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Financial Literacy. A BBVA analysis

1. Context

Financial literacy in Europe has acquired an unprecedented importance in recent months. The complexity of financial products, the volatility of the markets and family debt now suggest that the general public should be given a financial education.

The European Commission and the OECD have decided to promote financial education from the earliest age in countries in the European Union.

The crisis in the financial markets has reinforced the lack of confidence in financial systems and intermediaries. As a result, this educational work is even more important.

What does financial education mean? It has different meanings according to the entity/institution promoting it. The authorities point to a clear twin benefit: greater stability for the financial system and increased welfare for people. Banks now see the need to train/inform their current and future customers better so that the relationship they establish with them should be more lasting and trusting. "As well as spreading knowledge, this gives people an awareness of how to administer their own finances and provides them with the skills to use financial tools for their own benefit.¹ Consumers' associations want to prevent situations of abuse that prejudice people who are badly informed or uninformed. NGOs that work in areas of great poverty point to the need to optimize scarce resources so that families can invest for the future.

In fact, there are various facets to financial education: children in a primary school who are taught about the value of things; children in secondary school who create a micro-company; university students who simulate a stock market investment plan; homemakers who attend talks given by consumers' associations; immigrants who receive basic training for managing their remittances and limiting their debt; company employees who receive training; pensioners who participate in a dynamic group in a center for the elderly... and even bank customers who are given advice from their banker. Each of these situations generate a dialog, favor the transmission of knowledge and illustrate a moment of "financial education".

Despite being given by such different providers, all the financial education programs cover more or less the same thematic fields. Creating budgets, the intelligent use of money, savings and debt management, banking services and financial negotiations are subjects that are included in the programs, whether run by an NGO that works with the poor in developing countries or a bank in

¹ BBVA Bancomer

Europe. Words such as confidence, effort, responsibility and precaution permeate all the programs.

All the programs try to respond to the needs of the life cycle by linking life's milestones with a particular subject-matter and segment of the population:

- Learning to save (children and young people).
- Learning to work (university students and young people taking vocational training courses).
- Starting an independent life.
- Forming a family.
- Preparing for retirement.

As the Bank of Spain states, financial education should benefit individuals at all stages of their lives, regardless of their level of income. Children are made to understand the value of money and saving; young people are given the preparation they need to live independently in the future; and adults are helped to plan basic decisions such as the purchase of a home, the maintenance of a family, the financing of their children's studies, or preparation for retirement.²

The methodology used aims to fit financial education within people's everyday lives. The OECD insists that the educational methodologies should adapt to people's situations and be attractive. "An active pedagogy based on real situations may be extremely valuable."³² The Bank of Spain³ insists that "regardless of the population group at which the education is targeted, the aim is not to tackle the material from an academic perspective, but rather to explain in a practical way all those aspects related to the everyday financial experiences of individuals and families, and thus give a response to any doubts that may arise and offer advice and recommendations". BBVA Bancomer says the same thing in Mexico: "The Program is practical and personalized; it is focused on specific subjects, with clear responses and solutions given."

Two aspects of this situation are particularly notable: the fact that there is practically a single subject-matter and treatment applied in financial education, making it difficult to distinguish one program from another; and the "universal" ambition of these programs, which aim to cover all segments of the population and all the needs for life, and thus require powerful access channels, adapted and participative methodologies and sufficient resources to achieve the desired impact.

Does financial education work? Recent studies carried out in Europe by the European Commission have shown the great deficiency in nearly all countries, except perhaps the United Kingdom. Individual initiatives show the way forward, but the great dispersion of targets, the variety of expectations, the lack of means and political priority mean that so far the educational process is in danger. Financial education does not have a predefined curricular framework. It

² OECD Financial Education Project: Background and Implementation
http://www.oecd.org/document/23/0,3343,en_2649_15251491_25696983_1_1_1_1,00.html

³ Financial Education Plan 2008-2012 Bank of Spain

does not exist as a subject in compulsory education and still less in continuous lifelong learning. The financial subjects are tackled from the point of view of consumers' education within the "domestic education" category, entrepreneurs when explaining the ways of financing a company or forms of investment, the economy when it is a case of value and trade, or the perspective of social integration when addressing the needs of, for example, immigrants. Thus there are many entry points and financial education as such has no single identity. In fact, focusing simply on school education, except for the United Kingdom where the curriculum includes financial literacy, other countries do not have a clear curricular framework for this subject. In Spain, for example, the economy as such does not have its place at the ESO post-primary level.

The United States present a model that could in some cases represent good practice. According to a study by VISA, parents there see financial education as the second most important priority after personal safety. Robert Kiyosaki's bestsellers *Rich Dad, Poor Dad* and more recently *Rich Kid, Smart Kid* show the interest that Americans have in financial know-how and the promise of an ideal future that it represents. *The Jump\$tart Coalition for Personal Financial Literacy*⁴ has carried out a biennial survey since 1997 to determine the level of financial knowledge of students at the secondary level. The most recent results (2005) show an average level of 52% in a scale of knowledge. This is certainly superior to that of European students, but still low compared with most American scales of knowledge assessment. Recently the *subprime crisis* has shown the limits of financial literacy among Americans.

Broadly speaking, there is the feeling that financial education programs are in many cases developed as "add-ons", "patches" or "excuses" and that they are not linked to people's real lives, their everyday problems and the strategic objectives of those promoting them (financial intermediaries or associations). "Should we win customers or educate them? Educate customers to win them? Or win customers to educate them?" Financial institutions do not have clear answers to these questions and as a result many initiatives are in danger.

However, there are some successful models of financial education. The work of Mohammed Yunus in Bangladesh with the Grameen Bank has shown how the level of financial literacy can be increased in environments of great poverty. The success of microcredits in both developing and developed countries is further proof of the potential for financial literacy. The real dialog established between the financial institution and its customer, the confidence that is constructed with the support of the community, the education given as an integrated process of granting credit, all show that financial literacy can become an essential part of the financial relationship.

⁴ www.jumpstartcoalition.org

2. The situation in Spain

So far, financial education initiatives in Spain are very dispersed. At the time of the introduction of the euro, there were a number of public and private actions (for example, by La Caixa in schools). Currently, the savings banks are developing projects at a local level (e.g. Caixa Terrassa). Banks invest directly or support programs promoting the spirit of entrepreneurship (as in the case of Bancaja and Caixa Catalunya with the Ashoka network of social entrepreneurs, or that of BBVA itself with its Junior Achievement program). There is a small Spanish network of RichDadClub.es. Consumer organizations are still not involved in this debate. In short, it isn't much...

But everything points to the growing need to provide the population with financial education.

Recently a Spanish blogger⁵ mentioned a Telecinco report showing that in 7 out of 10 Spanish homes it is the female partners/mothers in the family who are responsible for the domestic economy. He wrote: "If we would like the average Spaniards in the street to overcome one day the thousands of crazy prejudices that are in the air with respect to money, to motivate them to learn and manage their personal finances and even to promote a culture of entrepreneurship in our society... perhaps the first people to be convinced should be our *amatxus* (mothers), don't you agree? Why not organize, for example with the help of CECU, OCU or similar bodies, with the Community Action department of the Basque Regional Department or with any other "sensitive" government administration,' CASHFLOW courses for *amatxus*? Or as an alternative, organize CASHFLOW courses for mothers and children with parent-teacher associations. Imagine a whole generation of financially "literate" people... Man, that WOULD really be a revolution!"

A few months ago, *El País* reported that an NGO was denouncing the fact that various banks were claiming amounts that in some cases were in excess of a million euros from hundreds of immigrant families for mortgages in which they were the holders and guarantors.

Recently, hundreds of Spanish investors protested they had lost their savings after the collapse of Lehman Brothers. Many accuse their banks in Spain of not informing them about who was moving their assets.

Three examples, three groups, three needs for financial education...

For the last few months, the Bank of Spain, together with the CNMV, has incorporated the European Commission's recommendations in an educational program that deals with a wide range of targets and subjects to try to cover all the significant stages of life from the perspective of financial education.

⁵ Nodos en la Red http://nodos.typepad.com/nodos_prime/2006/01/index.html

The Bank of Spain's idea stresses in a general way the need to "improve the financial culture of the population, so that citizens are in a position to address the new financial context with sufficient confidence." The means it aims to mobilize and the channels it wants to use suggest a global and mass strategy of information. The subjects of Bank's intervention plan cover a very broad range: how to make ends meet; planning the future and taking care of economic means at the different stages of life; financial products and services on offer. The channels, from schools to centers for the elderly, cover nearly all the layers of social life. It is true that there are some clear limitations: "It is not a subject in itself; everything depends on cooperation between the different institutions, we still have to mobilize the social actors," but there is an obvious will to "occupy the terrain".

3. The BBVA strategic framework

As a banking institution, BBVA is a legitimate actor in financial education. The Bank of Spain recalls that "the national authorities, the suppliers of financial services, consumers' associations, educators and other interested groups have to be encouraged to cooperate in the tasks of financial education.

However, BBVA is faced with a twin ethical requirement when developing its program.

One of the principles of financial education as set out by the European Union establishes that "financial education given by financial service providers should be provided in a fair, transparent and impartial way. Care has to be taken to ensure that this education is always at the service of consumer interests.". In other words, "The financial institutions must be encouraged to distinguish clearly between what financial education is and what constitutes information and advice given for commercial" purposes." This ethical need is reinforced by the recent financial crisis and the lack of trust generated with respect to the banks and the system in general.

The BBVA financial literacy program is based on the core elements of its Corporate Responsibility Policy. The codes of conduct, principles, value statements, measures and specific policies of the BBVA Group represent the foundations on which this program is built.

We should recall that the brand management carried out by BBVA is based on the premise that a brand with a good reputation requires coherence between promise (what BBVA says) and experience (what BBVA employees do). This concept of brand experience has been applied to define the BBVA financial literacy program.

The premise in this context is that financial education is not a generic promise of improvement of the financial system and individual welfare. Financial education for BBVA is fully integrated into the Group's global strategy.

The first pillar of BBVA's financial education program is based on the need to train/educate the Bank's employees and their families (experience).

The second pillar is aimed at the Bank's customers and their families, and in a broader way, at society in general, including the most disadvantaged groups, with the aim of sharing knowledge, establishing dialog and creating the value of social cohesion.

4. Defining BBVA's financial education program

4.1. The individual as the focus of educational action.

BBVA's financial education program is based on the need to contribute to the rounded development of individuals. This means:

a. Explaining those capacities considered basic for people's human development and those that are related to the goals of financial literacy. Thus, for example: personal autonomy; the capacity to be responsible for one's own life project; development of sociability; capacity for communication; intelligence; creativity; activity; efficiency...

b. Redefine each capacity in the light of a new ethical framework: human development. In this sense, we understand personal autonomy to be the capacity to develop all the potentialities that each person has as far as possible, without delegating responsibility for one's own existence to anyone. We understand sociability to be the capacity for a positive relationship with others. Intelligence is the capacity to give the correct answers to each new situation that presents itself to us. Dynamism is the capacity for action.

c. Converting these capacities into values that can serve as a guide for educational action, by means of debate.

d. Explain the attitudes we aim to encourage through these values. For example, the following:

- Be capable of achieving a better quality of life for yourself.
- Acquire the instruments needed to be self-sufficient in society.
- Ensure that your behavior is guided by your own criteria and not by those that respond to social stereotypes.
- Adopt an attitude of co-responsibility.
- Acquire the habits needed to relate to others positively, i.e. with respect, tolerance and solidarity, and affection for the people who are closest to you.

- Be able to communicate and express yourself adequately.

4.2. Creating value for our employees, their families, our shareholders, our customers and society through our educational program

The BBVA educational program is based on a coordinated strategy between the internal and external aspects.

- The employees

BBVA, the parent brand, initiates its educational program with employees by identifying the needs of the various categories of employee and thus complementing its existing training programs that are geared more to customer service.

- The families of employees

BBVA, as the constructive brand, proposes to families of its employees that they should be the major beneficiaries of its program of financial education, thus reinforcing corporate spirit and cohesion.

- The shareholders

BBVA, as a brand of confidence, reinforces its links with shareholders by contributing to their training/education.

- The customers

BBVA, as a brand that is sure of itself, draws even closer to its customers with an educational proposal that can adapt to the needs of individual customers or companies.

- Society

BBVA, as an open brand, is committed to the development of society and each of the groups that make it up, focusing on young people and the most vulnerable and disadvantaged groups. Example : students and trainees, the elderly, immigrants.

4.3. The team of trainers as the force behind value generation

Training trainers is the core of BBVA's strategy as a brand that generates experiences. The educational program has to have a team of trainers who identify fully with the Group's values and can thus communicate the program's goals faithfully.

Constructing a real "coalition of trainers" to implement the program gradually throughout the channels is an essential part of the strategy to be developed by BBVA. These trainers are among the BBVA volunteers who contribute actively to the program.

But the training work may in the future be extended by following the recommendations of the authorities who invite the financial institutions to launch

financial education programs that collaborate with independent and non-profit advisory bodies and can thus have a closer relationship with consumers, in particular with those who are in a situation of disadvantage when participating in the financial markets.

In the United States, the “Financial Literacy Corps” mobilizes experts in financial subjects to advise lower-income families on their real-estate investments. In the case of BBVA, this coalition of “trainers of trainers” could involve:

- consumers' organizations,
- other entities, such as hypermarkets, that have direct contact with homemakers (e.g.: Mercadona, which has initiated a system of talks for consumers),
- universities and business schools where students can apply their knowledge to tasks of social interest (e.g.: IESE, Esade),
- teachers' associations.

4.4. Participative methodology as a generator of enthusiasm.

We consider education and training in general to be a process of dialog, exchange of knowledge and appropriation of key messages. The company can be an educational actor of this kind, capable of stimulating dialog between and with its different stakeholders.

BBVA's financial education program should be based on participative techniques that promote reflection and the involvement by individuals and include the development of real experimental actions.

The program is not limited to providing knowledge, but also allows students to use this knowledge to generate proposals and projects.

In each case, group dynamics are necessary to enable this exchange.

4.5. Ethical behavior and personal and professional integrity as a way of understanding and developing our activities.

The BBVA Group's corporate responsibility principles are applied to the design and implementation of its educational program. The information on the program and its goals are completely transparent. This does not mean that BBVA should not claim this program as an asset for its business activity, but there is no ambiguity with regards to the non-mercantile character of its action.

4.6. Pedagogical innovation as a lever to progress

At the delivery of the Francisco Giner de los Ríos (2006) awards, Francisco González said that “a country’s best competitive advantage is the extension and quality of education as factors for social cohesion.”

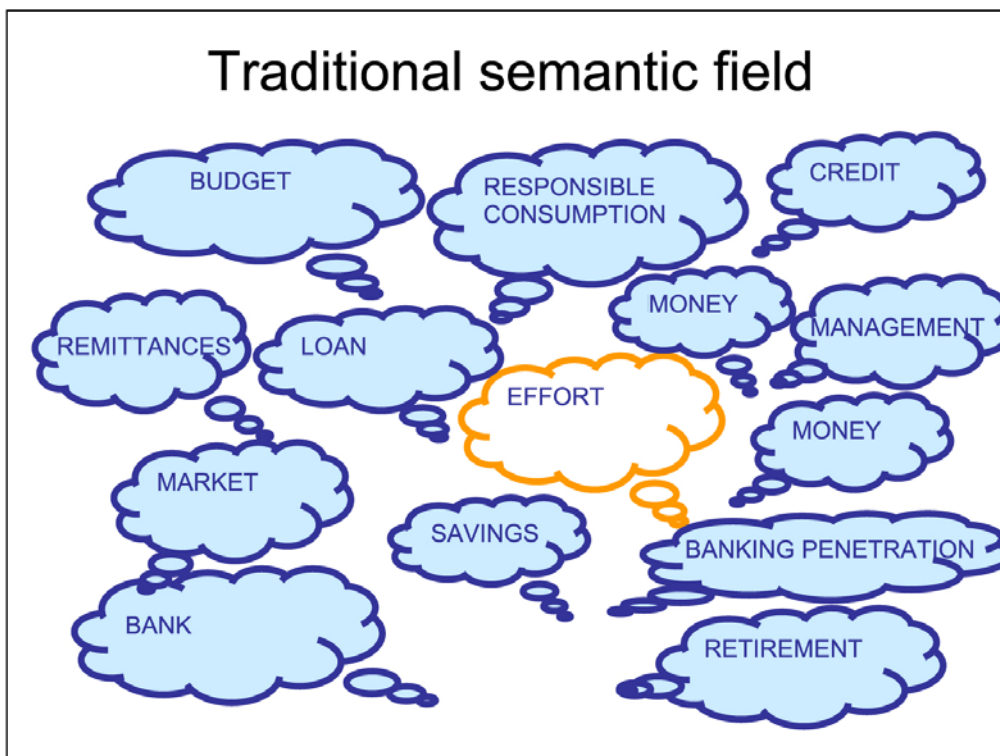
He considered that “there are right foundations for this, such as economic resources and the conviction of the public authorities and society to achieve it.” He also claimed the “values of the love of learning and discovery, merit and effort in a constantly changing world.”

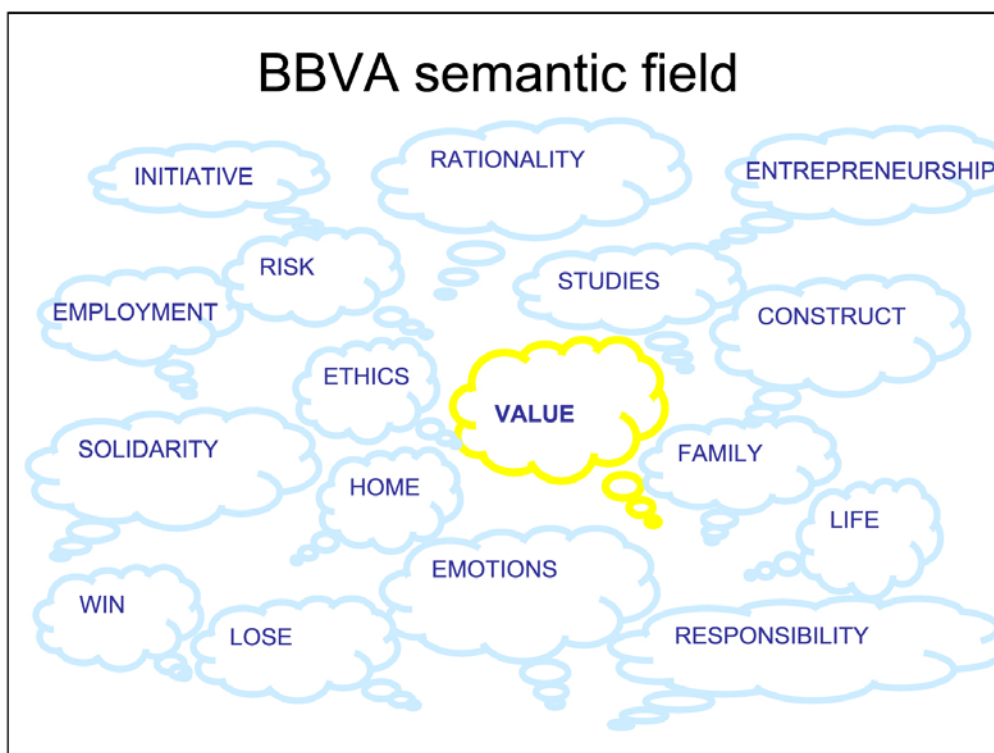
Pedagogical innovation in the field of financial literacy includes changes to the semantic field that governs the subject matter and in addition, encouragement for the role of teachers so that they can contribute in the most innovative way possible to the progress of financial education.

In both cases, BBVA remains faithful to its corporate principles and wants to be a catalyst for innovation, in other words use experts to promote exchange and the production of new tools.

BBVA defines its idea of innovation in the following way: “Extend its vision, be more ambitious and talk not only of the financial need but also understand customers globally, anticipating their needs, understanding their motivations in the medium term and developing the most satisfactory technologies and methodologies.”

- BBVA’s financial literacy program extends the commonly used semantic field. Designing a framework for practical use that is anchored in people’s everyday lives should not prevent a broader vision linked to core human values.





- A scientific committee ensures the quality and integrity of a financial literacy program that aims to transmit values and the personal development of individuals. The scientific committee is composed of independent personalities:

- José Antonio Marina
- Álex Rovira
- Alejandro Tiana

- The financial literacy program supports the creation of new didactic resources boosted by the teachers themselves, stressing the aspect of creativity as a way of renewing the pedagogical approaches.

- The financial literacy program should be able to incorporate new technologies as a tool for exchanging practices between users and between professionals. The potential of the Web 2.0 today allows social networks to be built up around a specific subject-matter such as financial education.

4.7. Educational action as a commitment to the development of society beginning with young people and the most disadvantaged groups

“BBVA’s vision puts particular emphasis on the concept of the future. All the Group’s activity is geared towards creating a future for the *stakeholders*, understanding the future in positive and sustainable terms. The future is a better tomorrow.”

If we understand financial education as an integral part of education in values and the symbol of a commitment to "a better future", then clear paths for programs emerge that claim a territory of education in values, open to the future and to the development of individuals, beginning with the most disadvantaged.

The 7 items that we have presented form the educational principles that govern the program

BBVA's 7 educational principles

1. The individual as the focus of our educational action.
2. Creating value for our employees, their families, our shareholders and society through our educational program.
3. The team of trainers as the force behind value generation.
4. Participative methodology as a generator of enthusiasm.
5. Ethical behavior and personal and professional integrity as a way of understanding and developing our activities.
6. Pedagogical innovation as a lever to progress.
7. Educational action as a commitment to the development of people, beginning with young people and the most disadvantaged groups

5. The Valores de Futuro: El dinero en nuestras vidas (Future Values: the Money in Our Lives) educational program.

Children and young people are, in common with the rest of society, immersed in the economic and financial world. Children satisfy diverse needs, largely influenced by the pre-existing representations that they find in the society they live in. They use **money** for their daily purchases from an early age; they build up an incipient **scale of values** that is reflected in their **exchanges**. They begin to manage the idea of short and long time periods and prepare projects for the future; they train and study to find a place in the world of **work**; they need an awareness of their **responsibilities**, rights and obligations to play an active role as citizens.

The **Valores de Futuro educational program. El dinero en nuestras vidas** has been conceived for children in primary school and those in their 1st and 2nd year of ESO (12-13 yrs). The aim is to integrate the content outlined above, which forms part of young people's everyday reality, into daily classroom practice. For this aim, a set of educational materials and resources has been designed to boost active participation by students and to promote debate, dialog and reflection in the classroom.

We have defined a single program with various levels according to the people we want to involve. The aim is to work from a global framework with appropriate adaptations, without at any time losing sight of the global vision of our educational aims.

