


THE WEB AND FINANCIAL LITERACY: CHALLENGES AND OPPORTUNITIES

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WHAT IS FINANCIAL LITERACY?

- Understanding of basic financial concepts
 - For example, interest rates, inflation, GDP
 - Long-standing cross-national research now well established with a common measurement system
 - Consistent finding of very limited financial literacy in substantial proportion of public (c 30-40%)
 - Demographics: typically women, young people and poorer people score lower on financial literacy
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TRENDS IN FINANCIAL LITERACY

PRE-CRISIS

Little interest in
financial news

Weak literacy skills

Financial capability

Lack of future planning

High levels of debt

POST-CRISIS

Increased interest in
economic news

Literacy unchanged

Financial capability

-changed ideas

-unchanged behaviour



WHY IS THIS A PROBLEM?

- Difficult to make informed decision
- Less public debate about policy
- Less trust in decision-makers



FINANCIAL CAPABILITY

Can make informed
decisions

Future orientated

Not dependent on
income

Correlates closely
with satisfaction



NEED FOR FINANCIAL CAPABILITY

- State support for personal finance declining
- Individuals need long-term plans
- Financial products more complex



FROM LITERACY TO CAPABILITY

FINANCIAL LITERACY

- **concepts**
- **Short-term**
- **Impersonal**
- **Machine learning?**
- **Outcome: informed public**

FINANCIAL CAPABILITY

- practical skills**
- long-term**
- part of life course**
- personal interaction?**
- Outcome: improved financial decisions**

FINANCIAL LITERACY AND CAPABILITY

Financial literacy is a pre-condition for capability

But capability also involves

- attitude change

- change in decision making and long-term thinking

- product information

EXAMPLE: Less time spent on deciding on which mortgage than a mobile phone contract



IMPROVING FINANCIAL LITERACY: EVIDENCE

- Teaching financial literacy in school
- Government information campaigns
- Industry initiatives
- The role of the media and personal finance pages
- Face-to-face interactions (eg advice centres)

RECEPTIVE PERIODS: LIFE COURSE CHANGES (LEAVING HOME, MARRIAGE, DIVORCE, RETIREMENT)

**PERSONAL FINANCE ON THE
WEB: PLUSES AND PITFALLS**

PERSONAL FINANCE ON THE WEB

ADVANTAGES

More information

Wisdom of crowds

Interactivity

Up-to-date data

Demographic reach

RISKS

Misinformation

Gaming the system

Taking quick decisions

Too much data

Self-selected audience



EXAMPLE: COMPARISON SITES

HELPFUL

Wide range of options

Quicker purchase

Ability to compare
products

UNHELPFUL

Undeclared limits

Lack of reflection

Financial interest in
selling particular
products



SOCIAL MEDIA AND FINANCIAL LITERACY

- friends as sources of information**
- reluctance to share personal details**
- promotional tool for company brands**



ISSUES OF VERIFICATION

ADVANTAGES

Quick access to key information

Wide range of sources

Complex information and products

RISKS

Easier to manipulate information

How to verify sources

Lack of literacy and understanding



CHALLENGES FOR WEB-BASED TOOLS

-Motivation

-Visibility

-Attention span

-Level of complexity

-Appropriate audience (segmentation)



BEYOND THE WEB: IMPROVING THE CONSUMER EXPERIENCE

The role of experts


The role of government

The role of NGOs

The role of companies

The role of the media



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ASYMMETRIC INFORMATION

BEHAVIOURAL PSYCHOLOGY ON THE WEB

THE MARKET FOR LEMONS



USED CAR MARKETS
(SELLER KNOWS MORE)

INSURANCE MARKETS
(BUYER KNOWS MORE)

COMMODITY MARKETS
(SELLER KNOWS MORE)

FINANCIAL MARKETS
(SELLER KNOWS MORE)

ASSYMETRIC INFORMATION IN FINANCE

- GENERAL PUBLIC HAS LESS INFORMATION THAN FINANCIAL PROFESSIONALS**
- POTENTIAL FOR THEM TO GAME THE SYSTEM**
- FUNDAMENTAL PROBLEM OF FINANCIAL MARKETS – LACK OF EQUAL ACCESS TO TIME-SENSITIVE INFORMATION**
- COMMUNICATION CHANNELS ARE DIFFERENT FOR PROFESSIONALS**

BEHAVIOURAL ECONOMICS AND FINANCE

KEY CONCEPTS

-OPTIMISM BIAS

-LOSS AVERSION

-ANCHORING

-HEURISTICS

EFFECT ON DECISIONS

-Stocks always go up

-Don't sell when stocks
go down

Suggestible to pricing

-Don't adjust portfolio
when things change

BEHAVIOURAL PERSONAL FINANCE

- DEVELOP PERSONAL RELATIONSHIP
- TAKE FIRST SUGGESTION OFFERED
- LOCK INTO TO PRODUCTS WITH DEFAULT OPTION
- USE PEER PRESSURE
- MAKE OPTIMISTIC PROJECTIONS





FINANCIAL MARKETS ONLINE

BACK TO THE FUTURE

THE POWER OF THE WEB

Predicting market movements

Automated trading

Spotting long term trends

Manipulating large data sets

Lowering costs (eg transactions)



THE WEB AND FINANCIAL MARKETS

Increased speed of transactions (but less transparency)


Possibility of predicting market moves (but danger of false information)

Self-fulfilling predictions (automated crashes)

Increased communication (but limited to key actors not general public)



ASYMMETRIC OUTCOMES

- HIGH FREQUENCY TRADING: WEB TECHNOLOGIES ALLOW FRONT RUNNING
 - DARK POOLS: NON-TRANSPARENT PRICING
 - AUTOMATED STOCK TRADING: THE DECLINE OF JOBBER
 - FOLLOW YOUR NEIGHBOR: INCREASED VULNERABILITY TO CRASHES?
 - FEES AND CHARGES: THE HIDDEN COSTS OF TRADING
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TRADING DANGERS ON THE WEB

FALSE INFORMATION

GROUP THINK

NEED FOR REFLECTION

LIMITS OF AUTOMATED PROGRAMS

MANIPULATED MARKETS

DECLINE OF ROLE OF TRADER

PRICING POWER



IMPROVING MARKET EFFICIENCY

OPEN DATA SETS

LONG TERM TREND DATA

REAL TIME INFORMATION

ONE MARKETPLACE

EASIER ACCESS TO COMPANY INFORMATION

LIMITS ON GAMING AND RECOMMENDATION



PROTECTING CONSUMERS

Lowering the cost of transactions

Getting objective advice

Limiting online marketing and recommendation

Reducing market asymmetry

Increasing transparency



CONCLUSIONS: TRANSFORMING FINANCE

Disruptive technology for both consumers and traders

Regulation has lagged behind technology

Consumers face risks from mis-information

Traders face risks from less market transparency

Asymmetric information challenge is still great

Behavioural economics: web can increase bias

Potential gains: speed, range, sophistication

