

The Importance of Being Financially Literate

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It is already well known that we Malaysian are committed savers. We are among the countries with the highest savings rate in the world, a mean feat not easily followed by others. All this savings, which were eventually channelled to some form of investment, have helped propel Malaysia's economic development. The motivation to save not only comes from future needs for old age and bringing up children, but also for precautionary savings to face many adversities in life including unemployment, sickness or any other unexpected tragedies. Why then should we need to know much more about personal financial management when the public already knows the benefit of savings, either for personal reasons or as a national policy? We continue to hear how certain people get cheated by fraudulent investment scams such as pyramid and other forms of get-rich-quick schemes. There are also those who get into financial trouble by spending beyond their means and those who gamble excessively. Actions such as these could possibly be avoided if people are financially wiser, have access to information and know what financial options are available to them.

Although the saving habit is generally accepted as a praiseworthy virtue in society, the general financial knowledge and planning of a layman with regard to his/her savings can be further improved. It is not only important for households to save, but of equal importance are for them to know how to channel such savings to productive usage, i.e. investment. Financial literacy is not just about savings. It has a larger scope involving hard choices and trade-offs in spending and investment decisions, spanning many years throughout a person's lifetime. Besides managing a personal budget, a person has to also understand the myriad of financial services offered by the banking system. There are many types of deposits, loans and investment choices available, and this is made more complex with the dual conventional and Islamic financing options. In addition to that, a person now needs to understand e-banking. To be able to take advantage of all these facilities, a person has to be equipped with some basic financial literacy. Financial knowledge will also help a person detect and avoid from being cheated. The market for

financial services will become more competitive with well-informed customers. Financial literacy is not just for the rich. The lower income group will benefit from financial awareness by knowing how and where they can apply for low-cost houses and where they can get credit line for small businesses, for example.

Most of us would invest our savings passively, entrusting some government body or the financial experts to do it for us while we wait for the gains from dividends or returns. This is probably the best way, to let the specialists do it for you. But it does not mean that we need not know what is happening to our hard-earned savings. Most of the country's savings came in the form of forced savings managed by the Employees Provident Fund (EPF). The savings parked with EPF is intended to provide for those passing their working age. With EPF around, we do not have to actively plan and worry about our financial position during old age, as many would presume. This could plausibly be one reason why we become less involved with financial planning as somebody is already doing it for us. However, recent surveys undertaken have revealed scary news that a large majority of retirees spend almost all of their EPF savings within a few years. After having painstakingly saved throughout one's working life, the money is used up within a short period of time. Having lacked the financial experience and skills to manage a large amount of money and confronted with a windfall gain, the person is shocked by the event of the moment. With EPF giving out the lowest dividend in 25 years, at 5.0 per cent in 2001, it is high time that contributors become more aware of where their money is invested. Arguably, the relatively weak economic and financial performance in 2001 and restrictive investment options had resulted in low yield to EPF's investments. Besides EPF, which has assets valued at RM191.1 billion as at end-2001, a large amount of voluntary savings has gone into unit trusts, with assets valued at RM47.3 billion at end-2001.

There are many other aspects of personal finance which need serious attention, what more with the persistent rise in the prices of major spending items such as education, housing and health. There does not seem to be any major let up in the prices of residential properties. The average price of terraced houses in Malaysia declined only

twice during the 1990s, in 1998 and 1999 by –4.8 per cent and –3.5 per cent respectively, and by 2000, the index bounced back strongly with a 11.2 per cent rise. The cost of education in private institutions has reached a level that is quite burdensome to households and unaffordable to many parents, while public institutions offer limited spaces. Providing for the children’s education will now require some kind of serious financial planning. With the rise in living standards, more households prefer going to private clinics for treatment, resulting in an increase in general spending on healthcare. This is not to mention other increases in living expenses including higher petrol prices, utility charges and toll rates. The persistent rise in the cost of living will pose serious challenges in managing one’s finances. This is where basic household financial knowledge would be a tool of great importance for survival. With people’s wants continuing to rise amidst limited and scarce resources, financial literacy is crucial to enhance the efficiency in resource allocations.

In the United States, in a survey on “economic literacy” that asked about key concepts in economics conducted by the Minneapolis Fed in 1998, it was found that the average score was 45 per cent out of 100, which reveal some level of understanding, albeit low. In another survey conducted by the US National Council of Economic Education in 1999, it was reported, “half of all American adults receive a failing grade for their knowledge in basic economic concepts, but adults who have completed college score dramatically higher than those who have not.” In a more recent survey on personal financial literacy reported in April 2002 and conducted by Jump\$tart Coalition, an alliance of private and professional groups and US federal agencies, it was found that just 32 per cent out of 4,024 US high school kids passed a nationwide financial literacy test with an average score of 50.2 per cent which is a six-year low. The survey asked about basic personal finance questions relating to compound interests, credit card liability, as well as the impact of inflation on income. Surprisingly, even in a developed country with an advance financial sector such as US, the level of financial literacy is somewhat dismal. At present, there is no data to indicate the level of financial or economic literacy in Malaysia. Although stories on share prices continue to be a hot topic in coffee shops, this does not necessarily indicate that Malaysians are more literate financially.

In Malaysia's quest to transform to a knowledge-driven economy, the state of financial knowledge of the general public cannot be taken lightly. It is time that the public receive more education in financial matters, apart from being adventurous with computers, internet and other high-tech gadgets. Financial literacy is as almost as vital as being IT literate. Financial knowledge would equip a person with the necessary knowledge to make good and wise decisions with regard to spending, saving and investment choices. We could save those hard-earned savings of the working class from being squandered and pilfered by get-rich-quick pyramid schemes, or any other of kind of weird scams. The central bank had conducted extensive campaigns on pyramid schemes and other related scams and the legal infrastructure is constantly being upgraded to protect the public. The fact that news of such cases still happening can only mean that public awareness on investment and finance is still on shaky ground.

We will have to start financial education at a young age. Although science education is now the centre of attention, financial knowledge should not be neglected. In the US, a study in 1994 found that 88 per cent of large employers offered some form of financial education, and that two-thirds of these programmes were introduced after 1990. Another study in the US found that employer-based financial education does have (statistically) significant influences on household behaviour: they save more or are willing to take up savings plan. In other words, financial education can alter the behaviour of a person with regard to budgeting and financial decisions. Malaysian employers could do the same as well to improve their workers' financial literacy. The EPF can allocate some funds to educate the public, and this would surely be welcomed. And of course, there are professional financial planners who could provide advice, although most of the time there is salesmanship involved. With a bit of publicity, the internet is certainly another good avenue for educating the public. Money is not everything in life, as is often said, but there can be no peace of mind if personal finance is in serious trouble.