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TRANSFORMERS

Financial Literacy & Inclusion

Making a Case for Financial Literacy and better Financial Inclusion

We are at a point in our national development that a lot of attention is being paid (and rightly so) to entrepreneurial development. Successive Governments in the last 10 years or so since 2009 have implemented a variety of schemes and projects to encourage entrepreneurial development, particularly among our youth. All of these efforts however will only be more effective when the level of financial literacy in the country increases. Even our seemingly never-ending war on corruption can only be won when Nigerian people become more financially literate, after all, most acts of corruption start as seemingly “innocent” concerns about the inadequacies of our salaries. So, financial literacy is important – it plays an important role in national development and we all need to get involved in driving it among adults, teaching it to our children and creating a better policy framework for Financial Inclusion in our country.

Financial Literacy and National Development

Let’s think about this – what is the purpose of education: to prepare children for independent life as adults so that they can add value to society and in return create value for themselves and their families. In the real world, value is measured by many things, the most common of which is money. Money is the currency of the world. Yet, we all go through school with the aim of helping us become functional adults who are financially independent, but we hardly got any formal education in the habits for managing our money and finances properly. All the numeracy, language, science and arts that we study produces Doctors, Lawyers, Engineers and Politicians (just to mention a few) who are unfortunately financially illiterate with dire consequences for themselves and society at large. As an active promoter of Financial Literacy since about 2003, I believe that we haven't even scratched the surface in getting people to be more financially literate, and this is perhaps because we have not been able to make a strong enough justification for how important financial literacy is and how it supports national development. Let me give it a shot.

Entrepreneurial development is critical to the large-scale innovation and industrialization that countries like Nigeria need. But, do not be surprised that we are lacking in this area, because our formal education systems have not incorporated financial literacy into the schools' curriculum. You see in Europe and the Americas; young children as far back as 40 years ago were already setting up Entrepreneurship and Investment Clubs where they were simulating a variety of entrepreneurial ventures. These subjects were taught firstly as after school programs, but in many countries have now been mainstreamed at all levels. It is no surprise the progress they continue to make while our schools and children are at best being prepped to gather as many degrees and pass as many professional exams as possible to compete for the increasingly fewer jobs available. We cannot see that jobs are driven by entrepreneurship, and entrepreneurship by Financial Literacy.

Next is the impact on Personal and National Savings and Investment and the multiplier effect this has on deepening our financial markets, providing longer term financial instruments and credit to an economy in dire need of expansion. Every time I give a talk on Financial Literacy, audience members end up with questions like – "so where can I save, what should I invest in?" imagine if all the financial institutions in Nigeria were a bit more deliberate about using Financial Literacy as a tool for client engagement as I did some 16 years ago as a young investment banker. Not only will they meet and surpass their targets (as I did), they will also be contributing significantly to growing our national savings and investment and deepening our financial markets, with a multiplier effect for the economy and society.

Think about all the capital destruction that takes place on account of poorly conceived and executed businesses in Nigeria. With higher levels of financial literacy, the rate of failure of small businesses will reduce significantly. Financial literacy will equip business owners especially start-ups with all the skills they need to make better and more prudent decisions regarding their personal and business finances that would increase the chances of survival as a business. But it seems everyone is so busy chasing and trying to make money that very few of us are actually sitting back to manage and plan our finances.

Then, the issues around corruption and agreed and the near-worship of money in our society. The crass materialism, conspicuous consumption in the midst of debilitating poverty and the gross ethical violations and financial impropriety that takes place in this country. If people got an education in financial literacy that included the ethics of money – the fact that money is not an end itself, but only a means to a temporal end, then perhaps all of this nonsense that is going on in our society on account of money would have been averted. Think about the Ponzi schemes, prosperity preaching, exam malpractice, vote-buying, voter-inducement, and all the shenanigans that we have seen in our financial markets in the past – all signs of a grossly financially illiterate society.

Finally, bring it down to the workplace and the home, and the benefits of financial literacy are enormous. Consider the number of employees who are struggling from one pay day to another and the succor they could get if they were more financially astute. Imagine the man-hours we lose to under-productivity brought about by financial challenges – the endless borrowing, loan sharks and *"gbese"* that families have to endure and the impact on people's health, well-being and productivity, all because they are not financially savvy.

What do we need? Firstly, we need to work harder on getting the Financial literacy Curriculum in Schools from our Basic to Tertiary Institutions. It has been in the pipeline for some time and we need to move really faster. I envisage a challenge though with getting teachers prepared for this – that's why I have embarked on my own mission to drive this within schools around me in Abuja, because as we know- *Nemo dat quod non habet* – "you cannot give what you do not have." Then we need parents to start paying attention to this even at home regardless of where the schools are. Financial Literacy is a broad subject and is not just about making money. It includes a variety of areas including the ethics of money which makes it more wholesome. Parents should find books, games and resources and start exposing their children. Finally, organizations need to realize that beyond just paying salaries each month, they need to invest in training and educating their employees on how to manage their finances better – to bolster productivity and ethical behaviour in their organizations.

Money Matters Matter, especially for Children

As a young child, I spent some of my idle time ransacking my parents' wardrobes, closets, and bags. I was particularly fascinated by the peppermints that I always found in my mother's purses and the biros and pens of various colours that both my parents kept. I become a major collector of those items and showed-off my prized possessions to my friends at school each week. On one of those my "hunting" expeditions I came across my father's pay-slip. He was at that time perhaps an Assistant or Deputy Director at the Federal Ministry of Science and Technology. I was greatly disturbed by what I found – his take home pay just didn't add up. I doubled the amount (assuming about the same income for my mother), and it became clear that having five children, providing us all with education, food and a living must have been very tough for my parents in the 1980s and 1990s. That encounter changed my perspective towards my parents especially the demands I made on them financially. If I ever was high-maintenance as a child, I immediately toned down my expectations. In secondary school at Kings College a few years later, I was more than content with using my eldest brother's very old and perhaps antiquated Biology Textbook from the early 1980s rather than the prescribed text of the day –"Modern Biology" which I thought my parents could never afford, and all the way to University of Lagos, I tried to be as realistic as I could with my demands and expectations – at least from my perspective. My parents and siblings who will no doubt read this article will be in the best position to confirm all of this though. Why have I told this long story? Well, simple to buttress the fact that the best time to educate anyone about money and financial planning isn't when they start to work or run their own businesses but is much earlier when we can lay the proper foundation for a firm financial future – when they are young children.

Many will argue and have confronted my colleagues and I at occasions where we speak about financial literacy for children or even when we promote the books, resources and games that we have created to teach financial literacy to children. They are concerned that children deserve the innocence of their childhood and that teaching them about "how to make money" is inappropriate and a violation of that youthful innocence. As far as I am concerned these pundits could not be any further from the truth, and it is because most people think of financial literacy and financial planning as being about making money, doing deals and getting rich, and you cannot blame them. Some of the most popular literature and games that are available to young children to promote financial literacy tend to over-compensate in these areas of "wealth creation", leaving out the more important aspects of Financial Planning from their scope and therefore prejudicing the skeptics and further fanning the flames of their skepticism. The truth is that Financial Literacy and Financial Planning whether for children or adults is a much broader concept that includes firstly a thorough understanding of the system of money and how it works – recognizing that it is the currency of the world, and something that we cannot ignore; then the ethical management of money that speaks to earning and the dignity of work and vocation, planning and budgeting, saving, investing, spending wisely, entrepreneurship, protecting our wealth, retirement planning, and estate planning. All of these are the elements that make up financial planning – so tell me what is so "evil" about teaching children these things!

Financial Literacy like leadership, communication skills, and creativity is one of those essential life skills that is lacking in our educational curriculum and that needs to be part of the education that we give to our children to prepare them for the realities of the world out there. It goes beyond having a degree in Finance, Business Administration or Accounting or even a MBA, because even those degrees do not guarantee Financial Literacy – judging by the number of similarly-educated people who are at the fore-front of Ponzi schemes and wonder-banks or whom themselves as victims of such schemes. As a former investment banker and even now in my interactions with professionals in the financial industry, I am alarmed at the number of professionals in these institutions including their regulators who do not have a practical appreciation of financial planning and the ethical management of finances and mismanage their own finances.

If children had a better foundation in financial planning, then perhaps a lot of the mistakes that the older generation have made with the inordinate love for money, acquisitiveness and corruption in high places; Ponzi schemes and advanced fee fraud, and the frequent collapses of financial and capital markets will be avoided in future. The rent-seeking economy that has become predominant will be replaced by a culture of entrepreneurship and intrapreneurship and the dignity of work and vocation will be restored.

The Psychology of Financial Inclusion

Financial Industry regulators and operators in insurance, banking, capital markets, asset management, securities trading, pensions etc. are all pushing the agenda of financial inclusion and rightly so, trying to get as many people who are typically outside the 'net" (especially the informal sector) to start to participate in the financial system – to save, invest, access credit or make payments through the formal financial system. In trying to do so, one of the biggest lessons my colleagues and I have learned from other jurisdictions around the world trying to achieve the same with varying levels of success is that psychology plays a very big role in ensuring better results.

Already, some of the psychological perspectives are in play in our own financial system, but there are quite a few lessons that regulators and industry operators can learn from the psychology of financial inclusion and I will try to advance some of these arguments to stir the thinking in the financial services community in Nigeria, and where possible, propose some policy direction for both regulators and operators to consider.

One of the most dominant psychological influences on financial inclusion is the concept of the "Power of Why", made popular by Social Scientists like Simon Sinek. The concept is simple, but very powerful – that people respond more passionately to the reason and rationale behind things – the WHY, much more than the what and how. According to Sinek, the best and most inspirational leaders and organizations influence people by selling the "WHY", and also by extension by selling the consequences of not accepting the "WHY" – something we refer to as the Principle of Scarcity. This psychological perspective is relevant to both regulators and operators, especially when trying to get people to do new things – to change from a status quo. For example, participating in contributory pensions, writing a will, or taking up health insurance. Selling the WHY is important, but in my experience highly overlooked. Sales professionals too busy and afraid of failing to meet their targets sell this as the WHY, and in many cases also sell "the law says so". Selling the inappropriate WHY is even more dangerous than not selling the WHY at all.

Shlomo Bernatzi, a renowned scholar in financial literacy has also identified three powerful psychological influences on financial inclusion that are worthy of reflection. According to Shlomo and his colleagues, "present bias", “inertia” and ‘loss aversion” are very strong psychological influences on financial inclusion that should affect policy and product development.

Present bias is the reality that self-control is not a problem in the future, it is a problem of the present. When we think about the future, we will always imagine we will do the right things like save more and spend less, but in the present, most of us will make the wrong choices and keep spending. Financial products should encourage people to save more when they earn more in future, and possibly create incentives for people who commit to making such future savings today. The use of direct debits, and brand awareness (continuous subliminal messaging and marketing) also helps to respond appropriately to the present bias.

Inertia, taken from Newton’s Laws of Physics is the reality that most people when asked to do something are too lazy, and are more likely to do nothing. For example, if people are asked to tick a box to indicate that they want something, most people will not tick the box. However, when asked to leave the space blank if they want something, more people will leave the space blank, because doing nothing (not ticking) is easier than doing something (ticking). Forced enrolment in pension schemes and health insurance or getting everyone to complete a basic will by default is a powerful way of responding to this psychology.

Loss aversion is the reality that people hate to think that they are letting go of anything. If you give a child one toy, the child will be happy. However, give the same child two toys and try to retrieve one, you will find that same child will become very unhappy in spite of the fact that they still have one toy. This works the same with people saving or setting aside money and feeling that they have “lost” the ability to enjoy themselves or spend today. A possible policy or product recommendation will be the use of incentives for people – what do people get for saving today? What incentives can financial institutions, government and regulators offer to replace the sense of loss. Product bundling as well as Loyalty Programs are perhaps an effective way of overcoming this psychological trap.

Regulators and operators in Nigeria’s Financial Industry should pay attention to the psychology of financial inclusion more in their bid to attract more Nigerians especially those in the informal sector into the formal financial systems and products. In developing policies and products, they should be mindful of these psychological influences, and explore deeper and more meaningful ways of overcoming them so that indeed we can grow the base of participants in formal financial systems, increase individual and national saving and investments and bolster the economic fortunes of our country.

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