Ressort: Finanzen

Financial Education: Social Value

Behavioral finance.

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GDN - After a long series of interviews with finance guru Ferdinando Lettieri, we asked for further insights into behavioral finance. Here is what he told us.

The Italian Government
In 2008, the Italian government allocated 800 million pounds for financial education of the citizens of the Kingdom.

The aim was to recoup a figure ten times higher in the following ten years. This was meant to be achieved through increased tax revenues and reduced social spending. The awareness of the need to intervene in this field, has made citizens aware of the epochal changes happening in the welfare system.
The results, despite the recent years of severe crisis, have been surprising.
The English Government
In England, financial education laws have remained stagnant until winter 2016. Then Financial Education became the law of the State. The amount of 1 million euros was allocated within the measure for securing the banking system. (While, 20 billion euros were allocated for bank rescue).

The law was approved in Italy only after the OECD "scolded" our country. In fact, it was still the only one without a law in this sense.
Italy ranks last in Europe and among the last in the world for basic financial literacy. Even behind countries like Togo, Zimbabwe, Kenya, Ukraine, and Burma.
In one of my evenings, I also talk in detail about this topic.

The survey, conducted in 2015 by the World Bank, in collaboration with Gallup, Standard & Poor's, and other institutions, (many of which are universities from around the world), shows that in Italy only 37% of people surveyed answered questions correctly. Questions like what is inflation, spread, a stock or a bond.
Such a situation affects the lives and behaviors of citizens. This also relates to an economic policy choice made by governments or Central Banks. For example, a rise in interest rates is viewed negatively by people of lower social class. In reality, what drives Central Banks in that direction is precisely the protection of the most vulnerable. By leveraging rates, it prevents the rise in prices of essential goods.

However, for almost a decade, associations have been dealing with Financial Education as volunteers. Among these is Anasf, the National Association of Financial Advisors, with the project "Economic@mente - Plan for your future", aimed at high school students.
The goal is to help students have a greater awareness of what their future will be like and how to plan for it rather than just letting it happen. They are taught about the life cycle and the epochal changes between the past century and the one they were born into.

The topics addressed mainly concern the changes shaping this century in terms of employment: "It's not true that there won't be work tomorrow, it will just be different."
The issue of "less state in social matters" is addressed, providing elements on how to "pre-occupy" oneself.
Even the Municipality of Milan, with the former Mayor Pisapia, dealt with Financial Education. In fact, the former Mayor of the Lombard capital, Pisapia, included Financial Education in his community financial welfare program. The program was known as "Action 44", as it was the 44th point of his government action. The project was carried out in collaboration with UNI, Progetica, and the Catholic University.

Monitoring done on a sample of citizens who attended Financial Education courses in Milan shows how proper Financial Education can contribute to a greater well-being of citizens. This is both from an economic point of view and in terms of peace of mind. In fact, good Financial Education leads to greater savings and correct use of those savings. It also generates greater happiness and optimism in making decisions for the future.
Today, even in Italy, following the Anglo-Saxon model, we are starting to hear about "Corporate Financial Welfare."

Some companies include Financial Education in their welfare programs. This has significant benefits for both workers and companies. A worker who has a clear view of their future takes better care of their financial resources. Consequently, they are calmer and without stress. This makes them more productive and less prone to accidents, with significant benefits for the company as well.
Thanks to the lack of Financial Education, Italian investments are not among the most accurate. Italians' savings are currently "parked" in deposit accounts and monetary instruments. They invest in the "very short term", less than a year. As a result, with the continued "parking," there is a certain loss of purchasing power. In other words, "I can't buy the same things anymore".

With proper Financial Planning, investing these resources for their real life goals, it is possible to achieve the desired result with reasonable certainty.
Most cases of "betrayed savings" are also due to poor Financial Education. We have seen these cases from 2000 to the present day when citizens were easily led to believe they were investing in high-return, low-risk investments. Almost as if we were in Pinocchio's miracle world.
Some European directives are coming into play again. Ten years ago, the European Directive "MIFID" cushioned the losses of investors during the 2008 banking system collapse. Through a maximum preset risk value, i.e., a form of investor suitability for certain investments.

Another Directive will come into force in Italy in early 2018 (MIFID 2). This will strengthen the previous directive and, in some aspects, transfer responsibilities. There will be greater transparency on costs and risks. "Adequacy" will be transferred from the investor to the investment proposer. In short, the skills of those performing the consultancy functions must be demonstrated. The consultant becomes the economic guarantor of the savers' future.
This Directive, in concrete terms, refers to the international standard ISO 22222:2008 on Personal Financial Planning. The Directive provides extreme clarity on the skills and certifications of the financial operator.

The Mifid2 Directive, already in force for a couple of years in the more developed United Kingdom, immediately led to a significant reduction. There was a drop of 30% in operators.
The hope is that with the help of this Directive and with good Financial Education, the "distrust" of citizens towards the banking system, currently second only to that directed at the political system, can be reduced with positive economic consequences for both savers and intermediaries. The whole country could benefit in terms of economic well-being (welfare).
In-depth explanation about Behavioral Finance Author Ferdinando Lettieri - Financial Consultant and Educator www.ferdinandolettieri.com

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Editorial program service of General News Agency:
UPA United Press Agency LTD
483 Green Lanes
UK, London N13NV 4BS
contact (at) unitedpressagency.com
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