

Factors influencing saving and investment: Financial literacy, attitudes and trust

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 - (I) Factors influencing saving and investment:
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PURPOSE: Factors influencing SAVING AND INVESTMENT

To explore the environment and conditions surrounding the saving and investment behavior of Spanish households

Three main factors are needed for the development of a saving and investment culture:

- (i) Basic financial literacy and knowledge and understanding of** available saving and investment vehicles
- (ii) Values, attitudes and perceptions** regarding saving and investment
- (iii) Trust** in financial institutions and intermediaries

MOTIVATION: The need to SAVE AND INVEST

- Increased longevity of the population
- Inadequacy of public pension systems
 - ✓ Public deficit and debt
 - ✓ Inverted population pyramid
- Long economic crisis
 - ✓ Falls in stock markets
 - ✓ Low interest rates
 - ✓ Real estate market crisis
 - ✓ Instability and uncertainty in the finances of Spanish households

MOTIVATION: The need to SAVE AND INVEST

Understanding the factors affecting the propensity to save and invest in the population is useful for

- **Financial Institutions:** so that they adapt their products and services to the characteristics and needs of their (potential) clients
- **Regulators:** so that they can implement effective campaigns in order to incentivize household saving and investment behavior
- **Individuals:** so that, as a first step towards responsible household finance, they are aware of their current financial situation and the internal and external factors that influence their decisions

METHODOLOGY: Sample and Survey

ONLINE SURVEY (representative of Spanish population by gender, age, socio-economic status, and geographic area)

1538 valid questionnaires.

Field work: **February of 2017**

GROSS HOUSEHOLD INCOME €	TOTAL	ACCUMULATED
Less than 20.000	37%	37%
20.000- 34.999	32%	69%
35.000- 74.999	27%	96%
More than 75.000	4%	100%
HOUSEHOLD FINANCIAL WEALTH €	TOTAL	ACCUMULATED
Less than 10.000	47%	47%
10.000- 49.999	30%	77%
50.000- 99.999	10%	87%
100.000- 299.999	10%	96%
More than 300.000	4%	100%

Education: 45%
has university
(associate/
bachelors/
graduate) degree

ANALYSIS AND RESULTS

(I) Factors influencing saving and investment: THE GENERAL POPULATION

- FINANCIAL KNOWLEDGE**
- VALUES, ATTITUDES AND PERCEPTIONS**
- TRUST**

FINANCIAL LITERACY

Most households do not have the capability to make financial decisions regarding saving and investing

- Financial literacy:
1. Impact of inflation on the purchasing power of money
 2. Computation of simple interest
 3. Concept of compound interest
 4. Benefit of the diversification

Number of correct answers	% of participants
4 questions	17,3%
2 questions	29,5 %
2 or less questions	53,2%



FINANCIAL LITERACY



	Correct answer	Incorrect answer	Doesn't know
Impact of inflation	50%	26%	24%
Simple interest	64%	15%	22%
Compound interest	50%	28%	22%
Diversification	60%	10%	30%

PERCEPTION OF SPECIFIC FINANCIAL KNOWLEDGE

Individuals perceive their knowledge of available investment instruments to be low (with a mean of 3 out 10)

VALUES, ATTITUDES AND PERCEPTIONS

- ✓ The precursors of saving behavior are stronger than those of investment
- ✓ The reasons to save and invest seem appropriate
- ✓ There are many barriers to invest. Financial scandals & corruption is the most important one

The Theory of Planned Behavior : Factors influencing a specific behavior:

- 1. ATTITUDE:** whether a person is in favor of performing the behavior
- 2. PERCEPTION OF CONTROL:** if he/she feels in control, or able, to perform the behavior
- 3. SUBJECTIVE NORM:** if she/he feels social pressure to perform the behavior

VALUES, ATTITUDES AND PERCEPTIONS

TOWARDS SAVING		MEAN
Saving regularly is beneficial (desirable)	ATTITUDE	7,7
My saving regularly will result in a more secure future financial life for me and my family	ATTITUDE	6,7
I believe I can make sound decisions about saving	CONTROL	6,6
I believe I can save regularly	CONTROL	5,4
People that are important to me think I should save regularly	SOCIAL	5,5
Most people like me save regularly	SOCIAL	4,8

VALUES, ATTITUDES AND PERCEPTIONS

TOWARDS INVESTING		MEAN
Investing regularly is beneficial (desirable)	ACTITUD	5,5
My investing regularly will result in a more secure future financial life for me and my family	ACTITUD	5,5
I believe I can make sound investment decisions	CONTROL	5,8
I believe I can invest regularly	CONTROL	4,0
People that are important to me think I should invest regularly	SOCIAL	4,1
Most people like me invest regularly	SOCIAL	4,1

VALUES, ATTITUDES AND PERCEPTIONS

REASONS FOR SAVING

Provision for unexpected events	7,8
Complement pension at retirement	6,8
Children education	6,3
Support of children/grandchildren	6,1
Pay off debts	6,1
Vacations	6,0

REASONS FOR INVESTING

Complement pension at retirement	6,1
Higher return	6,1
Have more funds in the future	5,7
Pay lower taxes	5,6
Diversification and reduction of risk	5,5

VALUES, ATTITUDES AND PERCEPTIONS

BARRIERS TO INVESTMENT

Financial scandals and corruption	7,3
Economic crisis	7,2
Elevated perceived risk of investments	7,1
Elevated perceived risk of financial intermediaries	6,9
Lack of knowledge to analyze investment alternatives	6,9
Low financial literacy	6,8
Political instability	6,6
Lack of understanding of economic news	6,6
Negative audits for issuers/intermediaries	6,2
Not enough time to analyze investment alternatives	6,0
Negative investment experiences (family and friends)	5,9
Negative investment experiences (self)	5,8

TRUST

- ✓ 30% has NO TRUST in financial institutions. Mean trust is 4 out of 10 (1-none, to 10-very high).
- ✓ The higher the education level, the greater the trust.
- ✓ Specific trust measures - transparency, professionalism, honesty, and solvency- earn higher scores.
- ✓ Banks earn first place in solvency and professionalism. Auditors in transparency and honesty.

	TRANSPARENCY	PROFESSIONALISM	HONESTY	SOLVENCY
Mean valuation	5,3	6,3	5,4	6,2

Rank of Private Institutions by Trust	
1. Banks (5,9)	5. Financial advisors (5,6)
2. Auditors (5,9)	6. Brokers and dealers 5,6)
3. Depository institutions (5,8)	7. Insurance agents (5,5)
4. Insurance institutions (5,7)	8. Rating agencies (5,3)

(I) Factors influencing saving and investment of the GENERAL POPULATION: **CONCLUSIONS**

FINANCIAL KNOWLEDGE: Most are not prepared to make sound financial decisions regarding saving and investments

VALUES, ATTITUDES & PERCEPTIONS:

- ✓ The behavioral precursors of saving are moderate, those of investment are deficient.
- ✓ Principal reasons to save are to provision for the future and retirement.
- ✓ Principal reasons to invest are for retirement and higher return.
- ✓ Numerous barriers to invest. # 1 Financial scandals & corruption

TRUST:

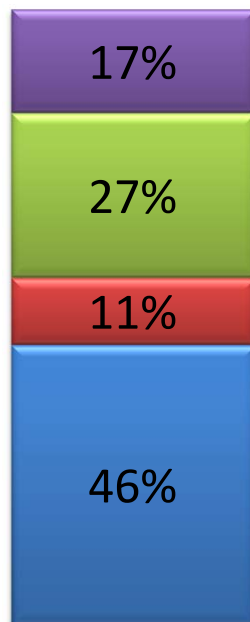
- ✓ 30% of the population has no trust in financial institutions
- ✓ Trust increases with education
- ✓ Transparency, professionalism, honesty, and solvency of financial institutions earn higher valuations than trust

ANALYSIS AND RESULTS FOR THE INVESTOR:

Investor definition



- Non saver
- Saver, non investor
- Depositor
- Investor



INVESTMENT PRODUCTS CONSIDERED IN OUR SURVEY

Investment Funds (Monetary, Fixed Income, Equity, ...)

Pension Plan or Funds

Savings Insurance Policies (Income, SISP, LTISP, IPP, Unit Linked)

Common Stocks (Public Listed Shares)

Bonds (Treasury Bills, Promissory Notes, Bonds, Securities)

Preferred Stocks

Exchange Trade Funds

Variable Capital Investment Vehicles

Hedge Funds

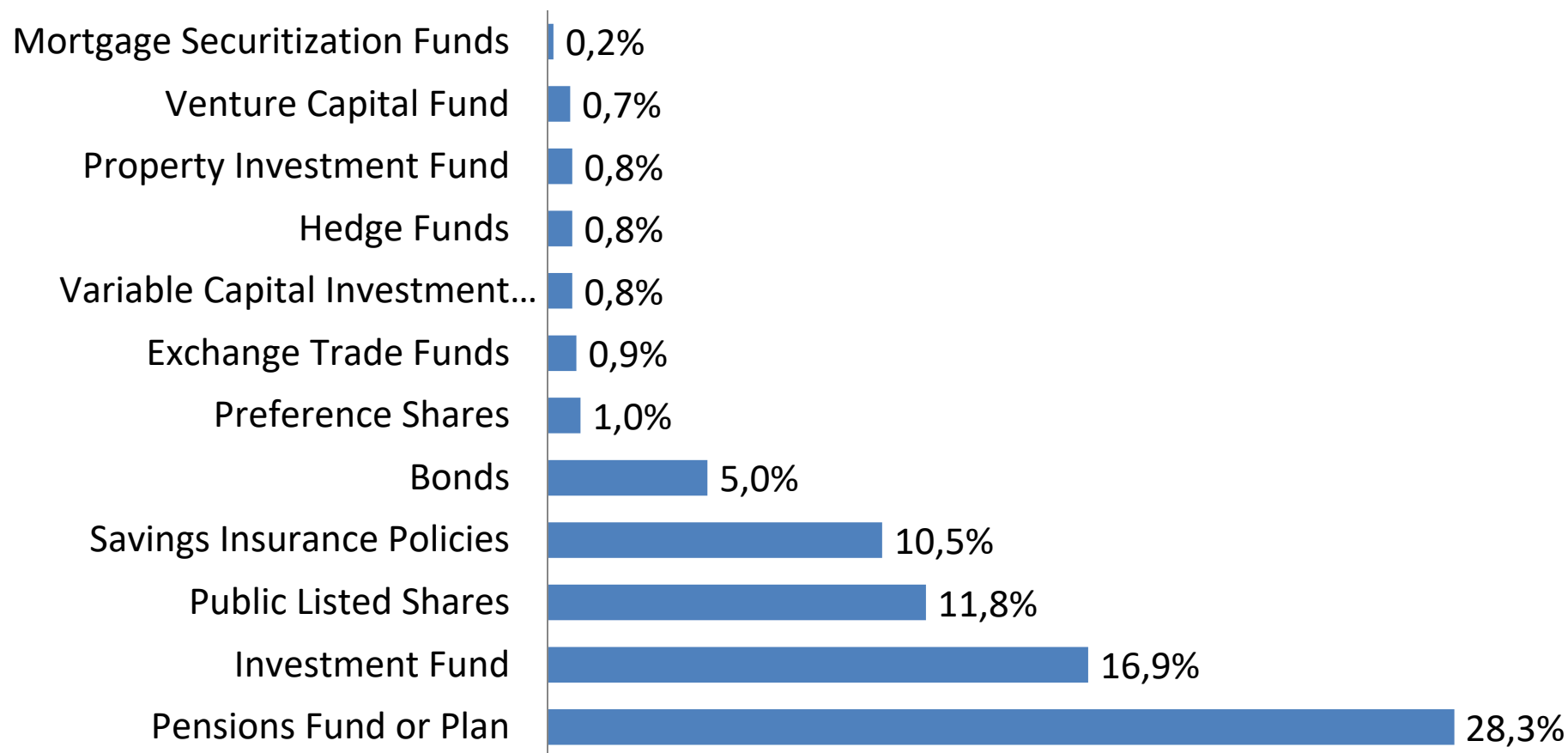
Real Estate Investment Funds

Mortgage Securitization Funds

Venture Capital Funds

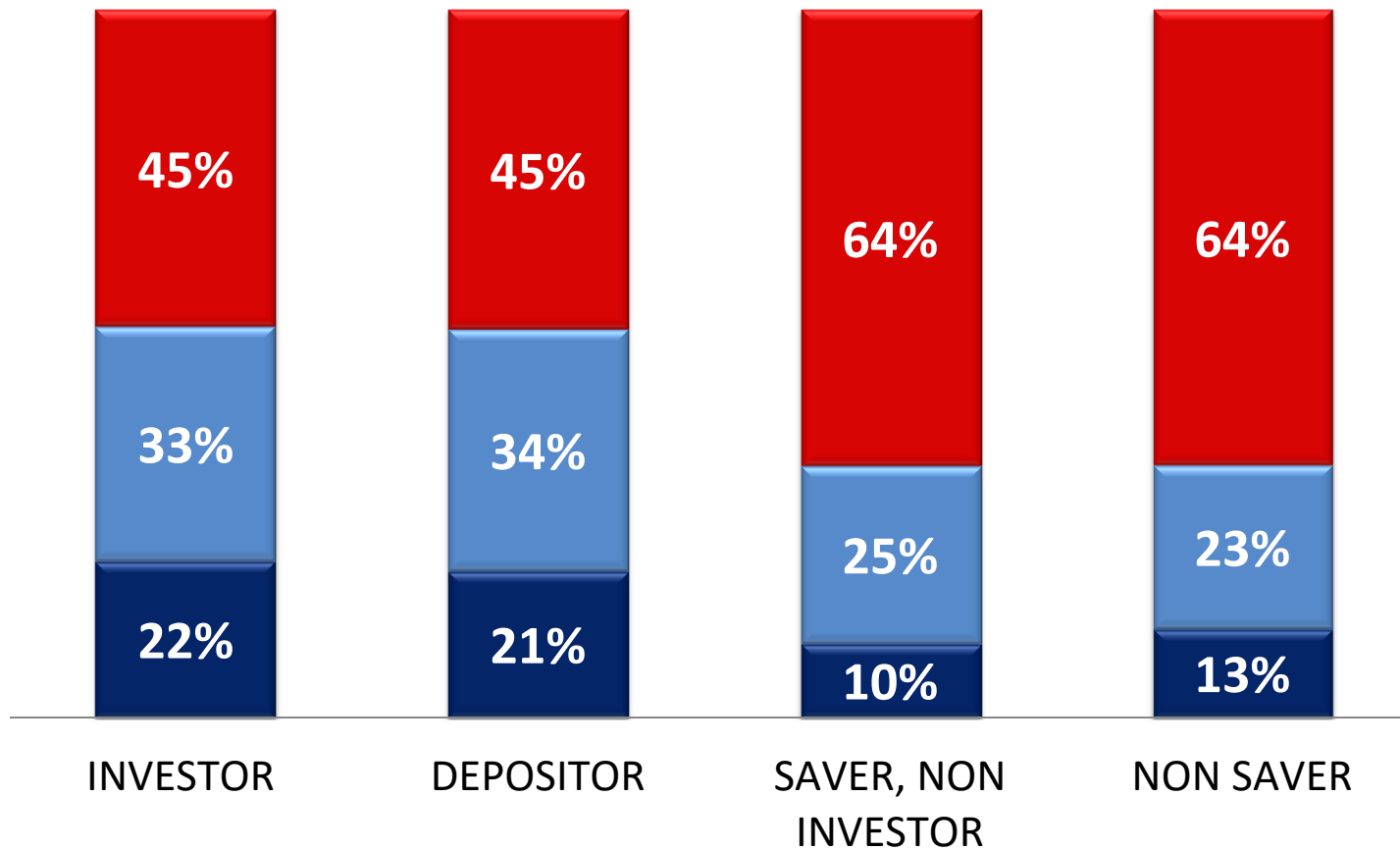
Investments break- down

POPULATION WHO INVESTS IN PRODUCTS CONSIDERED (% of population)



FINANCIAL LITERACY OF INVESTORS:

- Two or less correct answers
- Three correct answers
- All four questions correct

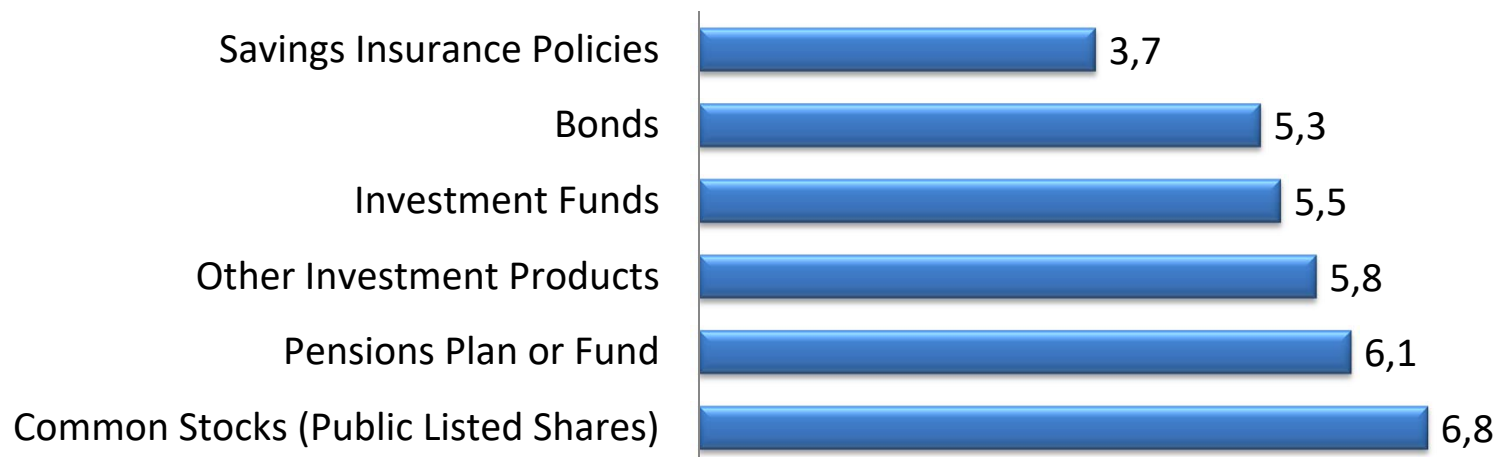


PERCEPTION OF SPECIFIC FINANCIAL LITERACY BY INVESTORS:



- ✓ Investors' perception of financial products comprehension is poor (3,6 out of 10). Just one product out of eleven, the pension fund, is sufficiently known (almost 6 points)
- ✓ However, investors perceive that **they understand better those products in their own portfolios**, and the products with a higher level of comprehension are public listed shares and pension funds (6.8 and 6.1 respectively). **The exception is the saving insurance policies**

PERCEPTION OF PRODUCTS UNDERSTANDING FROM ACTIVE INVESTORS (1 min - 10 max)



VALUES, ATTITUDES AND PERCEPTIONS OF INVESTORS:



- ✓ The precursors for saving behavior are stronger than for investment

VALUES (1-10)	ATTITUDE	CONTROL PERCEPTION	SUBJECTIVE OR SOCIAL NORM
SAVINGS / INVESTMENTS	7,6 / 6,1	6,4 / 5,4	5,4 / 4,5

- ✓ The reasons to save and invest seem appropriate

AIMS OF SAVINGS:

- Provision for unexpected events (8)
 - Complement future public pensions (7,5)
 - Children education and support (6,4 y 6,2)
- Housing, vehicles and durable goods acquisitions are not important (4,9 – 5,1 – 5,3).

AIMS OF INVESTMENTS:

- Complement future public pensions(7,1)
- Gaining higher (6,9)
- Risk diversification and risk reduction (6,2)
- Pay less taxes (6,2)

- ✓ There are many barriers to invest. Financial scandals & corruption is one the most important

BARRIERS TO INVESTMENT

Perceived risk of investments (7,6) - Financial scandals and corruption (7,5) - Economic crisis (7,4) - Perceived risk of financial intermediaries (7,3) - Lack of knowledge to analyze investment alternatives (7,1)

TRUST OF INVESTOR:



✓ Trust level increases as we move from investment averted segments to more favorable ones.

TRUST IN FINANCIAL INSTITUTIONS	Investor	Depositor	Saver, non investor	Non saver
GLOBAL TRUST	4,6	4,1	3,7	3,1
SPECIFIC AVERAGE TRUST	6,1	5,7	5,3	4,9

INVERSOR SPECIFIC TRUST AVERAGE (6,1):

Professionalism (6,7) - Solvency (6,4)

Transparency (5,6) - Honesty (5,6)

Banking Entities - Top 1 in professionalism and solvency

Audit firms - Top 1 in transparency and honesty



CONCLUSIONS

FINANCIAL LITERACY

- ✓ Spanish population has low level of **knowledge and understanding** about basic financial terms and available financial options
- ✓ **Financial literacy of investors** is higher than non investors, but still is not enough
- ✓ Investors perceive they correctly comprehend the products in which they have invested, except for Savings Insurance products.

VALUES, ATTITUDES AND PERCEPTIONS

- ✓ **Precursory elements for saving** are well founded across Spanish citizens, while they look weaker for **investing**, even for active investors
- ✓ Spanish households and investors **aims for saving and investing** are appropriate
- ✓ There are **many barriers to invest**, but financial scandals & corruption is on the top

TRUST

- ✓ The **general trust that investors** have in the financial system does not reach, as for the general population, the minimum required level. However, the assessment that citizens and investors give to important attributes of financial entities (transparency, honesty, professionalism and solvency) is sufficient.

RESEARCH AGENDA



Move from a descriptive study to an analytical one & extend it to other countries

- **Determine and Quantify the influence of the factors explored in this study in the propensity to invest and save through statistical models:**
 - Financial Literacy and Specific Financial knowledge of investment alternatives: objective and subjective knowledge
 - Psychological factors: attitude, control, and subjective norm
 - Trust: in the financial system in general and in financial institutions particularly
 - Demographic factors: age, gender, incomes and wealth, education level, children, housing ownership, etc.
 - Other factors: valuation of previous experience as investor, aims to invest/saving, top barriers mentioned to invest, etc.
- **Extend the analysis to other countries (if we find financial support for it)**

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