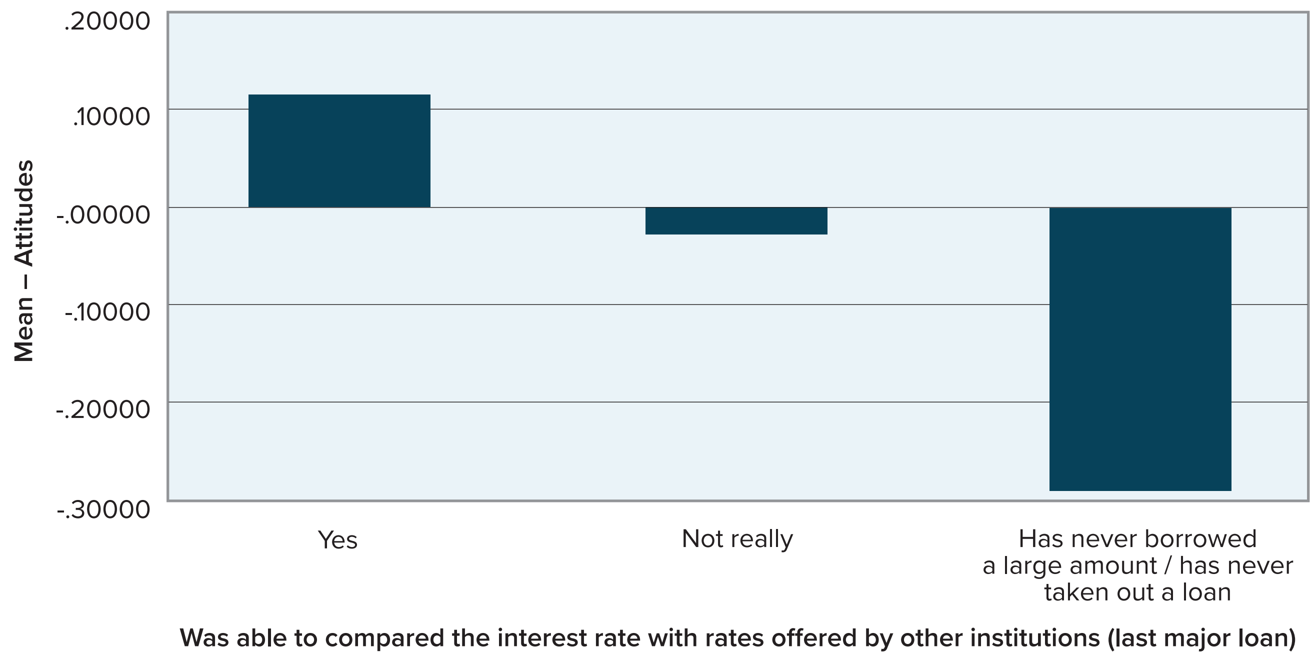
Financial prudence and investment situation



Likewise, on average, respondents who said they had compared the interest rates of various institutions before taking out personal loans had, across all the other dimensions, a more prudent financial attitude than those who said they had never taken out personal loans. The latter group had a rather indifferent or relaxed attitude toward managing their financial situation (Figure 8).

This finding confirms that, essentially, financial prudence is “empirical.” Again, it appears to be the result of experience as opposed to theoretical knowledge.

Figure 8
Financial prudence and information collection regarding lending institutions’ interest rates



Similarly, all the respondents who owned investments, e.g. exchange-trade funds or stocks, labour-sponsored funds (Figure 9.1), or investments in registered plans (Figure 9.2) had financially prudent attitudes. Conversely, consumers with no investments got a negative score on the financial attitude scale.

Figure 9.1

Attitudes and investments

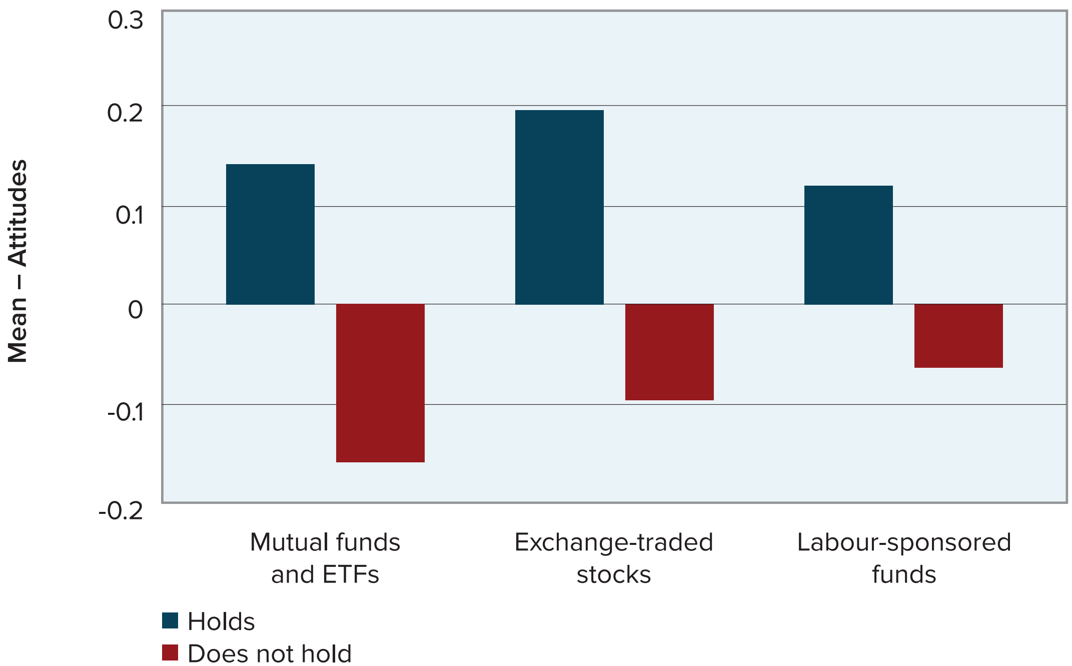
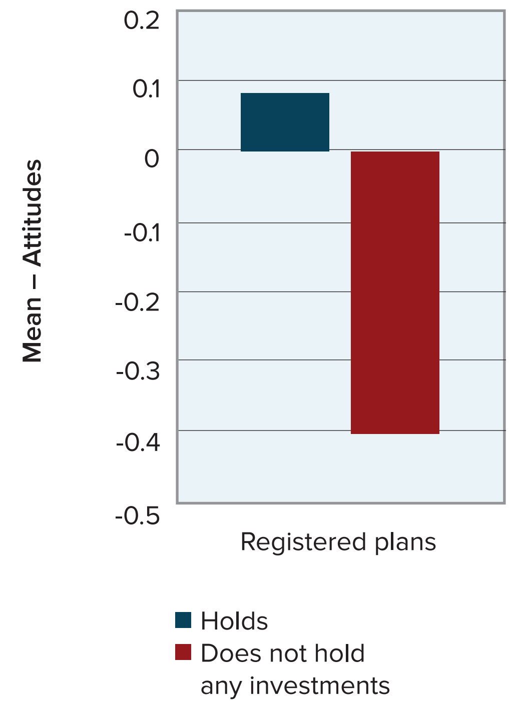


Figure 9.2

Attitudes and registered plans



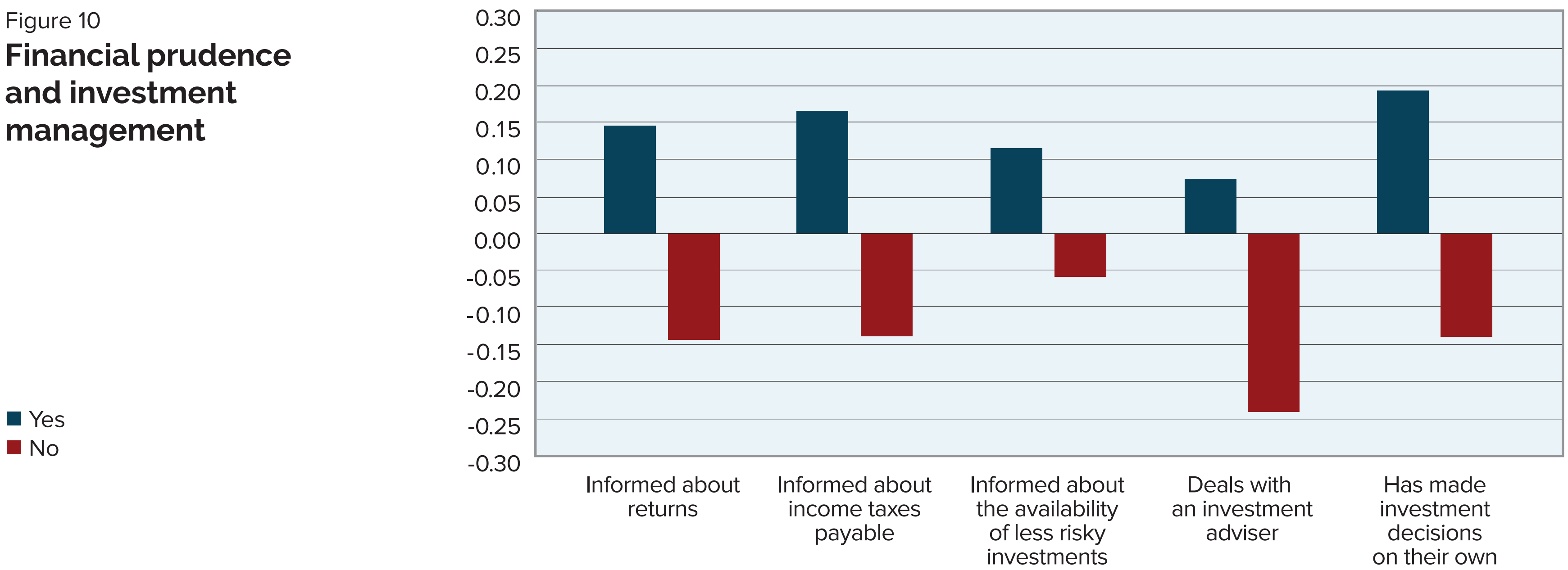
Other correlations confirm the previous findings. Figure 10 shows that consumers with more knowledge about financial products are also highly prudent. Again, attitudes of competence go hand in hand with financial practices; they appear to emanate from each other.

This is also the case with consumers who work with investment advisers. Is the presence of an adviser favourable to the development of financial prudence? Once again, personal financial experience in general appears to better explain the propensity for prudence.

Consumers who invest on their own also exhibit a certain degree of financial prudence (Figure 10). Taking the initiative of making investments themselves does not necessarily make them imprudent or reckless consumers.

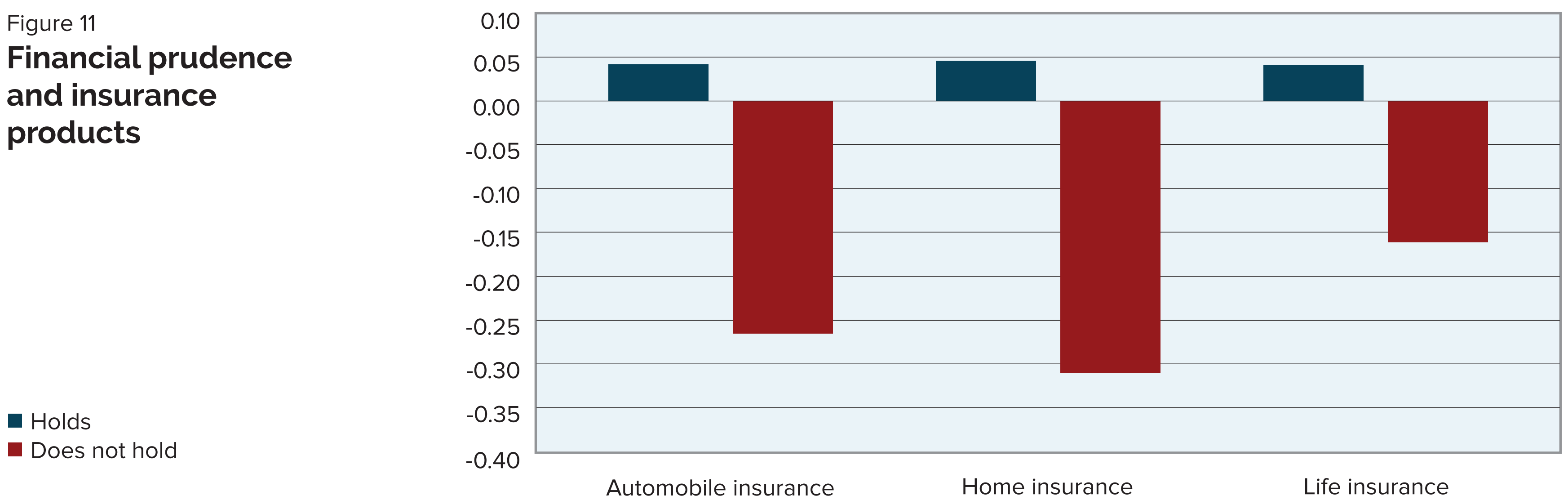
Figure 10

Financial prudence and investment management



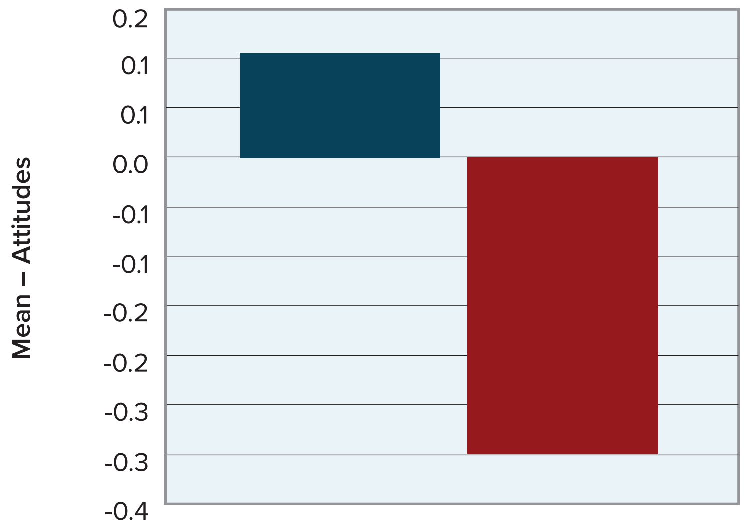
The same trends emerge among consumers of insurance products. The most prudent consumers are those with insurance. When it comes to financial management, consumers who do not have insurance display attitudes that are more relaxed or indifferent in general (Figure 11).

Figure 11
Financial prudence and insurance products



The same goes for the relationship between financial prudence and awareness of the Autorité des marchés financiers. Consumers who are aware of the AMF's existence have higher financial prudence scores than those who are not (Figure 12). By extension, the former group is presumably more likely to turn to the AMF to deal with trouble or fraud.

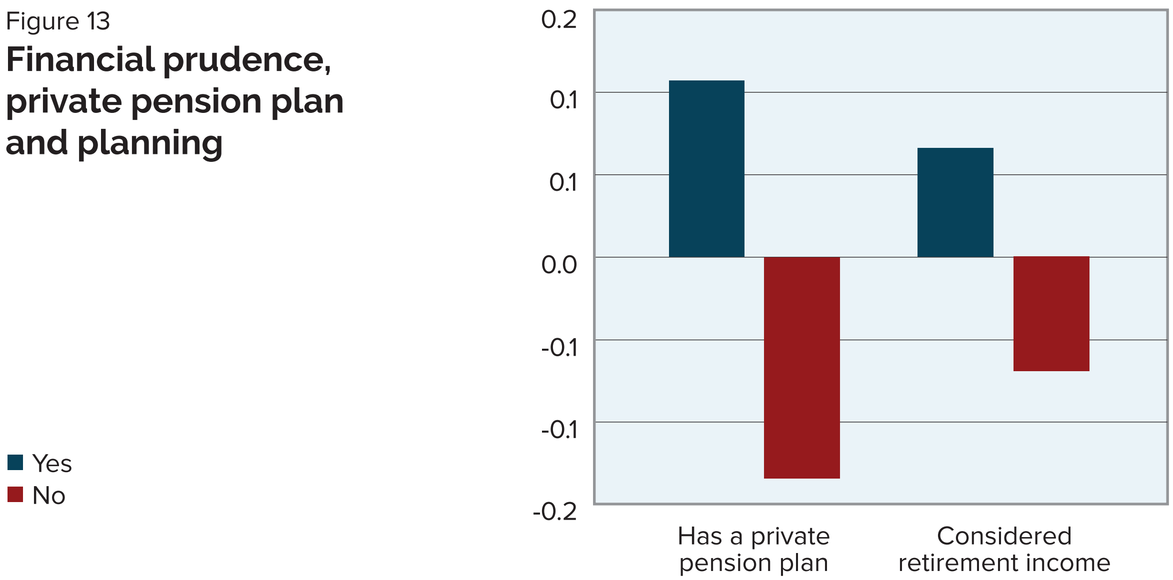
Figure 12
Financial prudence and awareness of the AMF



■ Has heard of the AMF
■ Has not heard of the AMF

Lastly, there are significant financial prudence differences among respondents with a private pension plan in addition to the public plan. This is also the case with those who claim they can estimate their retirement income, unlike respondents who do not have such plans or who are unable to determine what their retirement income will be (Figure 13).

Figure 13
Financial prudence, private pension plan and planning



COMPETENCE

Competence

Respondent competence was measured using a series of questions in the form of a quiz (see above). Using factor analysis, each respondent was given a score reflecting their “competence” in solving the questionnaire problems. Respondents whose answers were generally correct received a positive score (above the horizontal axis). However, those who were unable to answer the questions correctly received a negative score on the same scale (below the horizontal axis). This measurement makes it possible to represent respondents’ financial competence profiles graphically.

As with financial attitude (prudence or imprudence), financial competence varies depending on the consumer profile.

Competence is strongly associated with consumers' levels of education and income. In general, the financial competence of respondents with a higher level of education (Figure 14) or more income (Figure 15) is greater than that of respondents with less education or income.

Figure 14
Level of education and financial competence

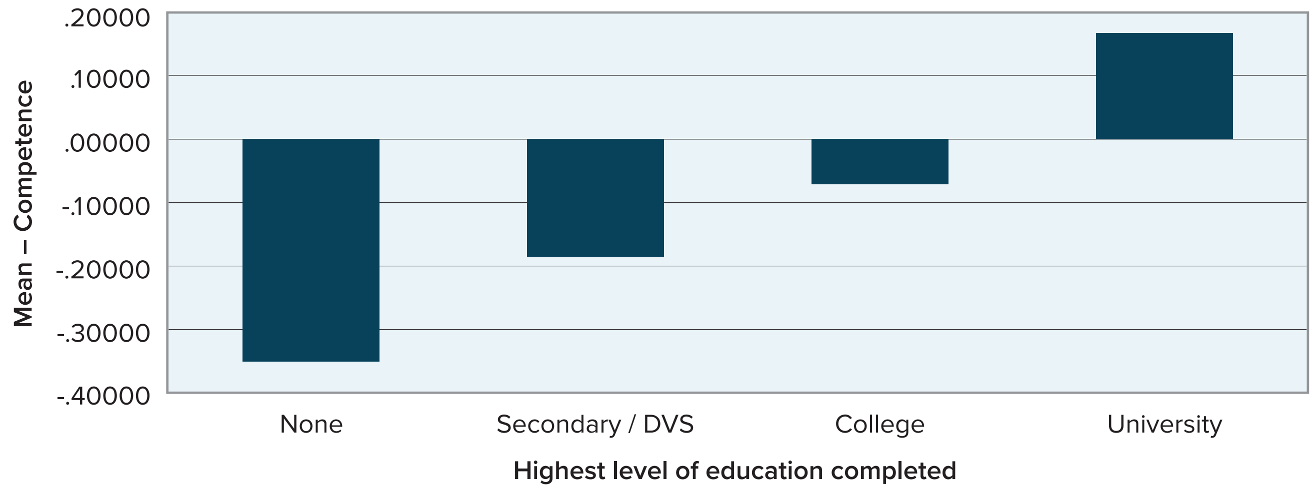
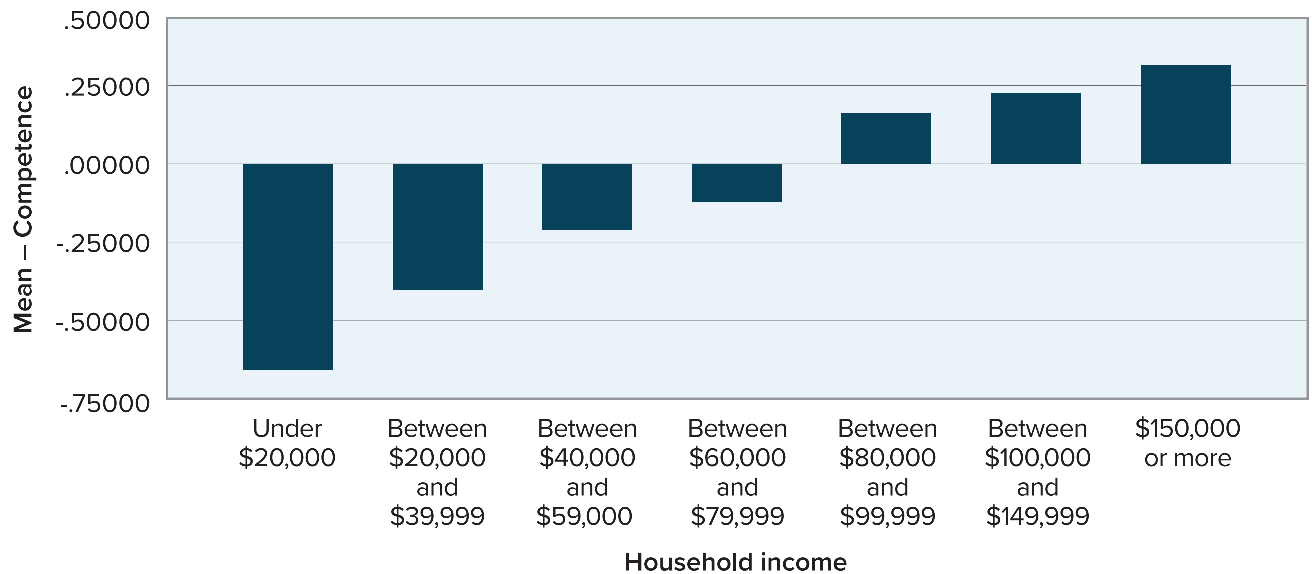
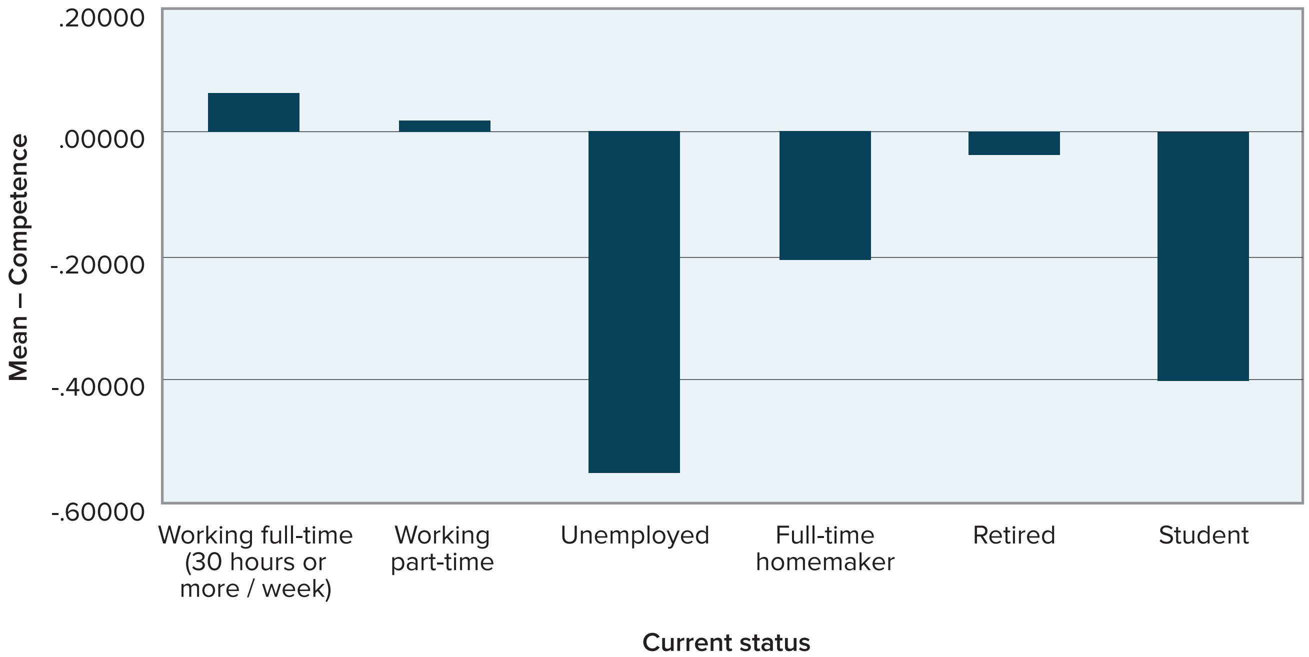


Figure 15
Income and financial competence



Similarly, consumers' professional profiles play a role in becoming financially literate. The following figures clearly show that, while financial competence is low overall within the general population, it is higher among workers who have a stable professional status and, as a result, income likely to favour financial activity (Figure 16).

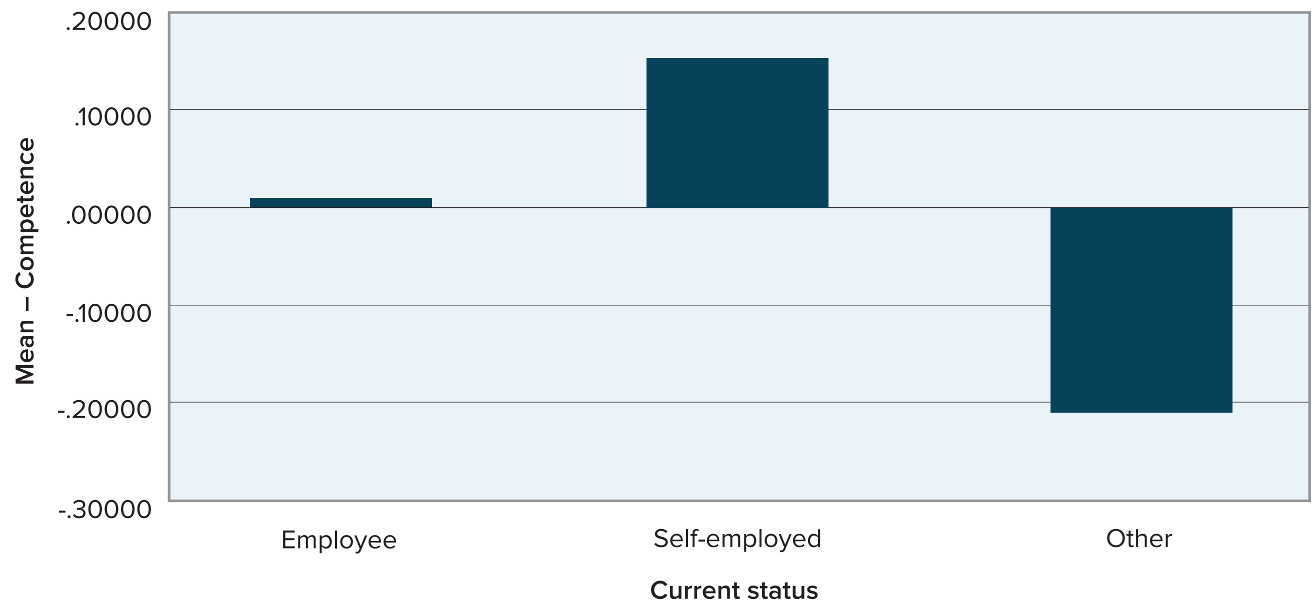
Figure 16
Financial competence and occupation



However, financial competence is more widespread among the self-employed, whose situation requires planning for the long term that takes into account the absence of a private pension plan through an employer, and for the medium term to deal with irregular income (Figure 17).

Figure 17

Financial competence, employees and self-employed workers



Stable personal and family situations are likely to have a direct influence on household financial projections over the short, medium and long term. Consequently, such stability is inevitably correlated with the development of common competencies, which are likely to differ throughout the population. This assumption is validated by figures 18 and 19, which show that homeowners generally have a higher level of financial competence than renters. Likewise, day-to-day management and planning requirements change depending on whether a consumer has dependent children. By extension, these requirements are associated with the need to have certain common financial competencies, like understanding interest rates, the tax burden and inflation. We also found that people living as a couple showed greater financial prudence (budgeting, saving, etc.) than those who live alone or with roommates without constituting a household per se. Couples also had a higher level of general financial competence. In all cases, a stable personal living situation, be it in terms of housing, family relationships or finances, is conducive to the development of common financial competencies. This suggests that financial literacy is directly related to financial experience rather than an abstract competence developed theoretically.

Figure 18

Financial competence and living situation

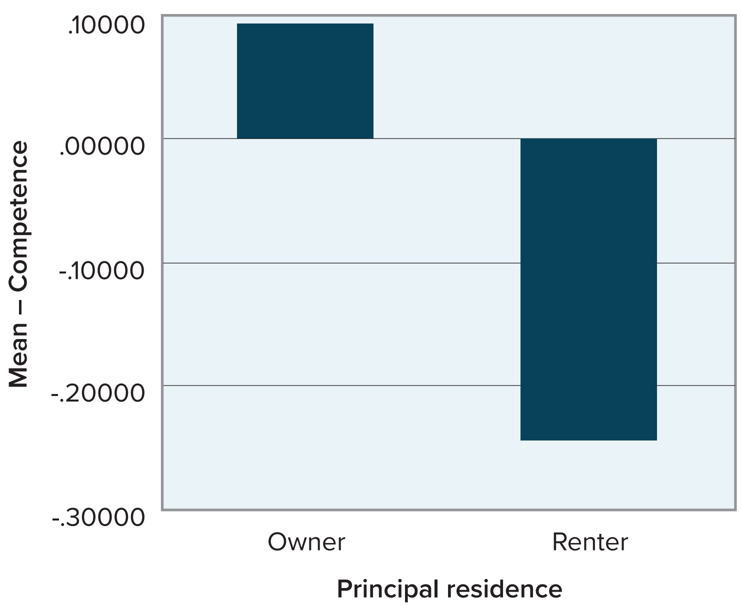
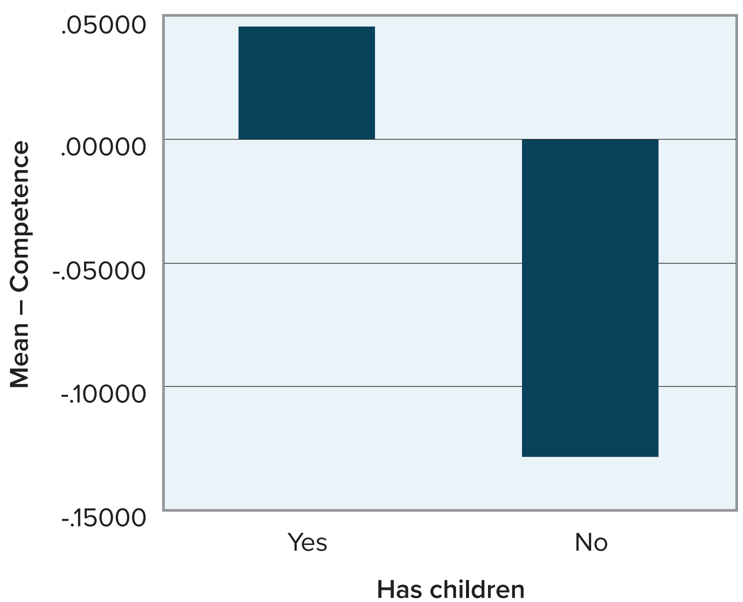


Figure 19

Financial competence and parenthood



Respondents who claimed they found it easy to manage their assets also had a higher level of overall financial competence than those who found it difficult (Figure 20). Respondents who tended to live "from paycheque to paycheque" were the least financially literate. In general, the answers for the attitude (previous section) and competence variables are correlated. While this may seem paradoxical and contradictory at first glance, respondents who keep a detailed budget were not the most competent in dealing with financial issues. It should be noted that households most likely to engage in budget planning had lower incomes (53% of households with an annual income under $40,000, and 50% of households with an income between $40,000 and $79,999), whereas households with higher annual incomes were less likely to budget (40% of households with an annual income between $80,000 and $149,000). It follows that budgeting is a practical necessity rather than a "cognitive" measure (attitude or competence), which explains the absence of a correlation between budgeting and general financial competencies.

Figure 20

Competence and financial management

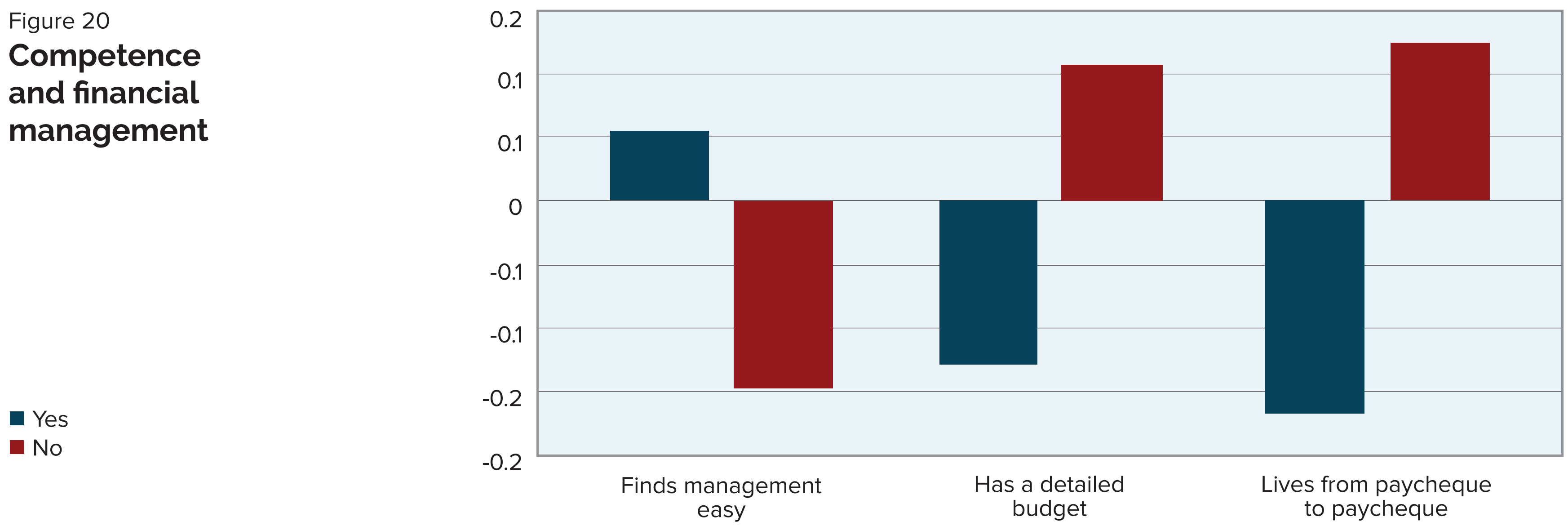
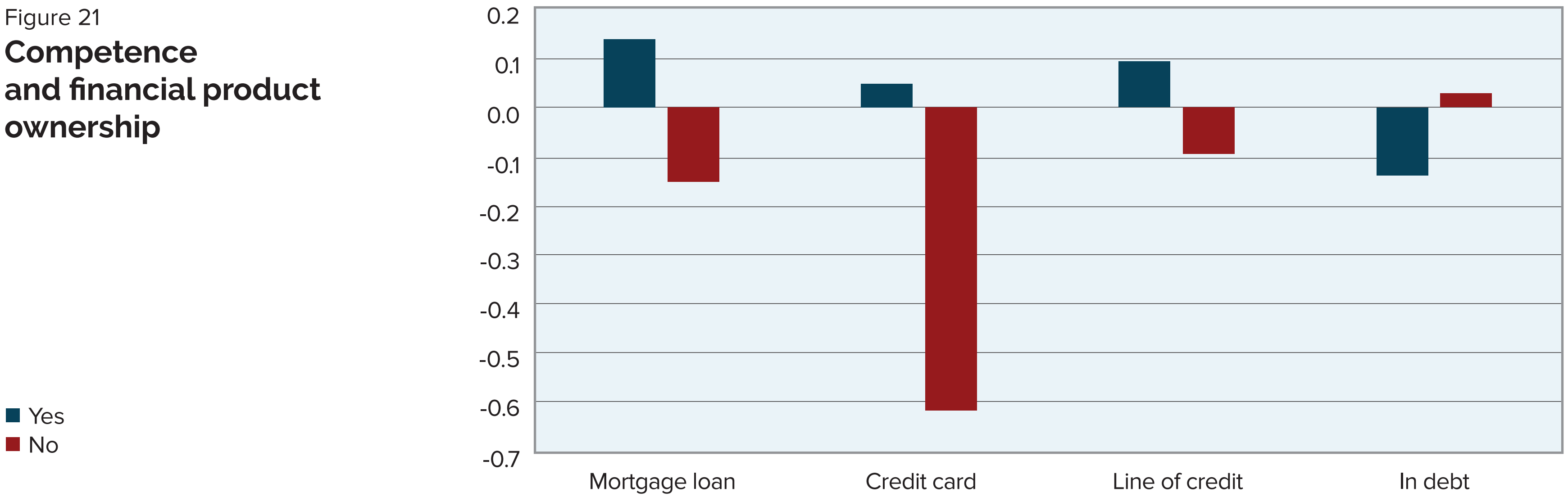


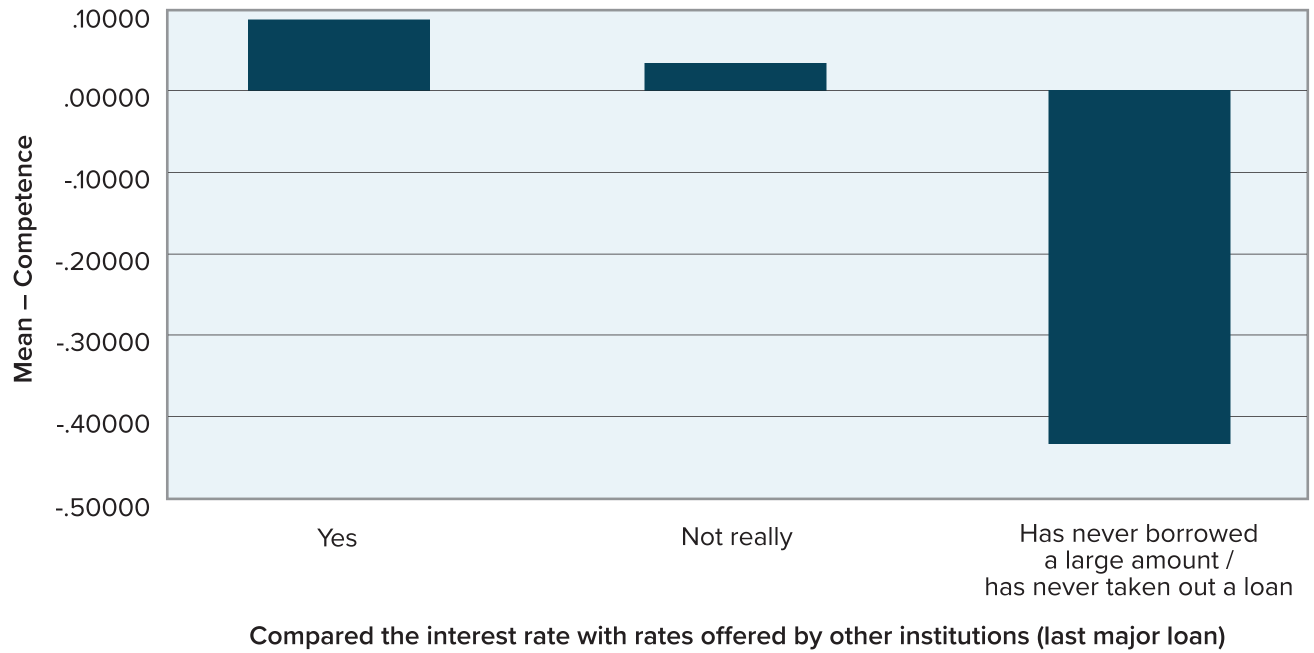
Figure 21 confirms the previous observations. Not only do holders of mainstream products (mortgage loan, credit card, line of credit) generally exhibit a certain degree of financial prudence, but they are also more financially literate. Conversely, those who are in debt have lower levels of financial competence and prudence (Figure 6).

Figure 21
Competence and financial product ownership



Moreover, the financial competence of consumers correlates with the tendency to compare interest rates for recent loans (Figure 22). Indeed, respondents who were the least active on the borrowing market, that is, who had not recently borrowed large amounts of money, had the lowest level of financial competence. This suggests that while financial competence and literacy may vary within the population, they are directly associated with consumers' common personal financial experiences.

Figure 22
Competence, borrowing and interest rate comparison



The correlation between consumer competencies and financial activity can also be seen in their investments, be they in exchange-traded funds or stocks, labour-sponsored funds (Figure 23.1), or registered plans (Figure 23.2).

Again, it appears that developing basic financial competence is the direct result of financial experience, and the most competent consumers are those who engage in actual financial activity.

In contrast, consumers who have no general financial experience (and whose attitude toward financial issues is indifferent or nonchalant, figures 7 and 8) are also less capable, on the whole, of managing their finances or safeguarding their assets.

Figure 23.1

Competence and financial investments

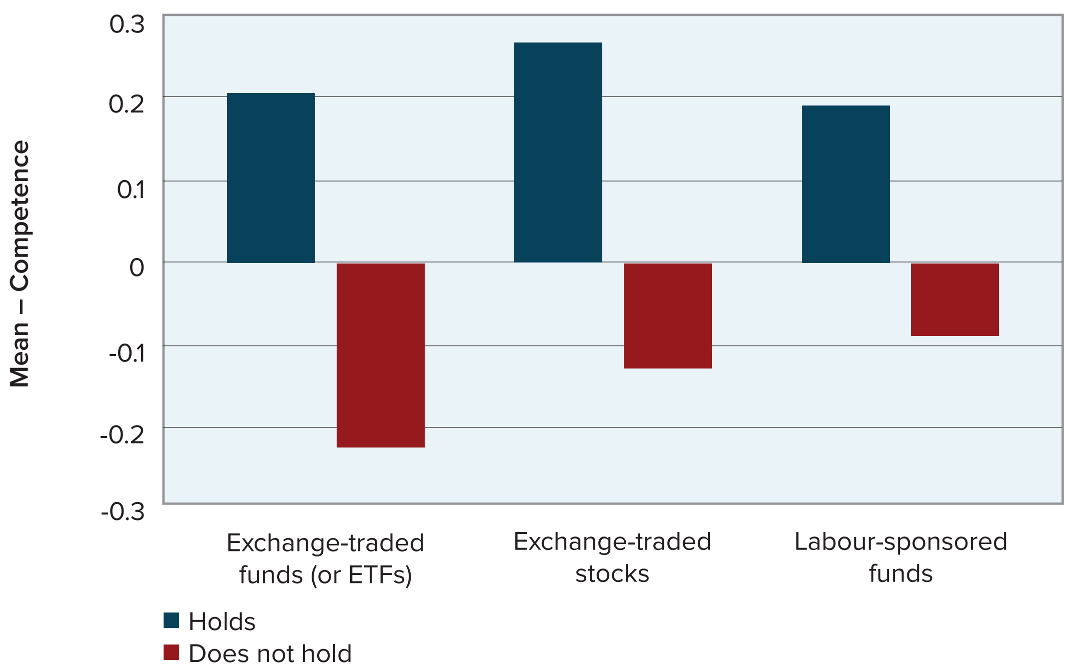
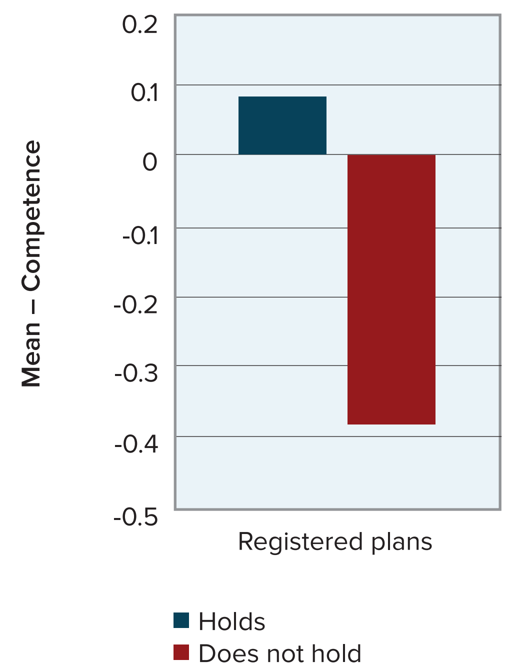


Figure 23.2

Competence and registered plans

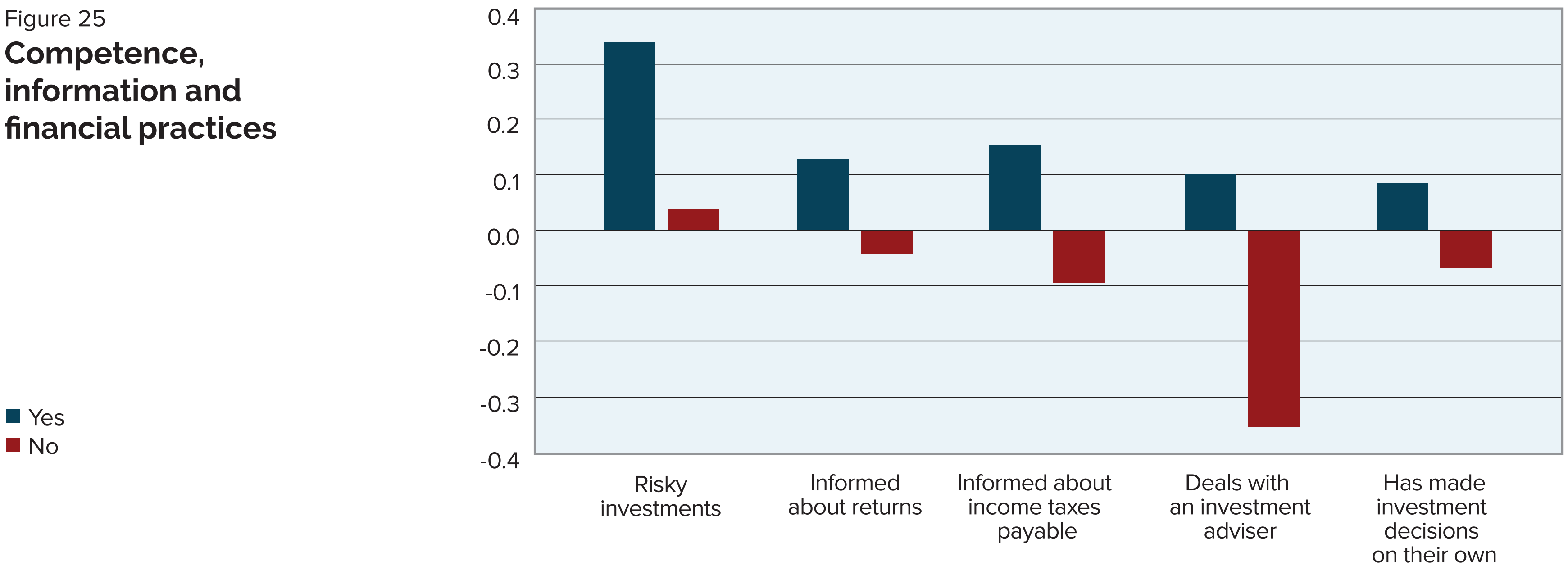


These diverse competencies are also correlated with consumers' ability to determine their own investment profiles. Consumers who say they are unable to define this profile or who put safety ahead of financial reward are, in theory at least, the most at risk on the investment market because of their limited financial competence (Figure 24). However, **the additional analyses performed as part of the work on the Index revealed that consumers who were the least familiar with financial reasoning were also significantly less active on the investment market** and, by extension, less at risk. Above all, this data confirms that competence closely follows consumer financial experience, and that attitudes and competencies in this area are directly associated with real experiences and not fictional hypothetical situations.

Figure 24
Competence and investment profile

Since investment activity is associated with a wide range of financial practices, consumer financial competence is, predictably, related to other practical knowledge, e.g. the ability to estimate the returns and tax consequences of an investment (Figure 25). **In addition to what was observed with respect to attitudes, consumers who are most likely to make risky investments are also the most proficient in financial calculation. However, they consult advisers more systematically, even though they are more likely than other consumers to decide how to invest assets on their own.**

Figure 25
Competence, information and financial practices

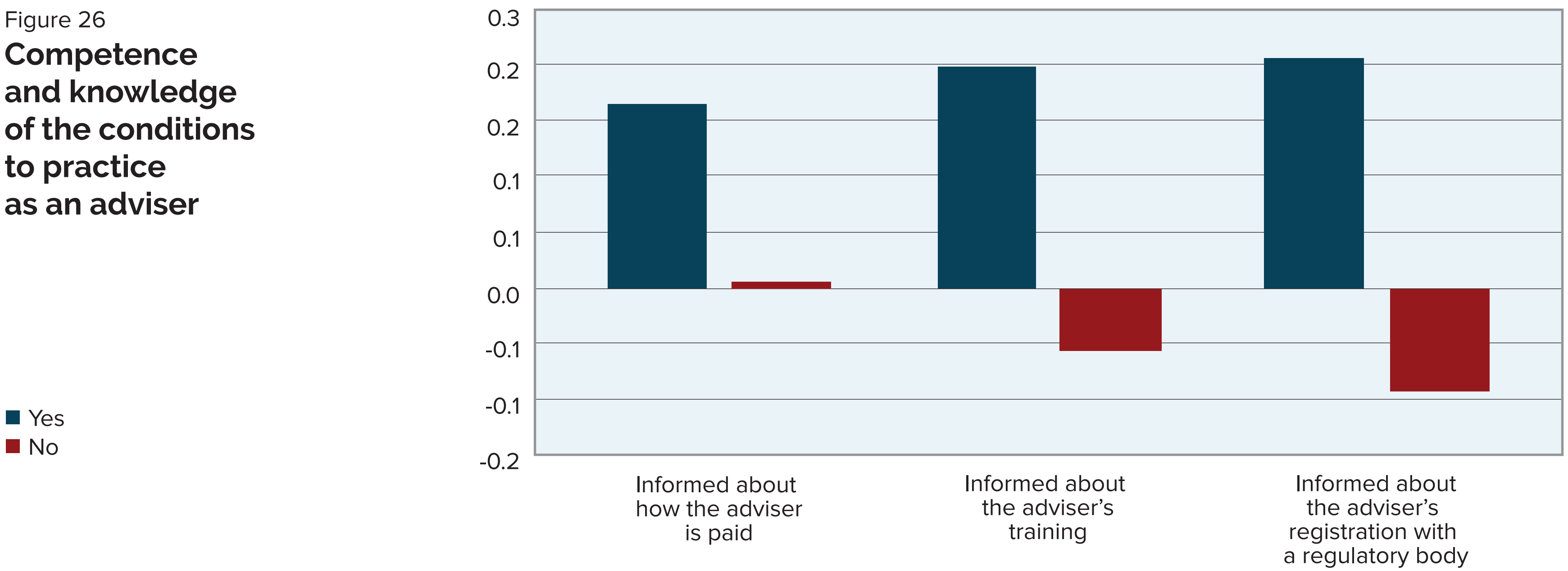


When they consult a financial adviser, consumers with proven financial competence are generally more informed about the adviser's training, how the adviser is paid, and whether they are registered with a regulatory body. The same goes for consumers of insurance products (Figure 26).

Lastly, familiarity with the regulatory agencies likely to intervene in the event of trouble is also strongly associated with consumer competencies, which is consistent with the findings on consumers' financial attitudes (Figure 12).

Consequently, these different dimensions should be taken into consideration when studying financial literacy, or it should be viewed as a whole, as can be seen in the 2022 Index's more broadly defined measurement.

Figure 26
Competence and knowledge of the conditions to practice as an adviser



FINANCIAL PRODUCTS

FINANCIAL PRODUCTS

6

The survey also asked respondents about their financial products, e.g. loans, credit services, various types of investments (exchange-traded stocks, registered plans), pension plans and insurance.

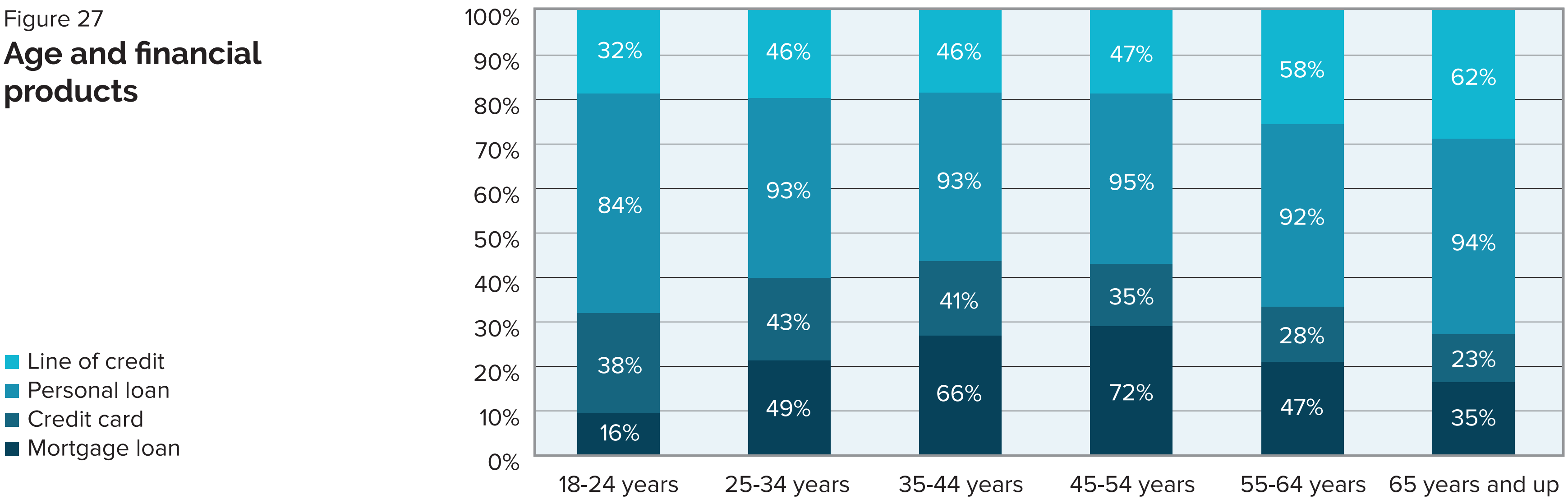
Loans and credit

A little more than half of the consumers surveyed (52.5%) said that they had a mortgage loan. This is consistent with home ownership statistics among Quebec residents.

Respondents aged 35 to 54 were the mostly likely to have a mortgage loan, whereas the proportion of respondents with a personal loan was higher among 25- to 34-year-olds and then decreased with age (Figure 27). Credit card use was fairly universally distributed, and no significant differences were found between consumer age groups. Therefore, credit cards appear to be a well-established form of payment. However, the use of a line of credit increases with age.

Figure 27

Age and financial products



Overall, one third of respondents claimed they never compared interest rates prior to borrowing large amounts of money (Figure 28). While one sixth of respondents said they were in debt, this feeling of indebtedness changed with age and affected 25- to 54-year-olds in particular—nearly 25% of this group complained about their debt (Figure 29).

Figure 28

Compared the interest rate with rates offered by other institutions (last major loan)

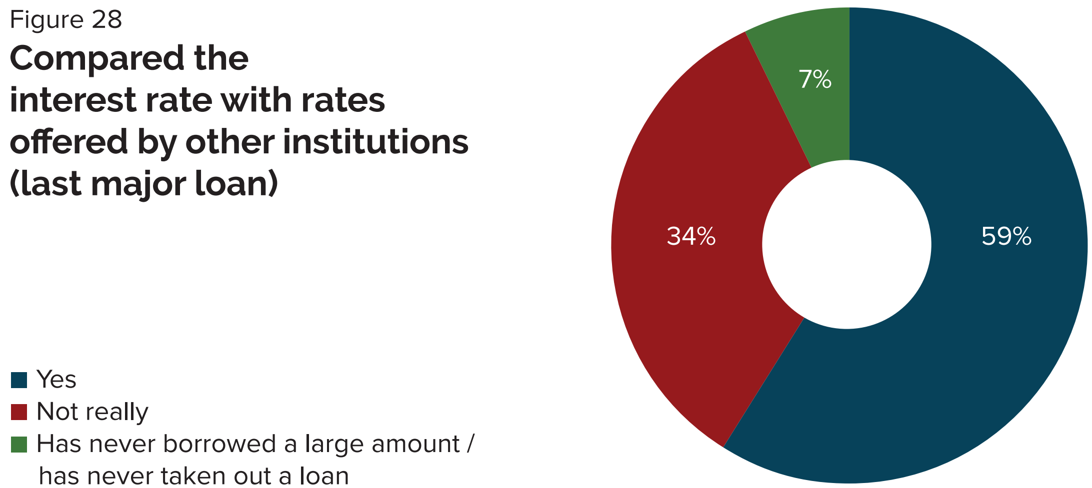
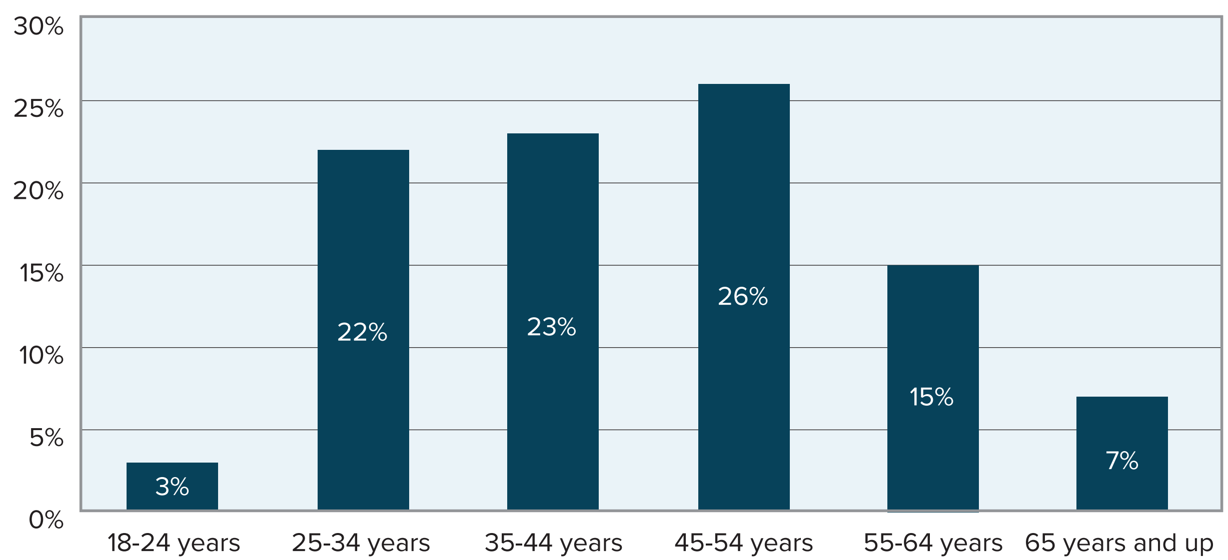


Figure 29

Age and feeling of indebtedness



Investments

Investments in registered plans were the products that consumers held the most (81%). Only one third of consumers held exchange-traded stocks (31%) or shares in a labour-sponsored fund (34%).

Half of the consumers said they had invested in exchange-traded funds (51%). Sixteen percent of respondents claimed that they had made risky investments. Forty-two percent of consumers indicated that they had made investments without consulting an adviser.

Regarding financial literacy, most respondents claimed that they were aware of the terms of their investments (Figure 30), and more than half asserted that they were well informed of their investment adviser's role and services (Figure 31).

Figure 30
Investments and information

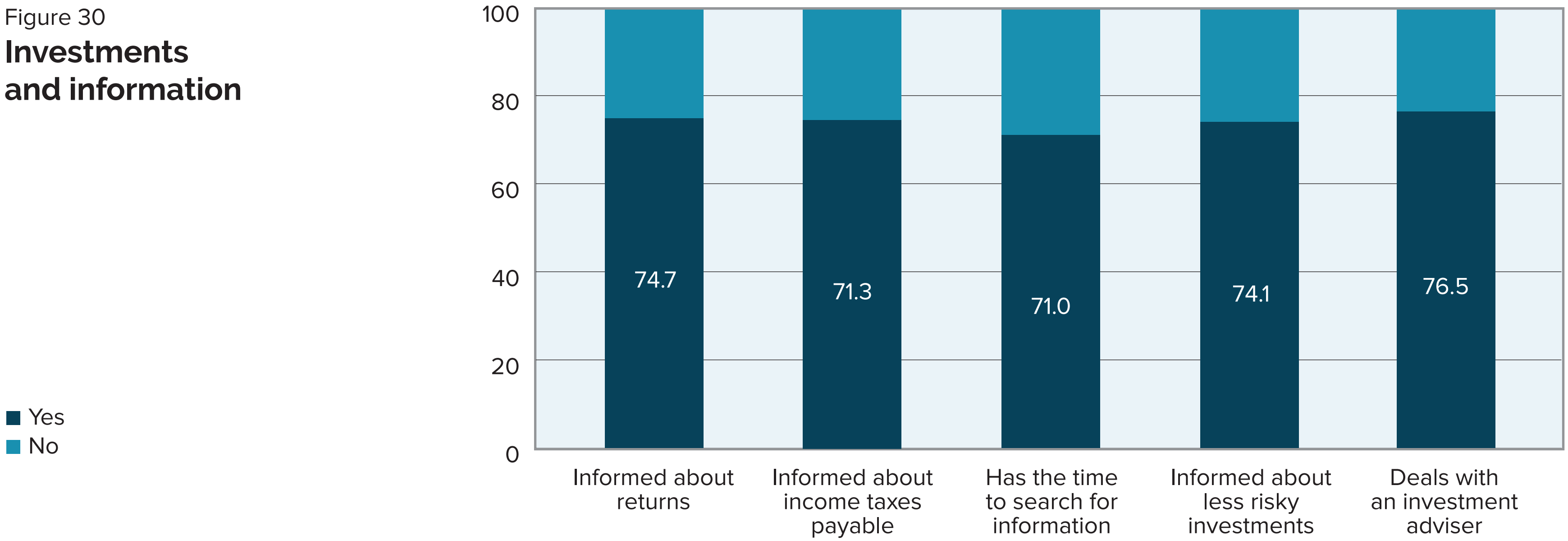
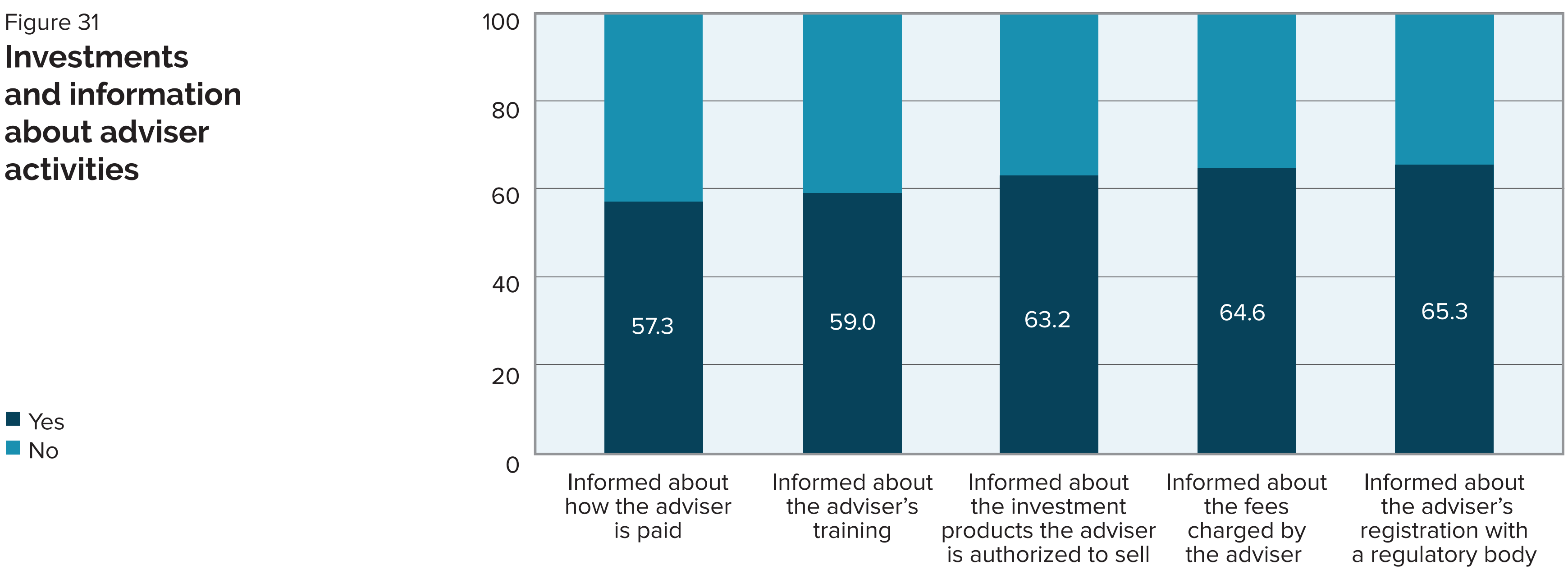


Figure 31
Investments and information about adviser activities

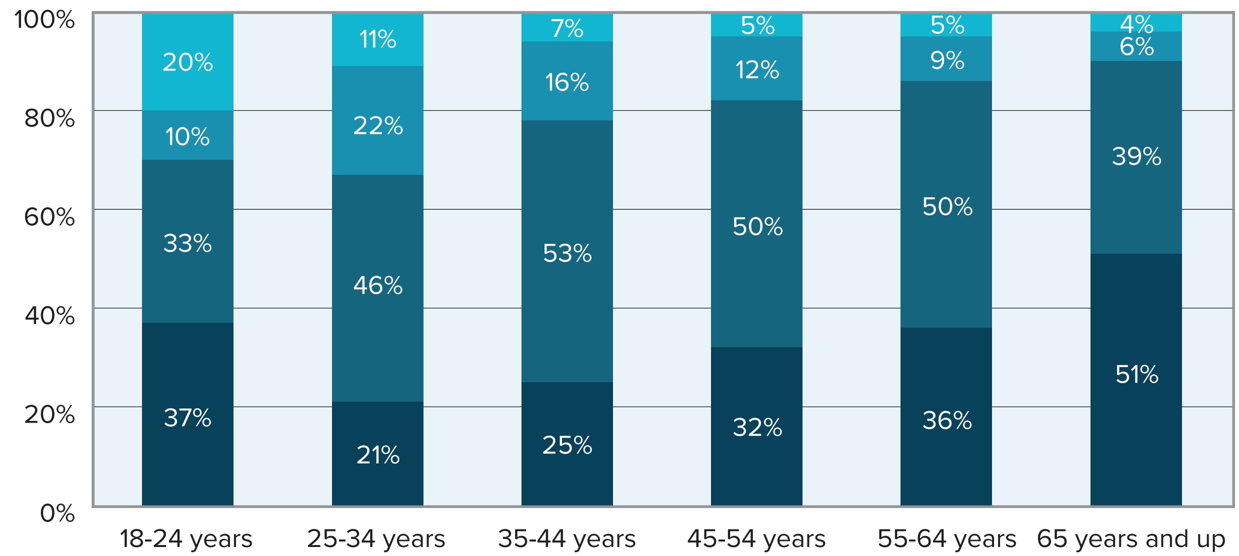


Close to half of consumers (47%) claimed that they struck a compromise between reward and risk, whereas one third of consumers (34%) clearly favored financial safety. The respondents who were drawn to risky and high yield investments were mainly in the 25–34 age group (22%) (Figure 32). However, this proportion decreases as respondent age increases. Indeed, the older the consumers, the more they put safety ahead of financial reward, which makes them especially prudent investors.

Figure 32

Age and investment profile

- Does not know what their investment profile is
- Prefers a high reward while accepting the risk
- Strikes a compromise between reward and risk
- Puts safety ahead of financial reward

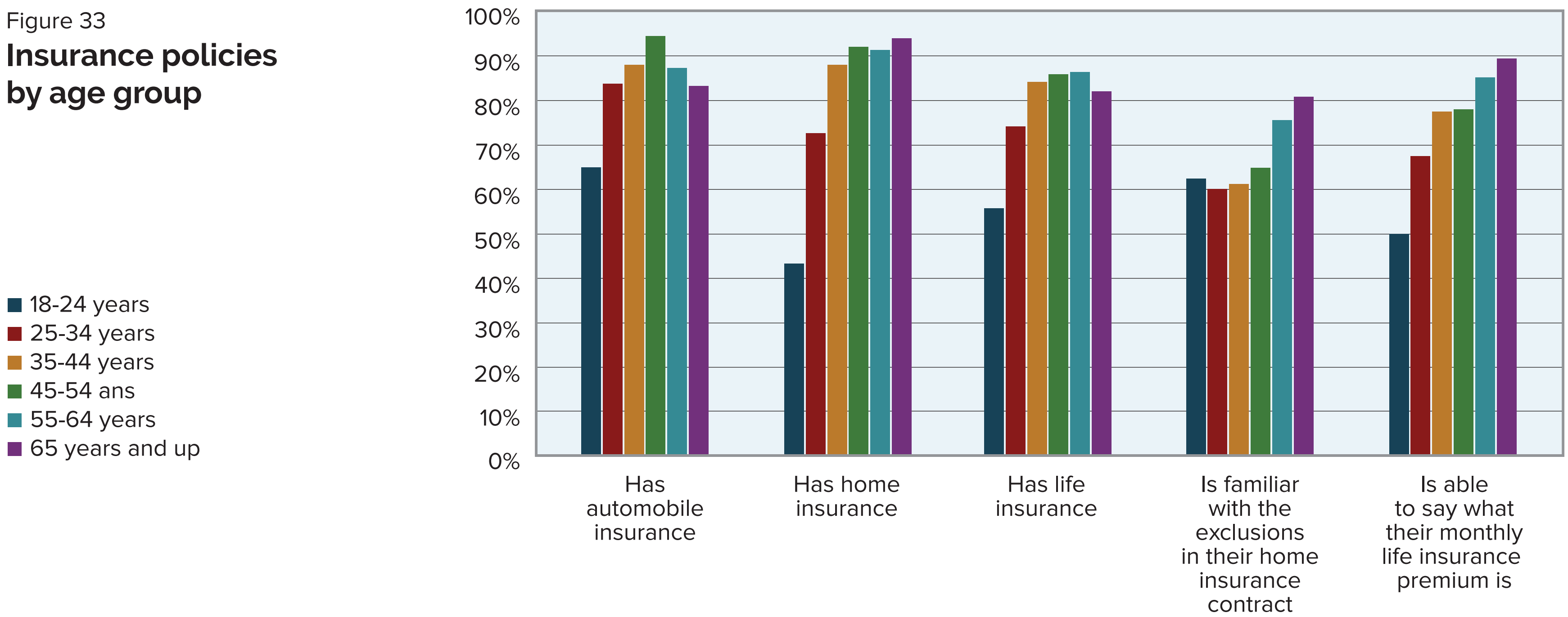


Insurance

More than 80% of consumers claimed to have at least one insurance policy of some kind. Respondents aged 45 to 54 were proportionally the largest group to have an automobile insurance policy, and respondents aged 35 and up were proportionally the largest group to have both home insurance and life insurance. Insurance product consumption therefore very directly follows life cycle changes, e.g. current consumption, home purchase, family life, and so on. The older the respondents, the more likely they were to understand the terms and conditions related to their home or life insurance policies. Once again, it appears that the level of financial literacy is consistent with consumption experience and is the result of a series of actual experiences, e.g. damages, losses and claims.

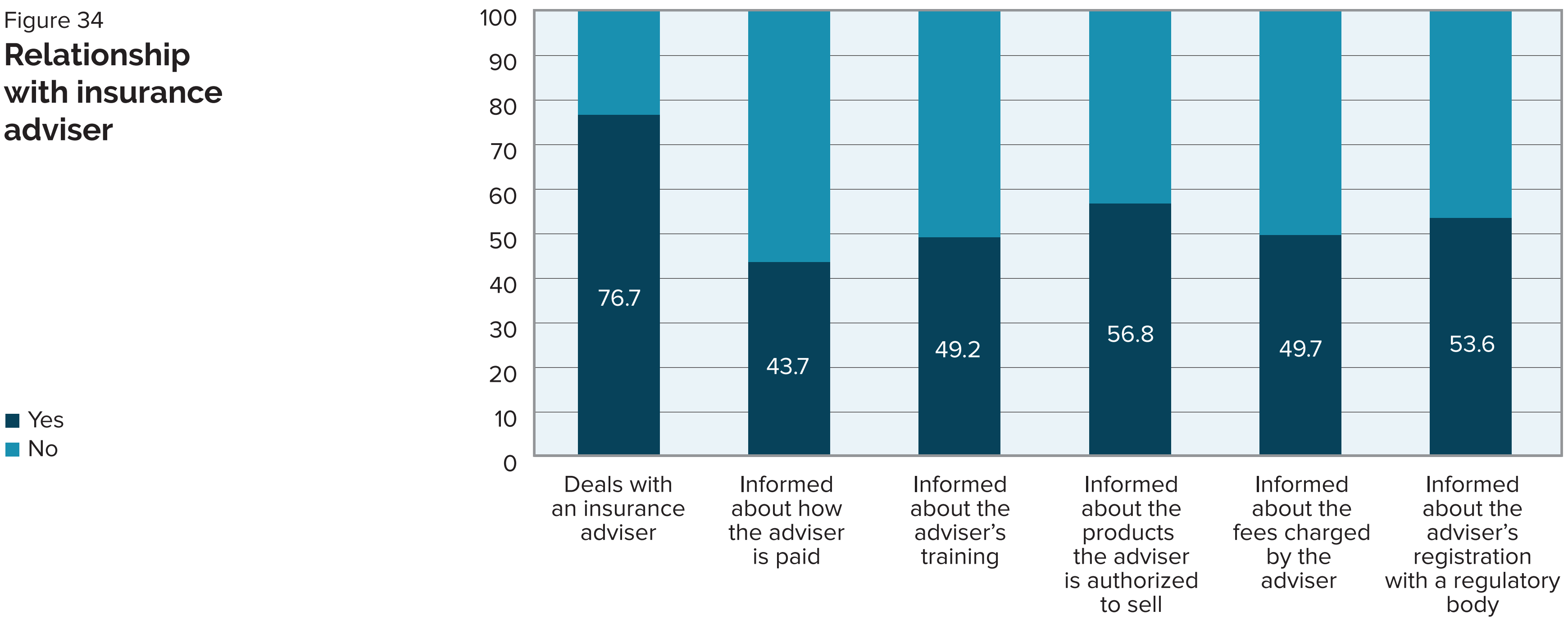
Figure 33

Insurance policies by age group



Knowledge of insurance contract services and terms and conditions ranged from 88% for life insurance policyholders to 61% for home insurance policyholders. However, proportionately, far fewer insurance product consumers than investment product consumers were informed about their advisers' activities, training or method of remuneration, even though 77% of policyholders claimed that they had dealt with an adviser (Figure 34). In this regard, investment product consumers (a smaller and more targeted group of respondents) are different from insurance product consumers (almost all adult Quebec citizens), whose attitudes and financial competence are more variable. Investment product holders appear to be more informed about the nature of the financial products and services proposed by their advisers than insurance consumers.

Figure 34
Relationship with insurance adviser



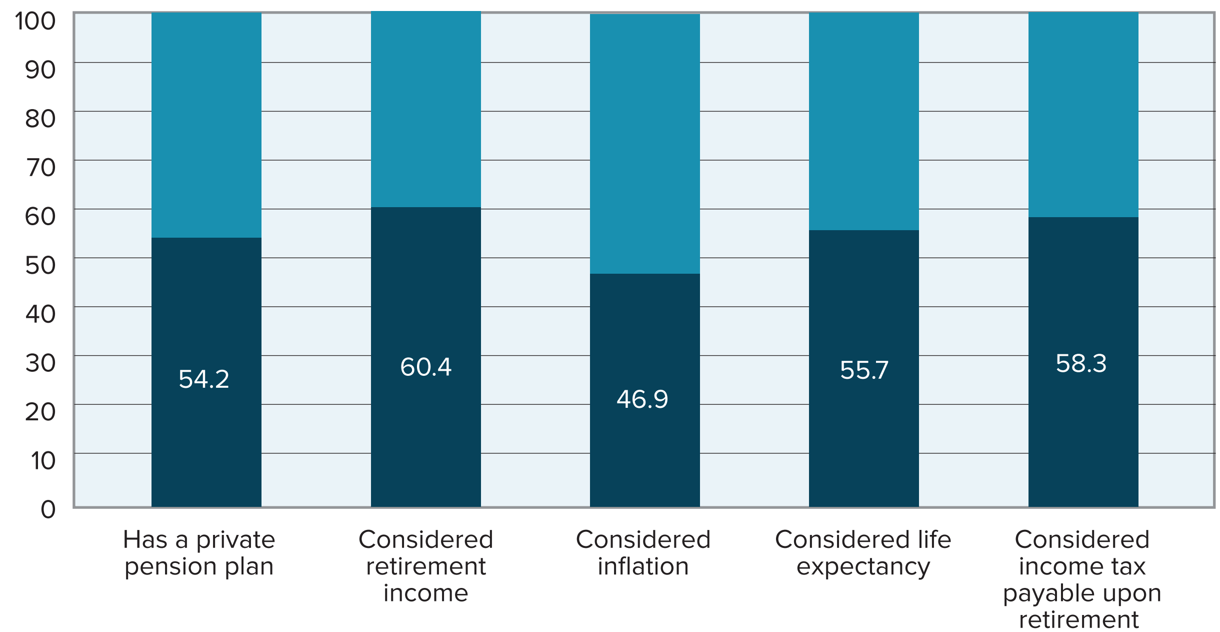
Pension plans

While almost a quarter (24%) of survey participants indicated that they were now retired, only 54% had contributed to a pension plan other than the public plans offered by the Quebec and Canadian governments. Among the respondents who had bought into a private pension plan, 88% had a plan through their employer and barely 12% had a personal pension plan. Proportionately, the number of respondents to have such a supplemental plan grew with age. On a quite different front, respondents' ability to take into account changes in prevailing economic conditions, inflation or life expectancy varies greatly and is rarely above 60% (Figure 35).

Figure 35

Ability to consider changing retirement conditions

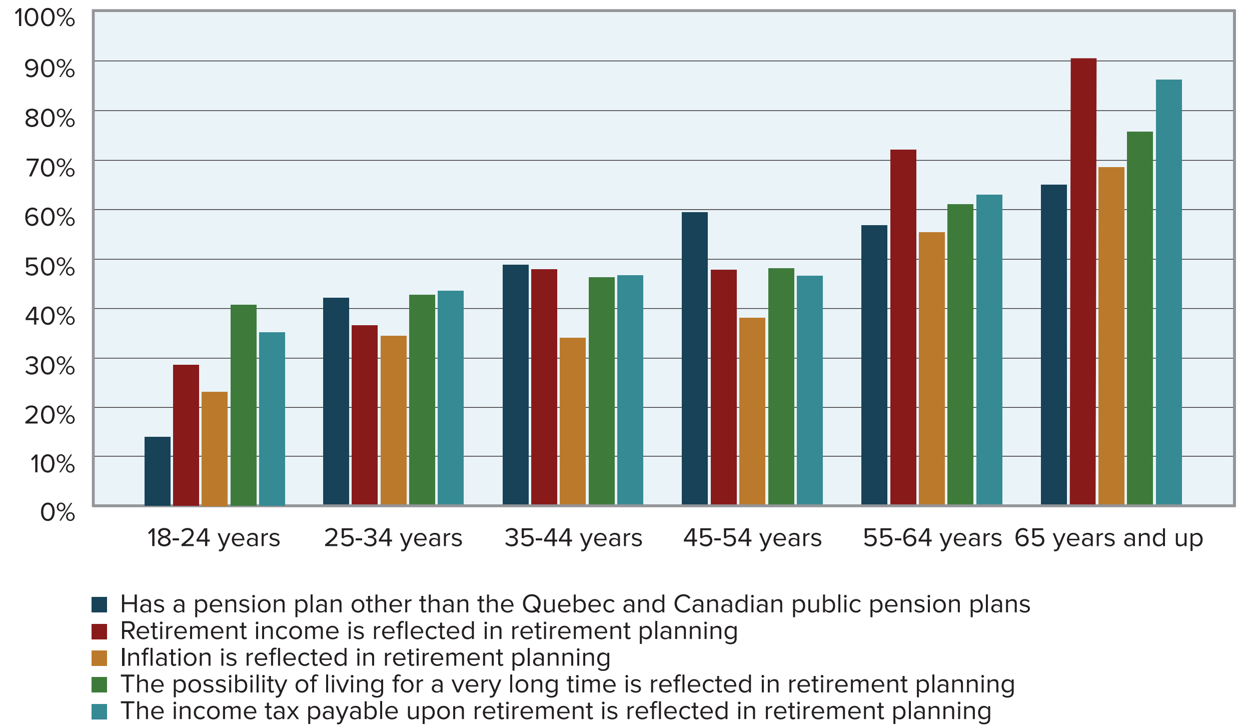
■ Yes
■ No



Furthermore, for reasons related to how their personal trajectory evolves (which is referred to as the *life cycle effect*), consumers' projective capacity develops with age (Figure 36).

Figure 36

Age and ability to consider changing retirement conditions

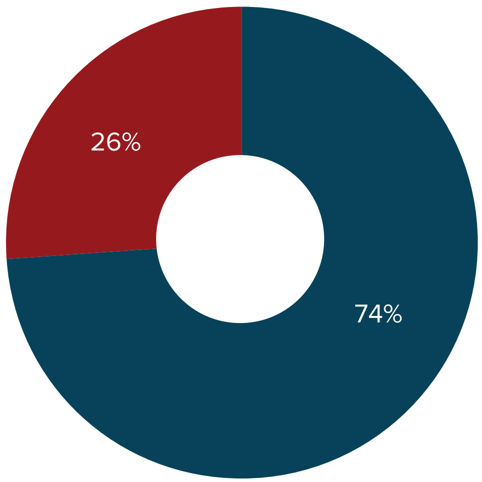


Awareness of the Autorité des marchés financiers

The Autorité des marchés financiers continues to be the regulatory body that consumers of financial products and services are most familiar with (Figure 37). Seventy-four percent of respondents had heard of the AMF. Furthermore, consumers become increasingly aware of the AMF with age. While less than 50% of respondents aged 18 to 24 had heard of the AMF, this percentage increased to 75% among consumers aged 45 and up.

Figure 37

Awareness of the AMF



- Has heard of the AMF
- Has not heard of the AMF

Fraud prevention

Only 45% of consumers said that they were “very informed” or “fairly informed” about what to do in the event of financial fraud (Figure 38). According to the Index survey, this competence gradually increases as consumers get older. The older the consumer, the more likely they are to be informed about how to protect themselves against financial fraud.

Figure 38

Fraud prevention

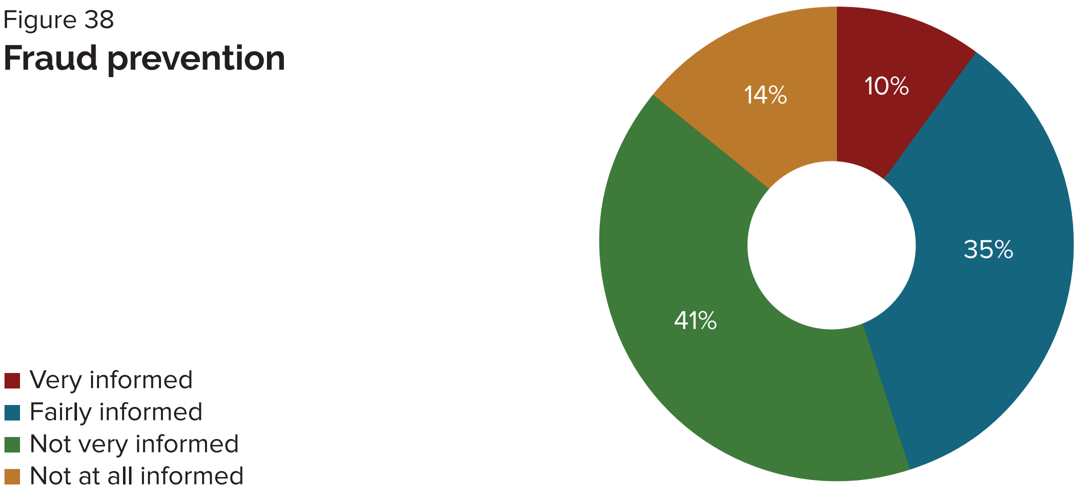
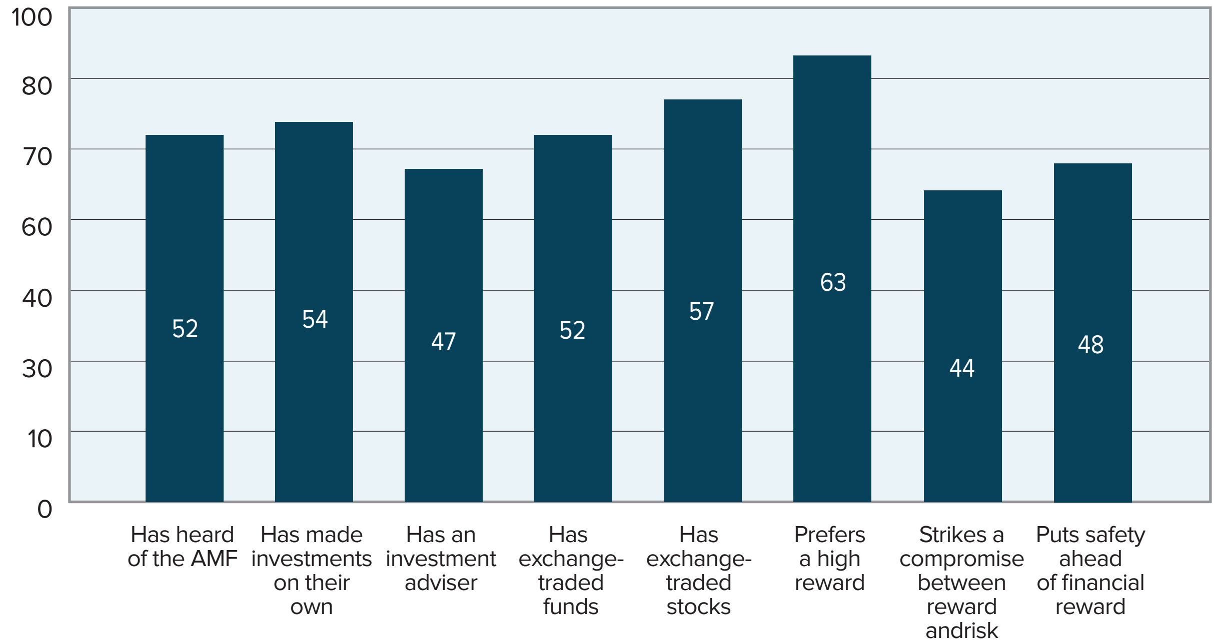


Figure 39 shows that consumers who are more involved in financial markets generally consider themselves better informed about fraud prevention measures than less active consumers.

Figure 39
Financial experience and understanding of fraud prevention mechanisms



THE INDEX

ADĀJ Accès au Droit et À la Justice

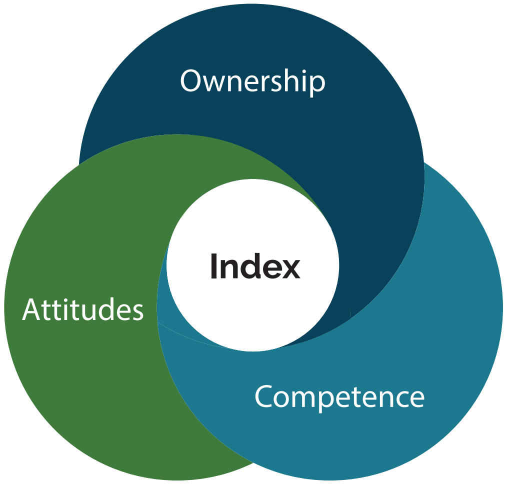
Applied Financial Literacy Index

The various Index analyses quickly revealed that consumers' attitude (more prudent or indifferent) toward managing their assets and financial competence are strongly correlated with holding financial products (or not). This finding led to the construction of an index combining three variables, **Ownership**, **Attitude** and **Competence** (OAC).

As a result, financial literacy can be assessed as the product of an overall experience combining not only the attitudes of prudence and the acquired competence needed to make informed financial decisions, but also consumers' actual financial experience (Figure 40). This mix of dimensions makes it possible to ensure that consumers' level of financial literacy is not measured on the basis of a single variable or the assertion of theoretical financial prudence.

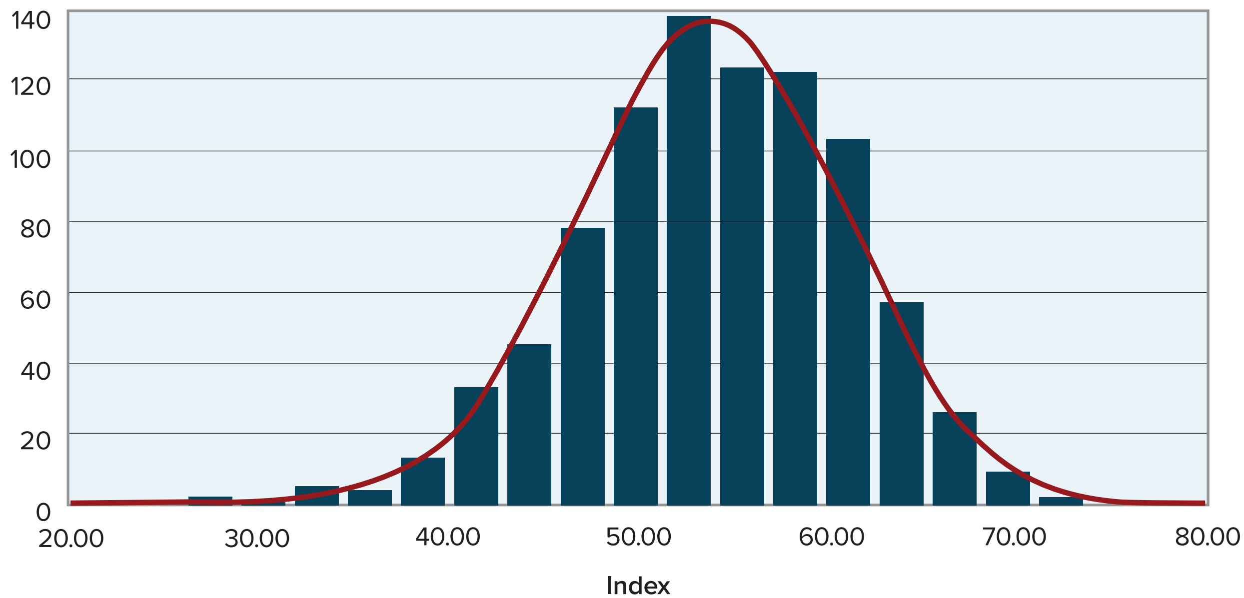
Secondary analyses performed using previous indexes had already shown a strong correlation between experience, competence and financial prudence. It was quickly determined that consumers with the lowest financial literacy scores were generally those who had the least financial experience, and that, in general, they held very few financial products. Therefore, financial literacy came out as a consequence of empirical experience, the dimensions of which are measurable based on consumer prudence, competence and financial practice.

Figure 40
Index modelling



The resulting applied financial literacy index makes it possible to assign a score to each respondent on a scale of 0 to 100. These scores range from 27.78 to 72.22, with an average of 54.10. The statistical distribution of this constructed additive variable is therefore as follows (Figure 41). This measurement indicates the mean literacy level, taking into account the responses of all the consumers surveyed. Such a robust index is unlikely to undergo a large change from one edition to the next. It should be viewed as a long-term comparison tool. Even a small difference between consumer profiles is often meaningful. As we will see, even a single-level difference on the Index scale is likely to be significant in a comparison between consumers with different profiles:

Figure 41
Measurement and distribution of the Index



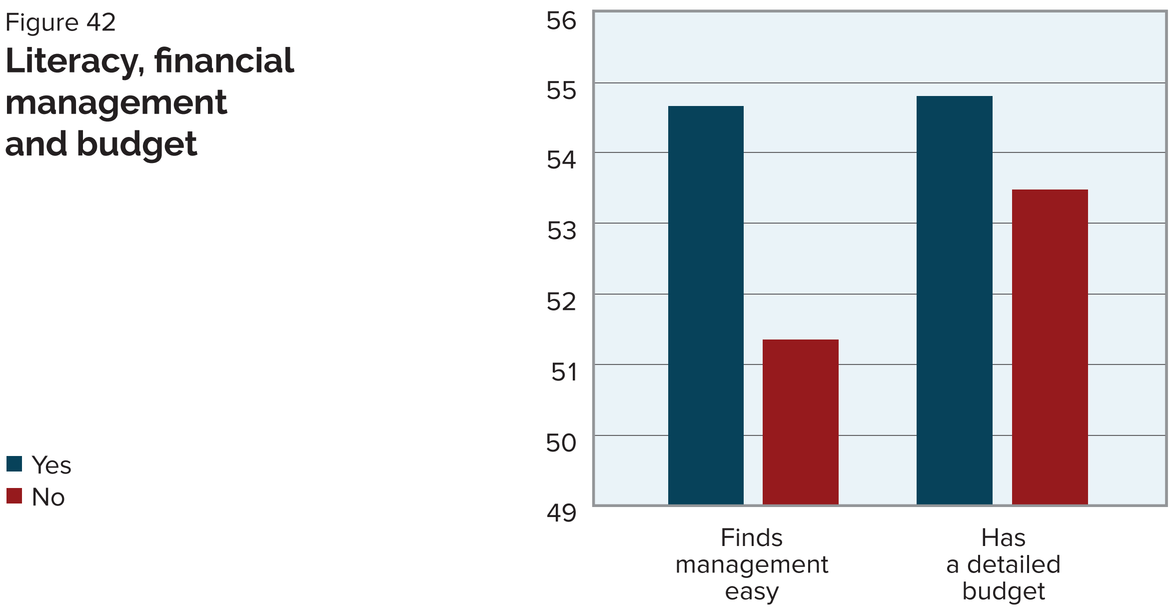
	N	Minimum	Maximum	Mean	Standard deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Standard error	Statistic	Standard error
Index Valid N (listwise)	873 873	27.78	72.22	54.1046	7.05180	.-350	.083	.200	.165

The Index provides an overall measurement of financial literacy. Consequently, it can be used for a vast array of comparisons between consumers with different profiles. This perspective allows for more targeted and proactive intervention in financial education and public protection. As a tool, this Index facilitates the analysis of contrasts between the various consumer profiles. Note that the Index makes it possible to validate a number of assumptions about consumer financial literacy and highlights the links between consumers' literacy level and their financial experience.

The Index also makes it possible to take into account meaningful distinctions between consumer profiles. Thus, the ease with which consumers manage their financial activity or their tendency to rely on a personal budget correspond to an average level of financial literacy (54 on the Index scale). Indeed, this level tallies with that of the population as a whole (Figure 42). Here, the low level of financial literacy among consumers who find it difficult to manage their assets or who do not rely on a detailed budget is what should be taken into consideration for financial education.

Figure 42

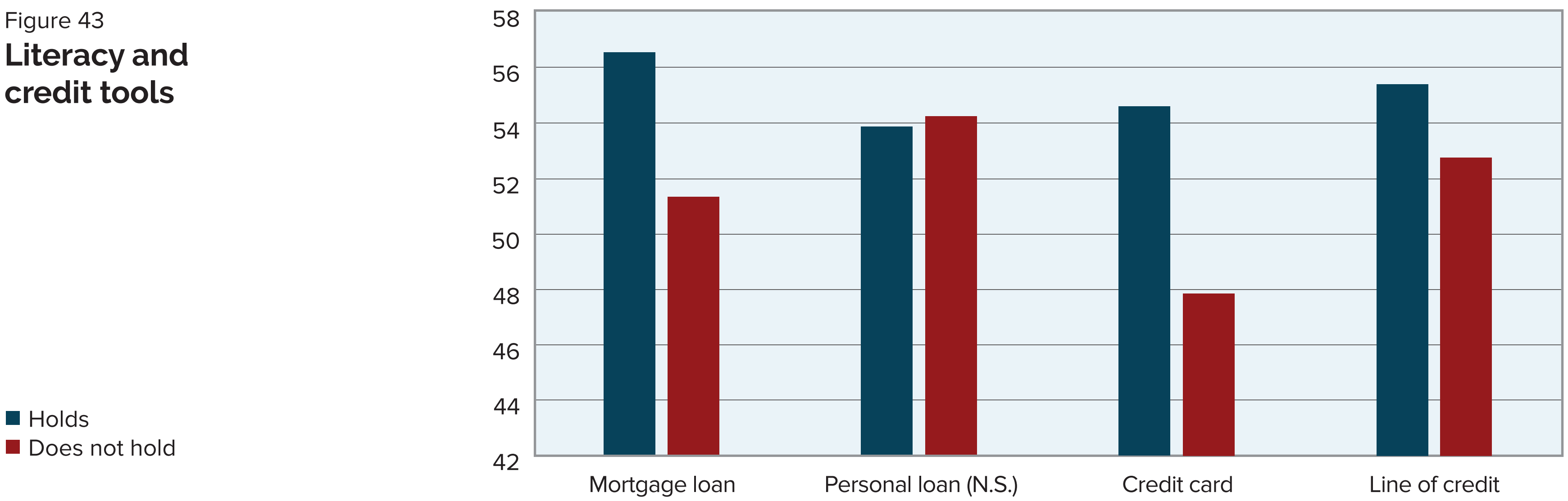
Literacy, financial management and budget



However, the literacy level among debt holders is slightly above average. This measurement is consistent with previous analyses, which showed that consumer competencies and prudence intersected with financial experience. As indicated above, even minor differences are statistically significant and point to a level of literacy that varies based on the consumer profile (Figure 43). However, the difference between people who have (or have not) taken out personal loans is not significant.

Figure 43

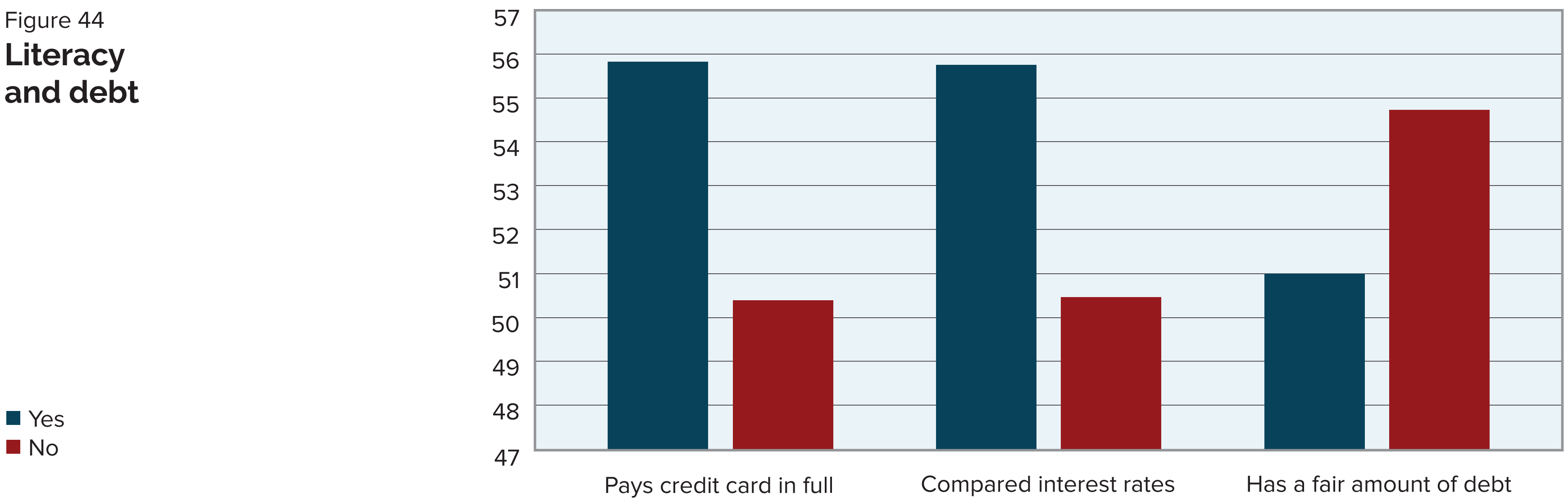
Literacy and credit tools



These differences can also be observed across a large spectrum of complementary variables related to debt management and investment. The same is true of consumers' management of daily expenses or indebtedness (Figure 44). The level of financial literacy appears significantly higher among respondents who manage to regularly pay off their credit cards than those who do not. The same goes for consumers' tendency to compare interest rates, or not, when taking out a loan. Overall, the level of literacy among consumers who are more systematic about managing their finances is above average (closer to 56 than 54). However, it is clearly lower among consumers who are less concerned about day-to-day financial management (below 51). The contrast between these two measures serves as a primary indicator.

Figure 44

Literacy and debt



Consumer financial activity is also correlated with the Index. As such, the level of financial literacy among consumers who hold investment products (between 55 and 56 on the Index) is significantly higher than those who do not (between 50 and 54). A contrast can therefore be seen between consumers who hold or do not hold such products, be they exchange-traded funds or stocks, or labour-sponsored funds (Figure 45.1), or investments in registered plans (Figure 45.2)

Figure 45.1

Index and investments

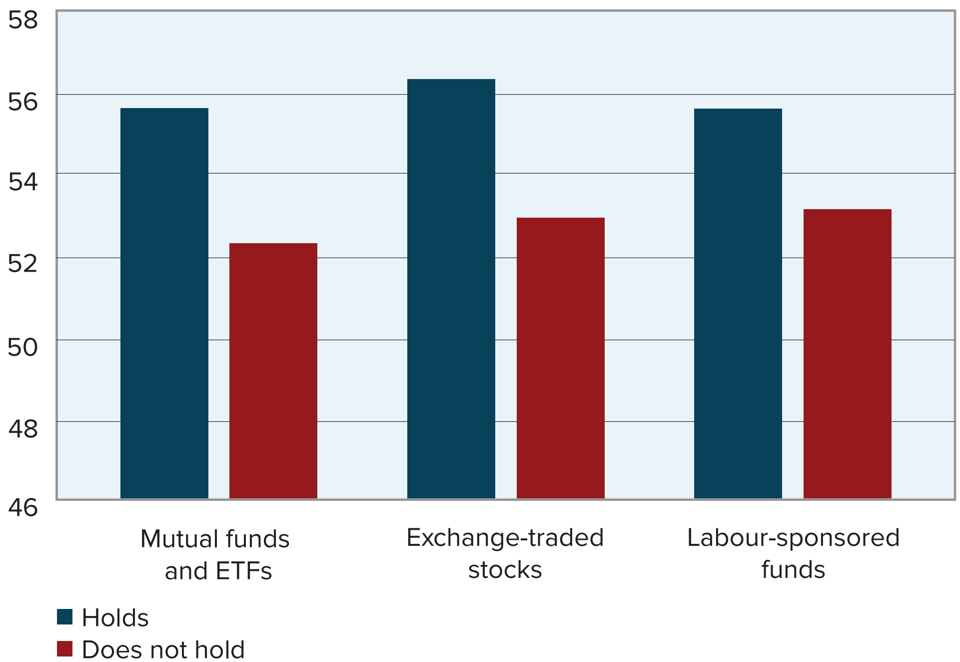
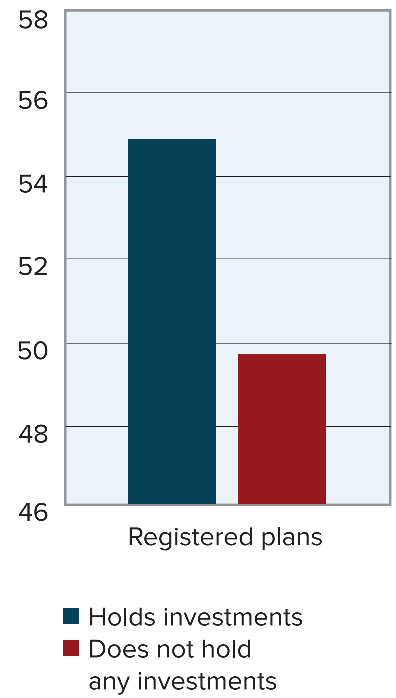


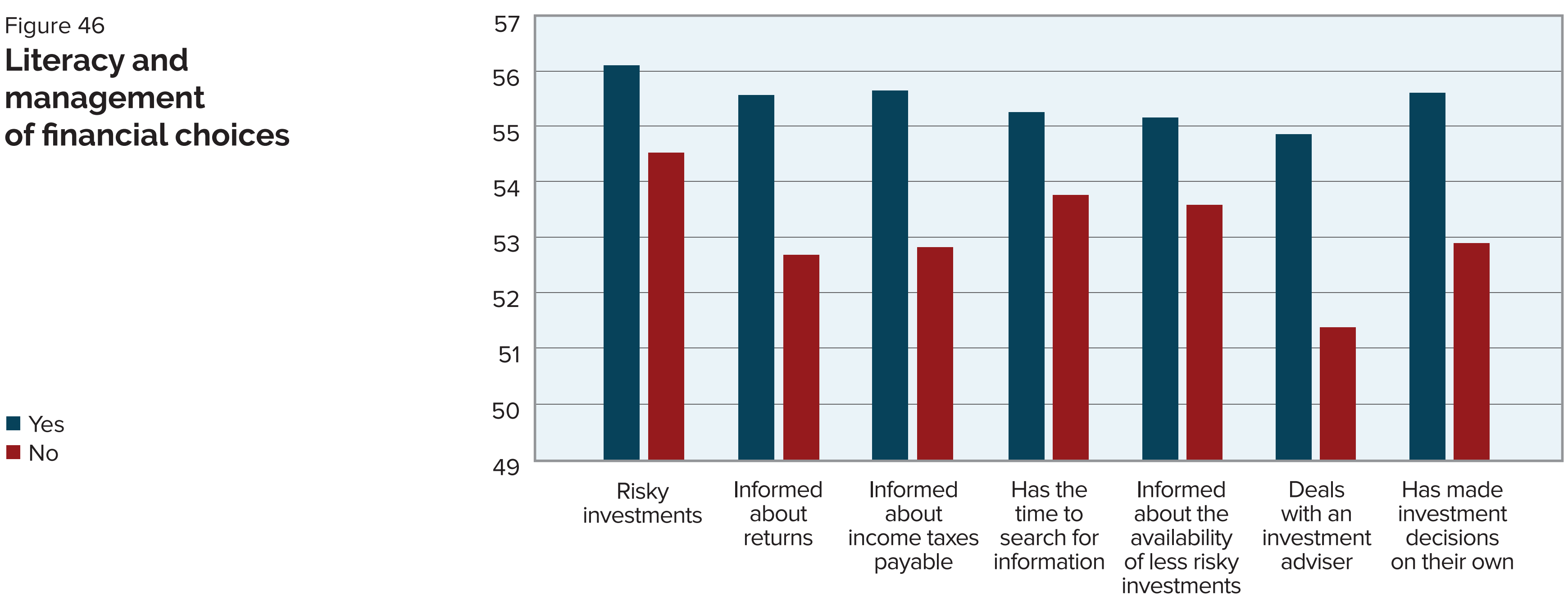
Figure 45.2

Index and registered plans



The same is true of consumers' management of their investments. Indeed, the level of financial literacy is higher among consumers who claim to have the necessary information to manage these investments than others (Figure 46). This confirms the idea that, essentially, consumer competencies and attitudes keep pace with their actual financial experience and influence how they handle their choices. Again, financial literacy should be viewed as a general aptitude, derived empirically. However, while consumers likely to make risky investments or their own investment decisions may have a higher-than-average level of financial literacy, the question is whether it is high enough.

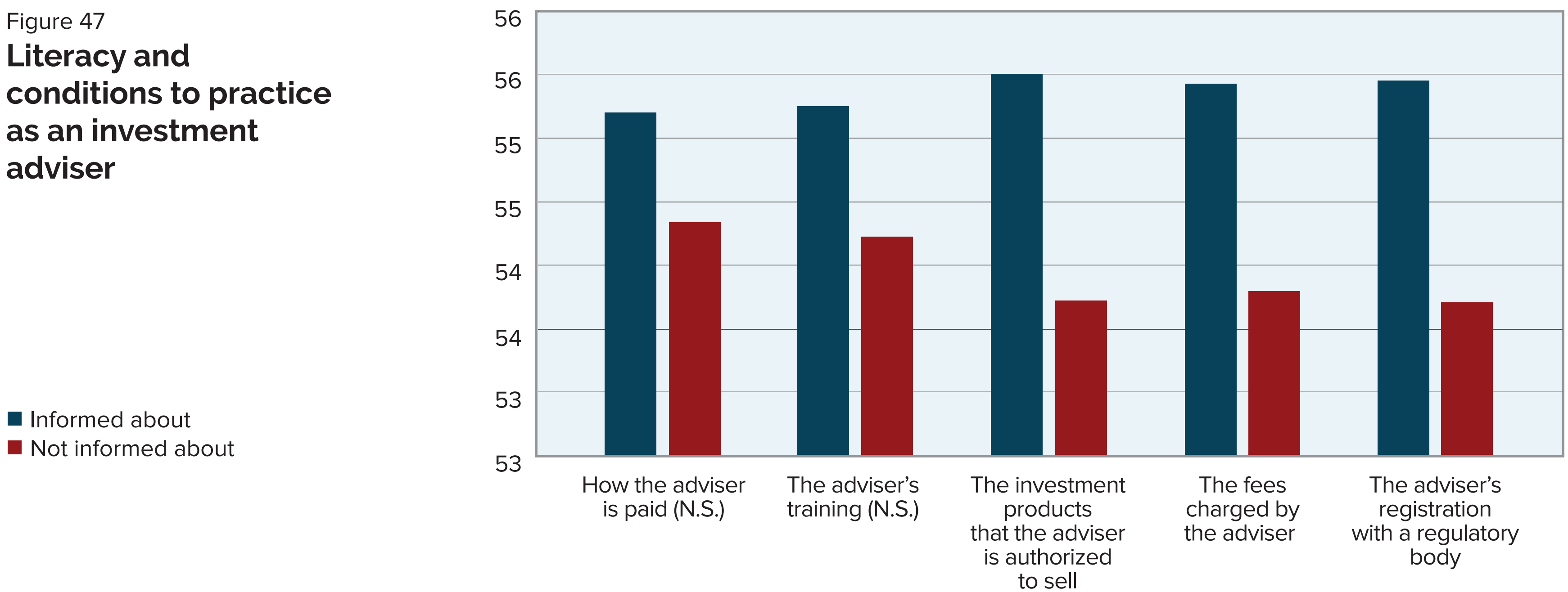
Figure 46
Literacy and management of financial choices



Furthermore, it is especially interesting to note that consumers' level of financial literacy is partly correlated with a greater awareness of the services offered by the investment advisers they consult. This difference is not significant for advisers' method of remuneration or training. However, it is more pronounced in terms of the products offered, the fees charged by these advisers or their registration with a regulatory body (Figure 47).

Figure 47

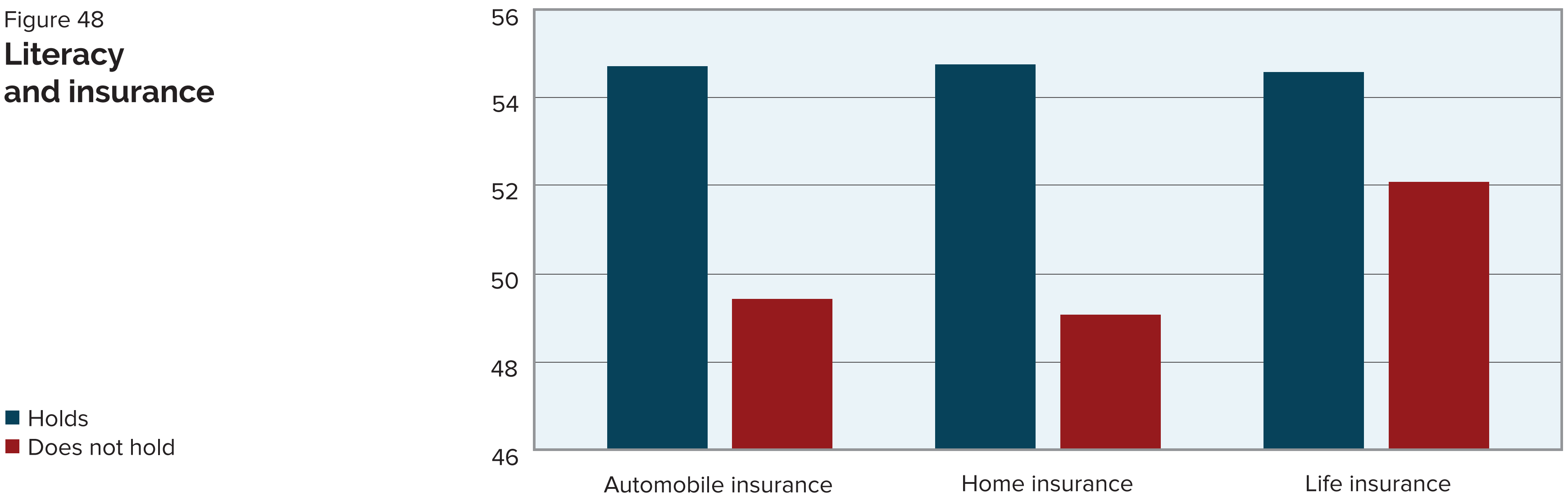
Literacy and conditions to practice as an investment adviser



Regarding financial protection, insurance policyholders show a higher level of financial literacy than other consumers. The contrast is especially noticeable when comparing automobile and home insurance policyholders with respondents who do not have such coverage (Figure 48).

Since it is quite common to have such policies, it is reasonable to assert that consumers who do not have conventional insurance products are especially inactive on the financial market, which, by extension, explains their low level of literacy.

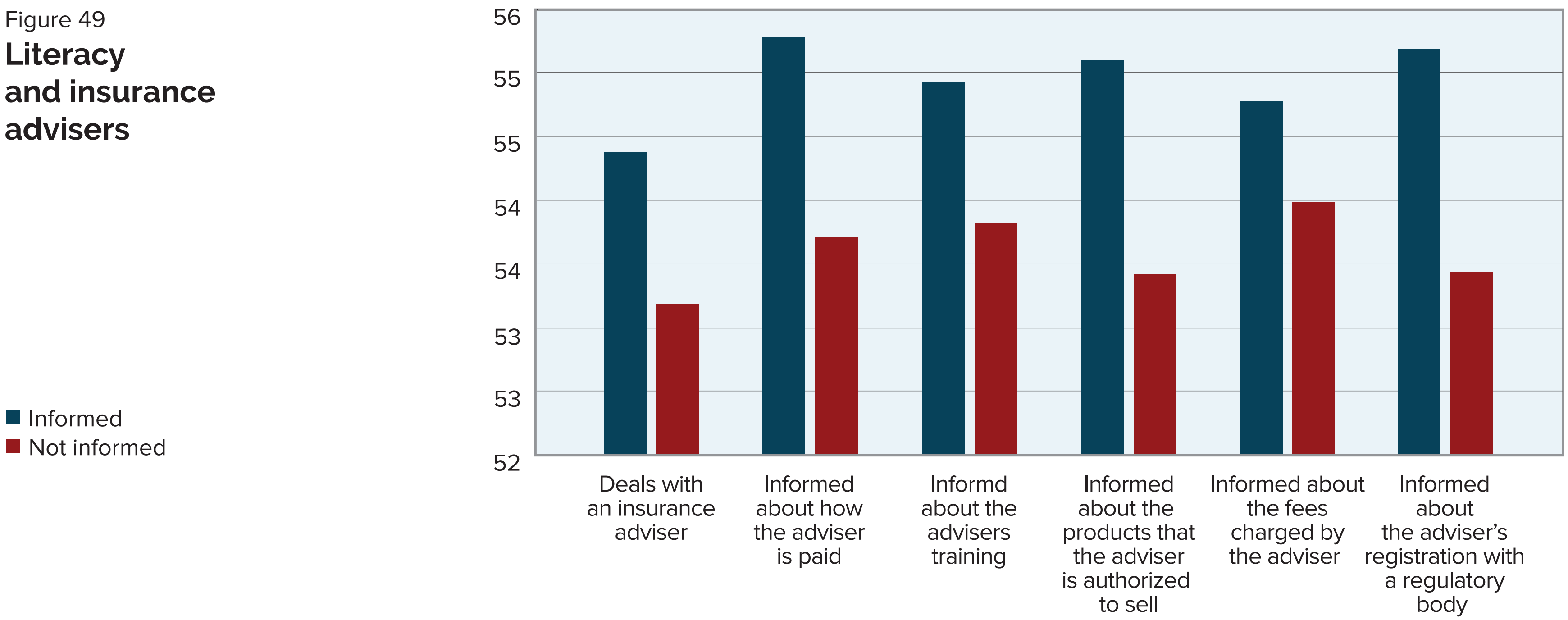
Figure 48
Literacy and insurance



Concordantly, Figure 49 shows a significant contrast between the level of financial literacy of consumers who deal with an insurance adviser and those who do not. Literacy is also higher among insurance policyholders who claim to be aware of how their advisers are paid, what training they have, whether they are registered with a regulatory body and which products they are authorized to sell.

Figure 49

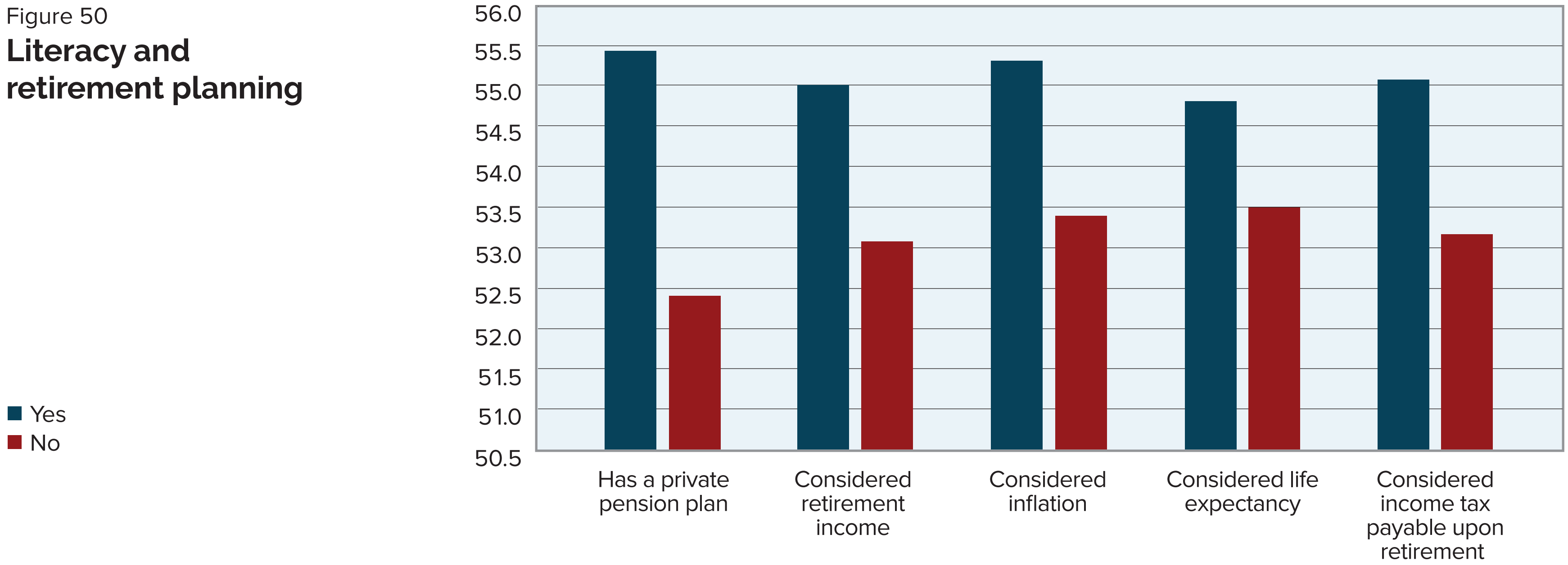
Literacy and insurance advisers



Retirement planning is also directly associated with above-average literacy. Financial literacy levels are significantly higher among consumers who have a private pension plan (close to 55.5 on the Index) compared with those who do not (close to 52.5). This is also the case for consumers who are better able to project their financial situation when they retire compared with those who are unable to do so; in general, the latter group has a below-average level of literacy (Figure 50).

Figure 50

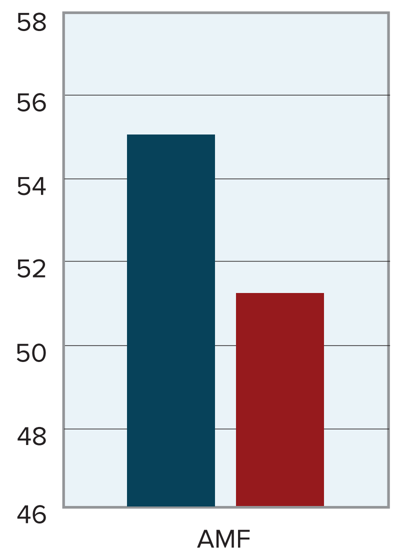
Literacy and retirement planning



Lastly, awareness of the Autorité des marchés financiers is also associated with the level of financial literacy on the 2022 Index (Figure 51). The level of financial literacy is clearly higher among consumers who have heard of the Autorité des marchés financiers than those who are unaware of its existence.

The 2022 Index also shows that how informed people are about the ways they can protect themselves against financial fraud makes a difference. Once again, literacy appears to stem from the combination of knowledge, attitudes and complementary practices. That is to say, it is a general aptitude derived from experience.

Figure 51
Awareness of the AMF



■ Has heard of the AMF
■ Has not heard of the AMF

2022 Applied Financial Literacy Index and consumer socioeconomic profiles

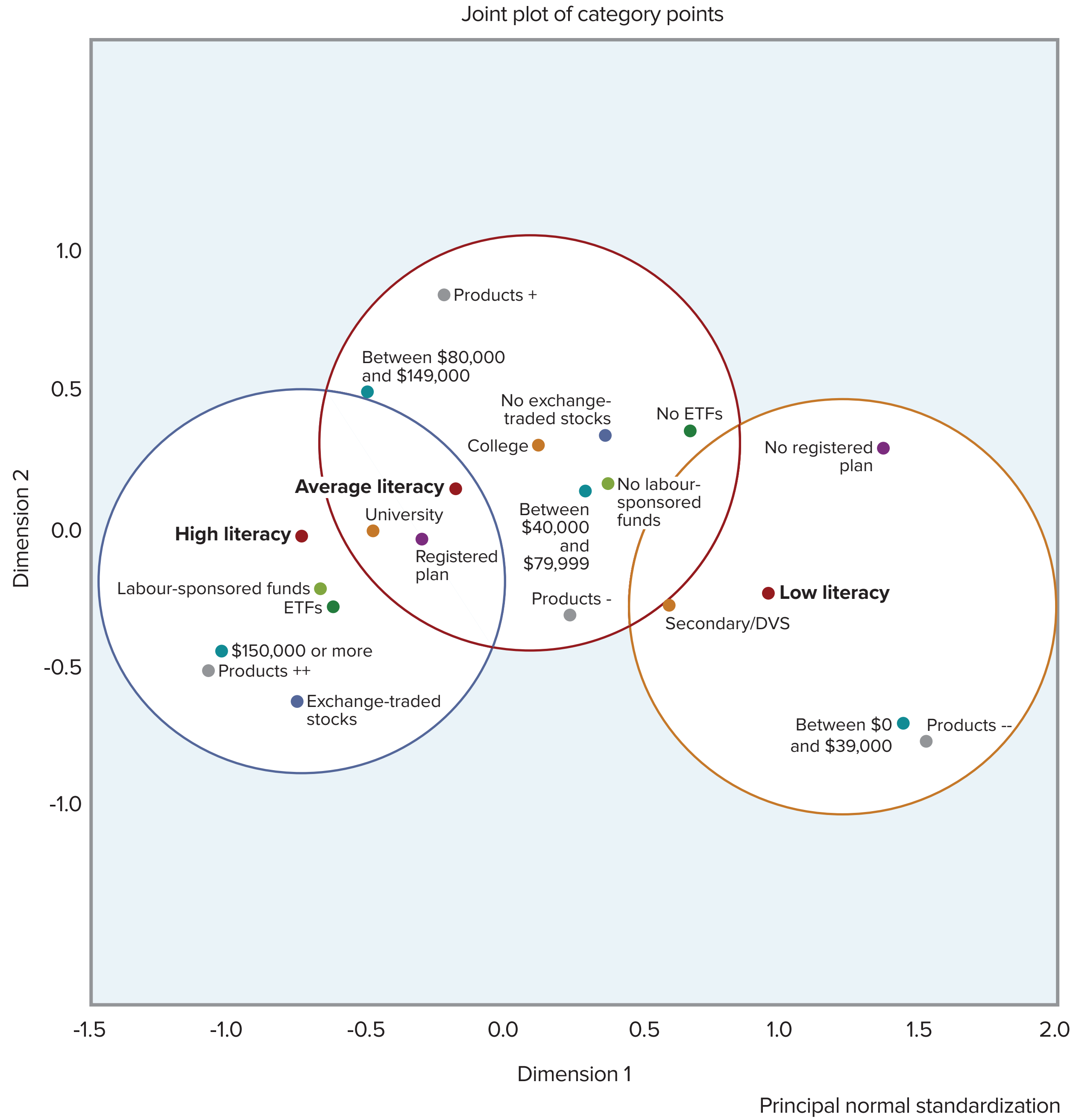
Lastly, the 2022 Index makes it possible to determine how much financial literacy varies within the population. It shows the proximity of a set of interrelated variables. Here, the correspondence analysis conducted using the data from the 2022 Index survey clearly reveals the relationships between consumer financial literacy and their education level, income and financial products (Figure 52).

Three configurations emerged from the analysis, centred on *high*, *average* and *low*. These levels were established based on the measurements taken for the Index. Once again, we can see that consumers' level of financial literacy is directly associated with their financial capacity to acquire more or less diversified financial products. Competence and an attitude of prudence emerge from first-hand experience. For the purposes of the analysis, investment products held by the vast majority of consumers were considered, because they are more "discriminating" than insurance products. Investments in registered saving plans are in the middle of the diagram. These are, by far, the financial products that the average consumer prefers.

Lastly, the lowest literacy rate is associated with a fringe that is especially economically disadvantaged, whose situation limits financial activity. While this observation may be consistent with previous findings, it should also lead to a nuanced reflection on the targets and communication strategies favoured for financial education intended for the public.

Figure 52

2022 Applied Financial Literacy Index and consumer socioeconomic profiles



- Holds exchange-traded stocks
- Holds mutual funds and ETFs
- Holds labour-sponsored funds or other tax-advantaged investments
- Holds investments in registered plans
- Highest level of education completed
- Financial profile (3)
- Household income grouped into four categories
- Stratification of financial product ownership

CONCLUSIONS AND RECOMMENDATIONS 8

The level of financial literacy of consumers is directly correlated with their experience with financial products and services:

It seems reasonable to say that consumers' first financial experiences, such as taking out a mortgage, are determinative.

The same is true when it comes to buying new investment products.

Since there is a direct relationship between consumers' already acquired competencies and their search for additional information, the challenge is to know enough… so as to want to know more.

From this prospective, in which order (and how much) "first" information about a product or service is to be provided to a consumer appears to be central question.

Also, whatever their profile, it is difficult, if not impossible, for consumers to plan their financial futures based on distant or completely random events. Here again, financial education must combine the most tangible and immediately useful dimensions.

Consequently, basic financial information data must, more than anything, provide information likely to actually be considered by consumers and fulfill an immediate, easily identifiable function.

There is a link between the *competence-prudence-ownership* triptych and a consumer's relationship with a financial adviser. It is therefore also necessary to design a specific strategy for informing consumers about the nature of their relationship with the advisers whose services they use.

AUTORITÉ DES MARCHÉS FINANCIERS

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