Foreword

This book is dedicated to issues that are very dear to us regulators: financial education and risk literacy. Subjects that, in the wider context of a consumer protection framework, have seen in recent years some growing and fascinating research advancements, as well as an ever increasing body of evidence coming from implemented policies around the world.

In introducing the first volume one year ago I suggested that behavioural economics had irrevocably modified the way we frame the real-world economic phenomena in our thinking. And that the debate between those – like you – more eager to integrate or replace the “standard” theory and those that are resisting it, has been beneficial to all its participants, whichever the field of allegiance.

I stand by this view. The more an agreed-upon body of knowledge in behavioural economic sciences consolidates, the more defined and robust will be the set of non-traditional regulatory tools. Especially when considering the workings of the banking and insurance markets, any policy intervention should be well understood by the industry and the general public.

It is in this context that an open-ended discussion between regulators, independent academics and the industry is so valuable. On the one hand the drive of the industry towards value-creating innovations produces what in some instances could be labelled “facts before the theory”. On the other hand the findings of behavioural theorists help make sense of such data.

For example, recent research in behavioural corporate finance has greatly expanded our understanding of managerial conduct. It has shown that even top managers, a rather sophisticated group of individuals, are not immune to biases and seemingly irrational decision making, and that their traits and life experiences are priced by the markets. Even more relevant are behavioural traits in household finance decisions. Actual investment and consumption decisions that are based on mental accounting, present bias and reference point consumption, have been recurrently mentioned as possible explanations for “non-traditional” agents’ behaviour that is found in the data.

We at the Bank of Italy and IVASS (the Italian Regulation and Supervision Authority for Insurance), in our consumer protection activity, are now paying great attention to the insight of behavioural economics.
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Years ago we were relying mainly on transparency requirements. But full disclosure, while responding to information asymmetry, was not addressing behavioural bias.

In the real world consumers have behavioural weakness and difficulty in processing a vast amount of information. On top of that, households’ financial decisions are taken so rarely that in fact people seldom learn from their direct experience.

Therefore our policy approach has been re-oriented, in both regulation and enforcement. Formal compliance has given way to a more substantial approach, requesting producers to be fair in their relations to customers.

We have also promoted the creation of alternative dispute resolution procedures, simple, rapid and effective. Arbitro Bancario e Finanziario has been a success: last year over 30,000 complaints were received; the analogous entity for insurance, Arbitro Assicurativo, is likely to be established early in 2020.

However, financial regulation and good supervision may not be enough if consumers do not really understand their financial needs and cannot operate their rights properly; effective financial education is a crucial life skill in order to make financial decisions consistent with personal and family needs.

In today’s digital age, financial markets offer everybody easy access to a wide range of financial services and products. But digitalization has two aspects: it can emphasize some behavioural biases, such as short-termism and impatience, but it can nudge people into specific virtuous action. The final balance will be positive only if consumers are financially literate.

Building a sound financial education is complex, as it requires a lifelong approach on three challenging dimensions: knowledge, attitude and behaviour. Financial education goes beyond just providing information, it is meant to change those three dimensions in order for people to achieve their financial well-being.

Best practices around the world show that experiential learning (such as games, simulations and role plays) helps acquire, retain and put into practice new information.

Since 2008 in our main programme for students, “Educazione finanziaria a scuola”, we have progressively moved from information to capability, fostering a value-driven approach to economic issues, stimulating the participants’ interest by suggesting “I need it because…”. We have been using movies as a trigger for debating financial issues and behavioural biases. We have also introduced contests and prizes. Our competition “Let’s design a banknote” invites Italian primary and secondary school students to design an imaginary banknote on a given theme; for the current edition, the theme is “money and emotions”. The prize-winning classes
receive an amount of money for their school. We will also contribute to the first of the Italian Economic and Finance Olympiads.

Adults are more challenging: they tend to acquire just the knowledge and skills they need for a specific purpose and their behaviour tends to be well-rooted. Furthermore, adults are an extremely heterogeneous population. For example, some immigrants grew up where saving food meant wasting it. Thus the concept of saving must be explained to them with special care.

Let me also add that IVASS is now planning an exercise to measure insurance literacy, a still underexplored dimension of financial capability; even if it is a novel concept, it could become an international benchmark.

I would like to stress that, as international experience shows, single institutions cannot fill all the gaps: a nationally coordinated approach to financial education is a key factor for success. Financial education needs an interdisciplinary approach and strong cooperation among many stakeholders, including academia, the private sector and civil society, as well as the public sector, so that all the points of view can be taken into account, from pedagogy to neuro-economy.

In October 2018, some preliminary evidence of the survey of financial education initiatives in Italy in the years 2015–17 was released. The survey shows a very fragmented offer of financial education initiatives.

As authorities involved in the diffusion of financial literacy, over time we advocated the implementation of a national strategy for financial education, recognizing its crucial role in ensuring a more inclusive growth and gender equality. We therefore very much welcomed the establishment of the Committee on Financial Education in August 2017.

Since its inception, the Committee has been very active, also thanks to the energy of its Director, Annamaria Lusardi, whom I want to thank on behalf of all of us, and the forward-thinking choice to make the most of the existing experience in financial literacy, in Italy and abroad. So far the Committee has achieved many important results.

Among them, the Committee defined the Italian National Strategy for Financial Education (NSFE), which defines vision, mission, goals and guidelines. The strategy promotes a holistic approach to financial well-being, also including insurance and social security perspectives. In the strategy, the Committee has been able to take advantage of international experiences – as Annamaria says, quoting Isaac Newton, “standing on the shoulders of giants” – and building on all information available for our country, such as the Bank of Italy survey on adult financial literacy.6

We are confident that the Committee will play a constructive and pivotal role in coordinating all efforts in the field of financial education. The Financial Education Month, which took place in October 2018, included over 350 initiatives nationwide: it was a good starting point.
There is a further element to keep in mind: we need robust evaluations to identify areas for improvement and to be sure that we make good use of resources. Indeed, evaluation is a crucial element in the making of good financial education.

In sum, we need to exploit all available theories, empirical evidence and points of view. Much work still needs to be done, which requires a joint effort by all the actors involved: this initiative is an excellent opportunity to lay the foundation of such a collaboration.

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NOTES

1. See, for example, the survey contributions to the recent Handbook of Behavioral Economics: Foundations and Applications (Bernheim et al., 2018).
2. See, for example, Schoar and Zuo (2016), and Malmendier (2018).
3. See Thaler (1985) and associated literature.
4. For example, Laibson (1997).
5. See Kőszegi and Rabin (2009).

REFERENCES

Barbara, Riccardo and Umberto warmly embrace their co-editor Shabnam and her wonderful daughter Anoush. Anoush is an amazingly talented young woman who is currently fighting a very hard battle with a severe rare disease. She will certainly recover but all those who have the privilege of knowing her (and this includes not only the editors but several of the authors) take the occasion of this book to give her all the possible support and encouragement: *You will make it Anoush, we are all with you.*