Measuring financial and digital literacy in vulnerable populations

October 21 2021, by Marianne Stein

Credit: CC0 Public Domain

Financial inclusion is key to improving economic and social welfare, reducing inequality, and promoting economic growth. Globally, 1.7 billion people have limited access to financial services, especially in the developing world. As governments and NGOs work to strengthen financial resilience, digital technology has become a crucial component. New research from a University of Illinois specialist and a team of international collaborators investigates the intersection of financial and digital literacy and its relationship to resilience-building financial behaviors.

"Our work takes a multi-dimensional approach to financial inclusion and provides a framework for how we can incorporate and link financial literacy to digital literacy," says Angela Lyons, associate professor in the Department of Agricultural and Consumer Economics at Illinois and lead author on the recent studies.

The researchers find that while promoting literacy is important, it may not be enough to ensure resilience.

"Financial literacy can help empower people with awareness, know-how, and skills, but does it actually transfer to the real world and help them improve their financial situation? We're finding there are some people who may be getting the skills and training at the right time, and they are able to apply it and jump out of poverty. For others, it just isn't enough. They need other changes to their current financial situation before they can make the leap," Lyons explains.

In one study, Lyons and co-authors Josephine Kass-Hanna and Fan Liu analyzed data from InterMedia Financial Inclusion Insights Surveys conducted in three countries in South Asia (Bangladesh, India, and Pakistan) and four countries in Sub-Saharan Africa (Kenya, Nigeria, Tanzania, and Uganda).

The surveys use standard measures of financial literacy, gauging respondents' knowledge about concepts such as compound interest, inflation, and risk management. The authors combine this with measures of digital literacy such as ownership and use of mobile phones, apps, and mobile money services.

While there was a lot of variation in results, the Asian countries overall had higher levels of formal financial services. For example, India has embarked on a national campaign for every household to get a bank account. Though it was initially successful, the banks eventually closed many of those accounts, because people did not have the money to use them. The strategy has since been adjusted, underscoring that access to services does not guarantee financial inclusion, Lyons explains.

In Sub-Saharan Africa, there has been a rapid proliferation of digital financial services, driven by relaxed regulations and large distances.

"Some developing countries have made considerable progress with mobile technologies, for example, introducing smartphones that are quite affordable and useful for mobile apps to conduct financial transactions. People have been quick to accept these technologies; they can be quite convenient, especially in remote, rural areas where getting to a bank is difficult," Lyons notes.

The researchers focus specifically on impacts for vulnerable groups, looking at women vs. men, youth vs. elderly, rural vs. urban, and those living above or below the poverty line.

"We have to recognize, especially in developing and emerging economies that have transitioned very quickly to digital financial services, it may be creating even bigger gaps for some of these vulnerable populations," Lyons says. "There are still a lot of other barriers, including cost, infrastructure, and regulations. There may be cultural barriers preventing women from getting equal access to financial services. And more financial technology is not going to solve those problems."

Lyons also notes that having access to financial services doesn't guarantee that people know how to use them appropriately or make the best decisions.

"People need skills and training about how to open an account on their phone, how to transfer funds, how to make sure they're protecting themselves, and what their rights and responsibilities are as a consumer and product user," she says.

In another research paper, Lyons and Kass-Hanna evaluated financial literacy in 13 Middle East and Northern Africa (MENA) countries. Intense conflicts in this area, such as the war in Syria and influx of Syrian refugees in neighboring countries, have created challenges to financial inclusion and put a strain on economic systems. The researchers found wide variety across the region, but their results underscore the importance of promoting financial literacy and providing access to basic financial services in order to improve economic conditions. With the shift to digital financial services in this region and around the world, there is a growing need to redefine financial literacy to include digital literacy as well.

Lyons and Kass-Hanna outline their new approach to measuring financial and digital literacy in a third paper, which provides guidelines for researchers in the field.

"The digital transformation has been a game changer. Financial literacy now includes a lot of digital literacy. This is a great time for researchers to revisit how we've been doing things. We try to provide a systematic framework that takes a multi-dimensional approach to digital financial literacy, building in more flexibility regarding what measures are appropriate for different populations," Lyons states.

More information: Josephine Kass-Hanna et al, Building financial

resilience through financial and digital literacy in South Asia and Sub-Saharan Africa, *Emerging Markets Review* (2021). DOI: 10.1016/j.ememar.2021.100846

Angela C. Lyons et al, Financial Inclusion, Financial Literacy and Economically Vulnerable Populations in the Middle East and North Africa, *Emerging Markets Finance and Trade* (2019). DOI: 10.1080/1540496X.2019.1598370

Angela C. Lyons et al, A methodological overview to defining and measuring "digital" financial literacy, *FINANCIAL PLANNING REVIEW* (2021). DOI: 10.1002/cfp2.1113

Provided by University of Illinois at Urbana-Champaign