BaFin

Bundesanstalt für
Finanzdienstleistungsaufsicht

Federal Financial
Supervisory Authority

Survey of Adult Financial Literacy Competencies in Germany 2019

Results

May 2020

Executive summary

The key findings from the survey are as follows:

- One-fifth of adults answered all the financial knowledge questions on inflation, compound interest and risk diversification correctly. Men did slightly better than women on some of these questions.

- The majority of consumers take a cautious, forward-looking approach to their financial affairs, and avoid risks. Savings accounts and current accounts are particularly popular with savers. Crypto tokens are of no relevance to consumers at present. The majority of people are planning for retirement by paying into a private or occupational pension plan, or investing in financial assets.

- While many consumers aged between 18 and 39 use their mobile phone or smartphone to make and receive payments, there is much less demand from older people to use their devices for this purpose.

- Three-quarters of those who took out a financial product had looked at information from different providers in order to compare products before they made their decision. By contrast, one-quarter had only looked at information from one provider.

- One-third of consumers tend to ignore the small print unless something goes wrong.

- Although they have problems now and then, consumers hardly ever make official complaints about the services offered by banks and other financial service providers.

- Half of respondents doubt their money will be safe in a bank if the bank fails, although the deposit guarantee scheme put in place under the Deposit Guarantee Act guarantees consumers' bank deposits up to a total of 100,000 euros.

The Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* – BaFin) will take the findings from this survey into consideration in exercising its collective consumer protection mandate.

Contents

I. Aim

Collective consumer protection has been one of BaFin's tasks since 2015. The analysis of consumer trends, which also involves conducting surveys of consumers, is part of its role in this field. The aim of such surveys is, in particular, to acquire information that is relevant to consumer protection, and that feeds into the analysis of consumer trends and consumer education.

With the present survey, BaFin wished to gain a representative overview of the attitudes and behaviours of adults who live in Germany, as well as their specialised knowledge about financial matters. Information about the respondents' financial literacy and financial inclusion was also of interest. Furthermore, the survey addressed topics such as digital financial services, trust in the financial market and its providers, the integrity of the financial market and financial consumer protection.

This survey was coordinated by the Organisation for Economic Co-operation and Development (OECD) and its International Network on Financial Education (INFE). BaFin is a member of OECD/INFE alongside the Deutsche Bundesbank. The survey was based on a questionnaire developed by the Network.[1]

II. Survey methodology and note on the calculation of results

BaFin commissioned the market research agencies GMS Dr. Jung GmbH and ARIS Umfrageforschung GmbH to conduct the survey. Between 15 August 2019 and 19 September 2019, the two companies carried out computer-assisted telephone interviews (CATIs) that lasted an average of about 36 minutes.

The statistical population for the survey was the resident population aged between 18 and 79 in Germany who have a landline telephone connection at their principle residence. The households were selected using a stratified random sample on the basis of blocks of numbers from the sampling frame for telephone samples provided by the Arbeitskreis Deutscher Markt- und Sozialforschungsinstitute (ADM), the business association that represents the market research industry in Germany. The selection frame is based on the key data published on the Internet about the numbering space made available to telephone providers and administered by the German Federal Network Agency (*Bundesnetzagentur* – BNetzA). In principle, this numbering space includes every telephone number that could possibly be used in the Federal Republic of Germany. The target individual in each household was selected using the last birthday procedure, under which the person who had most recently celebrated their birthday was asked to answer the questionnaire.

[1]The OECD has developed its own methodology for the calculation of financial literacy scores in order to compare these data internationally and over time. BaFin has made the data gathered in Germany available to the OECD for these analyses.

Of the 2,880 individuals in the adjusted gross sample (not including quality-neutral non-contacts), 1,003 individuals actually gave interviews to the market researchers. This corresponds to a response rate of 34.8 per cent. In order to guarantee a high contact rate, the market researchers only designated a telephone number as a quality-neutral non-contact after it had been called 10 times.

The data that had been gathered were weighted by gender, age, household size, federal state and settlement size on the basis of the German microcensus. The microcensus is the biggest annual household survey used to compile official statistics in Germany. It supplies official data on the structure of the population, as well as its economic and social situation.

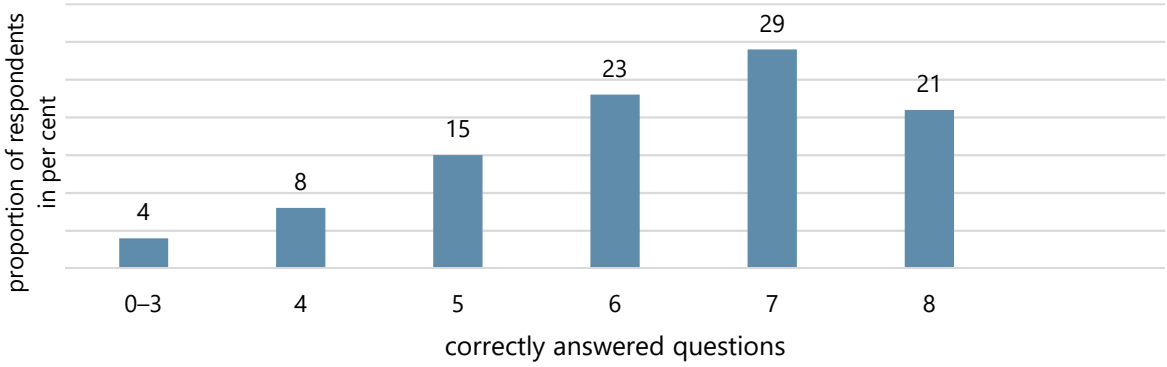
Possible answers such as "don't know" and "refused" were not usually incorporated into the results. An exception was made for the questions about financial knowledge. The "don't know" option counted as a valid response in this section of the survey.

III. Results

1. Financial knowledge

Do consumers understand fundamental economic concepts such as inflation, compound interest and risk diversification? The picture is mixed. 21 per cent knew the correct answers to eight questions on financial knowledge. Another 29 per cent answered seven questions correctly.

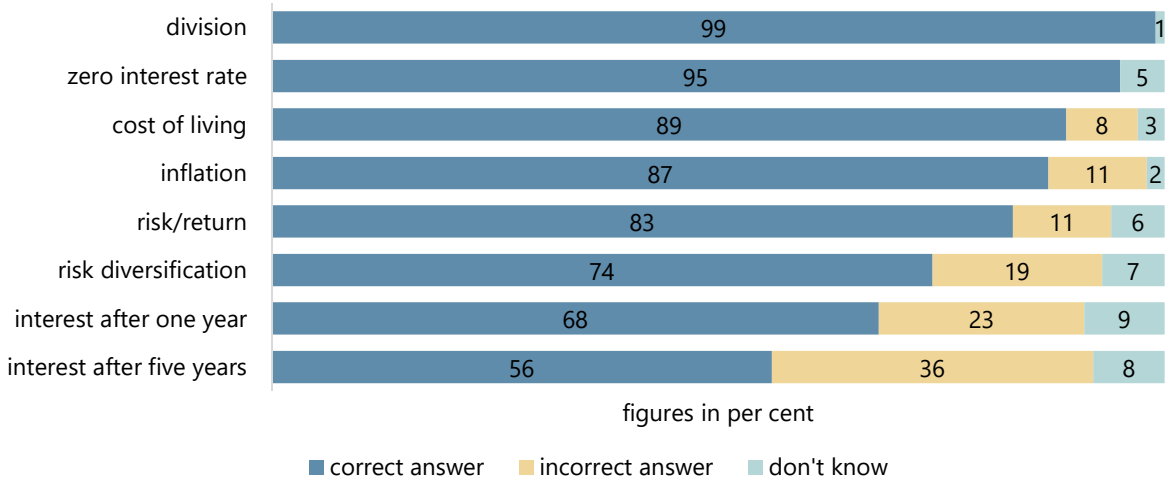
Figure 1: Proportion of respondents who answered a particular number of financial knowledge questions correctly



In detail, it is apparent the proportions of correct answers to questions that demand an understanding of division, interest or inflation were relatively high:

For instance, 99 per cent of respondents were able to correctly divide 1,000 euros by five (division). And 95 per cent of respondents understood that the interest rate is zero if someone lends 25 euros today and gets the same sum back tomorrow. 89 per cent knew that the cost of living rises rapidly when inflation is high. And 87 per cent understood that inflation means individuals are able to buy less with the same amount of money after a year. The connection between risk and return was understood by 83 per cent of respondents. They knew that higher returns are usually associated with higher risk.

Figure 2: Answers to the eight financial knowledge questions



The proportions of correct answers fell noticeably for the following questions, and markedly more respondents gave incorrect answers:

74 per cent of respondents understood that they could reduce their risk exposure if they invested in a range of different stocks and shares (risk diversification). 68 per cent were able to correctly calculate what 100 euros would be worth after a year at an interest rate of 2 per cent. 56 per cent understood the concept of compound interest. They knew interest is earned not just on the amount originally saved, but also on the interest that has accumulated on that amount in the meantime (interest after five years).

How many people understand simple interest as well as compound interest? 44 per cent of the consumers surveyed were able to calculate both simple interest and compound interest correctly.

At a glance

Financial knowledge

Inflation: Where there is inflation, people are able to buy less with a particular sum of money after a year than they can today.

Risk/return: An investment with a high return probably involves a high level of risk.

Risk diversification: The risk to which investors are exposed can normally be reduced by putting money into various kinds of investment – shares in different companies, for example.

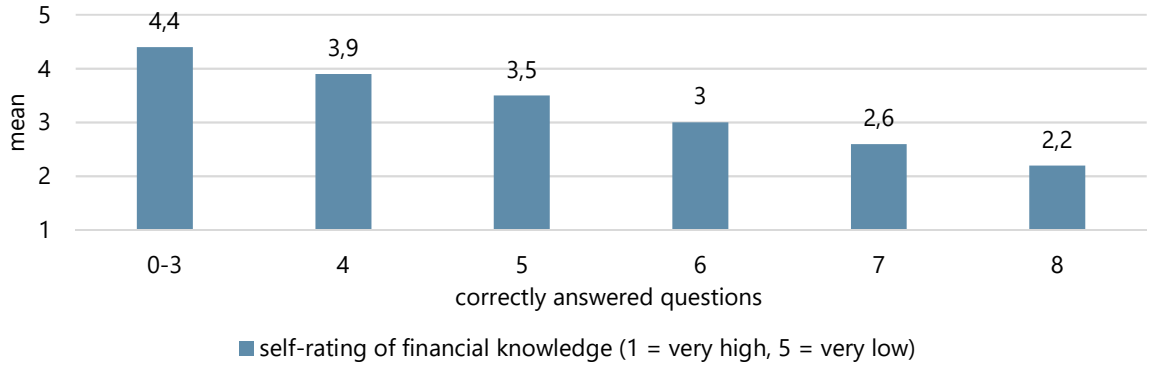
Simple interest: The formula for the calculation of the amount of interest earned after one year is:

$$\text{interest earned} = \text{amount invested} \times \frac{\text{interest rate}}{100\%}$$

Compound interest: If people invest their money over a long period of time and do not take out the interest they earn, but save it as well, they not only receive interest during the subsequent years on the amount they originally paid in, but also on the interest they have previously earned.

The participants also rated their own financial knowledge on a scale from "1", meaning they assessed their knowledge as very high compared to other people in Germany, to "5", meaning they believed it was very low. How well did people's self-ratings match up with their actual knowledge? On average, respondents who correctly answered a maximum of four questions about their financial knowledge assessed their own knowledge as low. They are therefore certainly conscious of the gaps in what they know. By contrast, respondents who knew all the answers rated their knowledge as high.

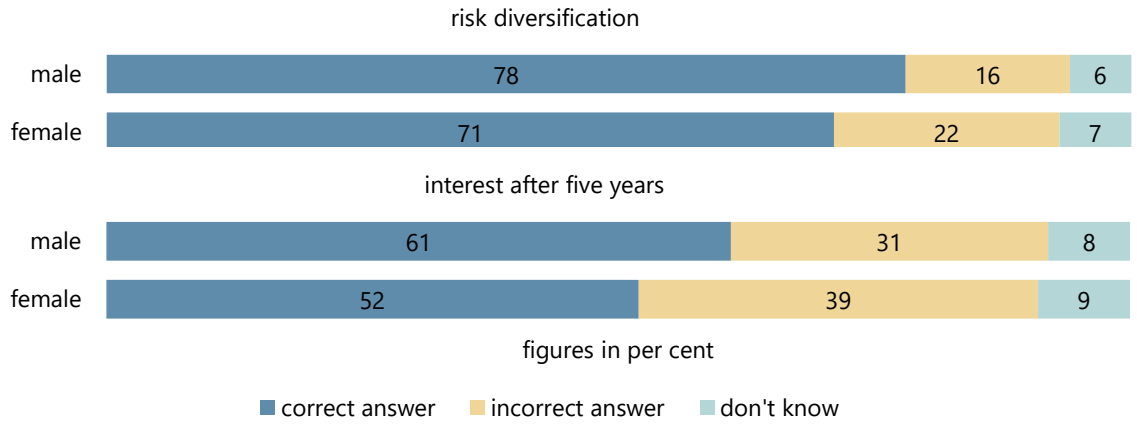
Figure 3: Self-rating compared to actual financial knowledge



On average, men were slightly better at answering the five financial knowledge questions about the cost of living, risk/return, risk diversification, interest after one year and interest

after five years. For example, 78 per cent of men answered the question about risk diversification correctly – compared to 71 per cent of women. The results were similar for the question about compound interest: 61 per cent of men knew the correct answer, while this was true of 52 per cent of women.

Figure 4: Selected financial questions by gender

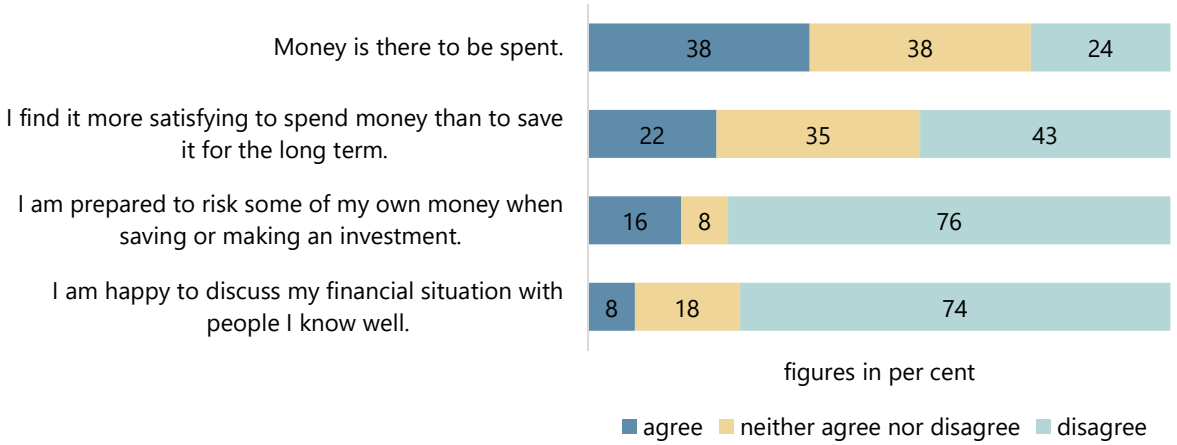


2. Financial attitudes

2.1 Attitudes towards money

How an individual deals with money depends not just on their financial knowledge, but also on their attitude towards money and planning for the future. These are some of the answers the respondents gave: 38 per cent of respondents believe money is there to be spent. 24 per cent are of the opposite opinion. 22 per cent find it more satisfying to spend money than save it for the long term, whereas 43 per cent do not agree with this statement. 16 per cent of respondents are prepared to risk some of their money when making an investment.

Figure 5: Financial attitudes

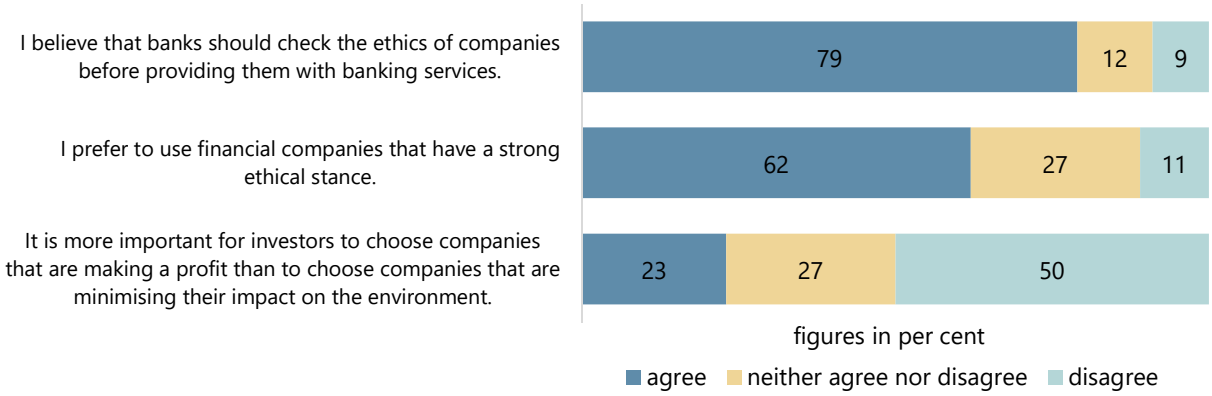


Many respondents subscribe to the German saying "You don't speak about money." Certainly, 74 per cent are not happy to talk about their financial situation with people they knew well.

2.2 Sustainable finance

Sustainability aspects have played a major role for a long time in the financial sector too, and could therefore not be ignored in the survey. For example, 79 per cent of respondents feel banks should check companies' ethics before providing them with banking services. 62 per cent stated they preferred to use financial companies that had a strong ethical stance. Should investors choose companies that are making a profit rather than companies that minimise their impact on the environment? 23 per cent of respondents agree with this statement, while 50 per cent reject it.

Figure 6: Sustainable finance



Definition

Sustainable investment

Traditional investments are assessed according to the following economic criteria: profitability, liquidity and risk. Sustainable investments additionally take account of aspects such as environmental, social and governance (ESG) criteria (see expert article on the BaFin website dated 6 August 2019).

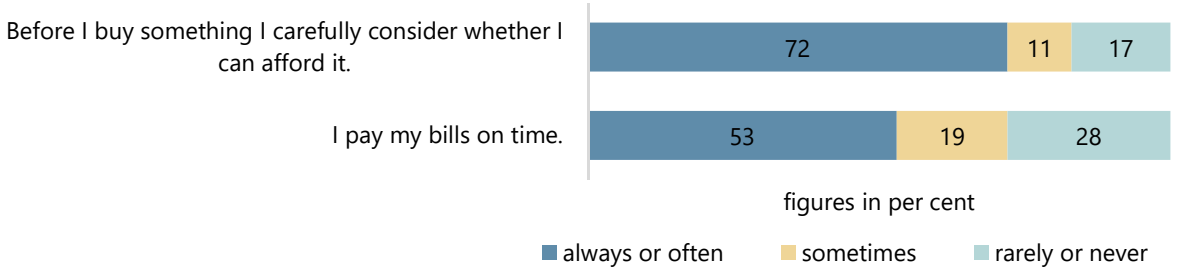
In future, every private investor will not only need to have a clear idea of their own risk tolerance but also whether, for example, they prefer to buy stocks and shares in a conventional fund or a fund that is classified as sustainable. The background to this is that, according to the European Commission's action plan on financing sustainable growth of March 2018, when providing advice, investment advisors are soon to be obliged to ask whether a consumer is interested in sustainable financial products. The investment advisor can then factor this preference in when they select products and assess those products' suitability for the customer.

3. Financial behaviour

3.1 Financial control and spending habits

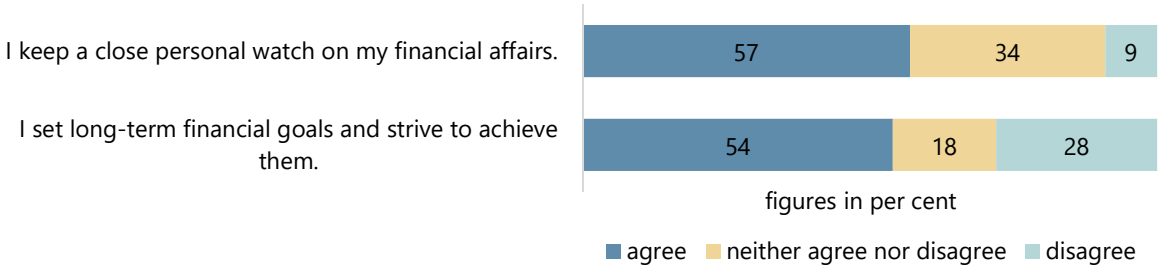
The survey shows how consumers think about their finances and plan them. Almost all respondents (97 per cent) decide by themselves or together with someone else in their household how they managed and/or use their money. They have developed strategies for doing this: 83 per cent arrange automatic payments for regular outgoings. 57 per cent of the consumers surveyed use a banking app or money management tool to keep track of their outgoings. Almost half of respondents (46 per cent) make a note of upcoming bills to make sure they do not miss them. 40 per cent make plans to manage their income and expenses, while 38 per cent merely keep a note of their spending. Another strategy is to keep money for bills separate from day-to-day spending money. This is done by 25 per cent of respondents.

Figure 7: Financial behaviour I



Before they buy a product or service, most people consider carefully whether they can afford it (72 per cent). 53 per cent usually pay their bills on time. It is apparent from the survey that 57 per cent keep a close watch on their financial affairs. 54 per cent of adults are striving to achieve their long-term financial goals.

Figure 8: Financial behaviour II



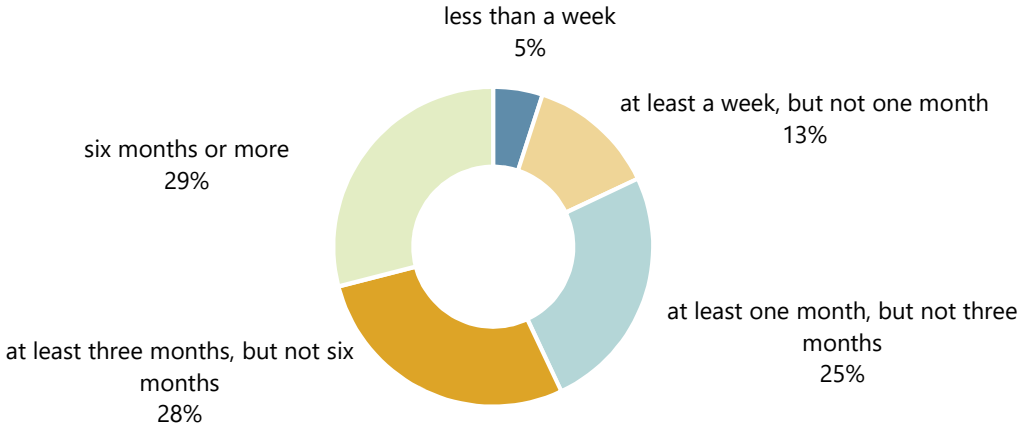
3.2 Expenditure shocks and making ends meet

The survey also included questions on financial resilience. 62 per cent of respondents would be able to pay for a major expense equivalent to their own monthly income without borrowing the money, or asking family or friends to help.

In the previous 12 months, 20 per cent had found themselves in a situation in which their income had not quite covered their living expenses. 44 per cent of them had then borrowed money – from their family, for instance, or from their bank using an arranged overdraft.

What would happen if people lost their main sources of income? The majority would be able to cover their living expenses for at least three months without borrowing money or moving house. 29 per cent would manage this for six months or more. 25 per cent of respondents stated they would cope for at least one month, but not three months. 18 per cent of respondents were reliant to a particularly great extent on their main source of income, and would not even be able to cover their living expenses for a month if they lost it.

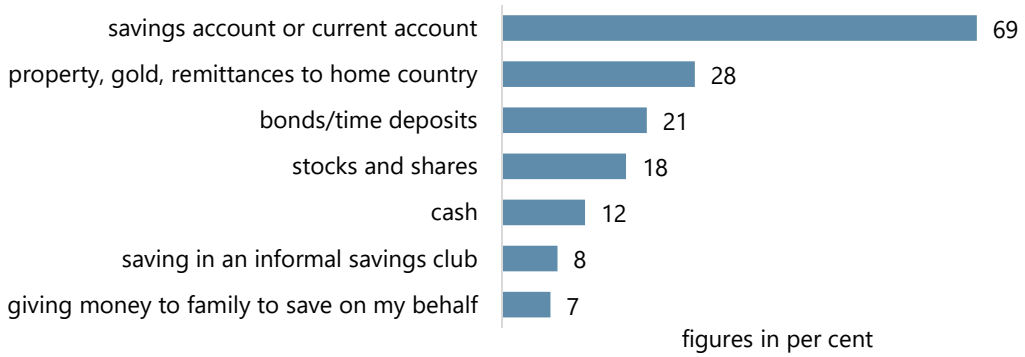
Figure 9: Period consumers would be able to continue to cover their living expenses after losing their main source of income without having to borrow money or move house



3.3 Saving and retirement planning

Saving is defined as setting aside financial resources for future use. 73 per cent of respondents reported saving in one way or another. Paying money into a savings account or current account covered by the deposit guarantee scheme was a particularly popular way of doing this (69 per cent). 21 per cent of respondents bought bonds or time deposits, and 18 per cent invested in stocks and shares. The potential returns on these products are greater, but so is the risk of losing the capital that is employed. 12 per cent of respondents saved cash at home.

Figure 10: Forms of saving in the past 12 months



While stocks and shares – that is to say holdings in companies – and not just traditional savings products play a role in saving, what is the situation as far as crypto tokens and initial coin offerings are concerned? At the moment, the consumers who took part in the survey are not investing in these forms of investment – which is why they do not feature in Figure 10. Asked about their fundamental attitude towards crypto tokens, 8 per cent stated that they believed it was a good time for people to invest in crypto tokens. By contrast, 79 per cent were not of this opinion.

Definition

Crypto tokens

In their reports, the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA) refer to "crypto assets", for which there is no legal definition. BaFin uses the term "crypto tokens" to refer not only to payment tokens such as Bitcoins but also to investment tokens and utility tokens (see expert article on the BaFin website dated 29 March 2018).

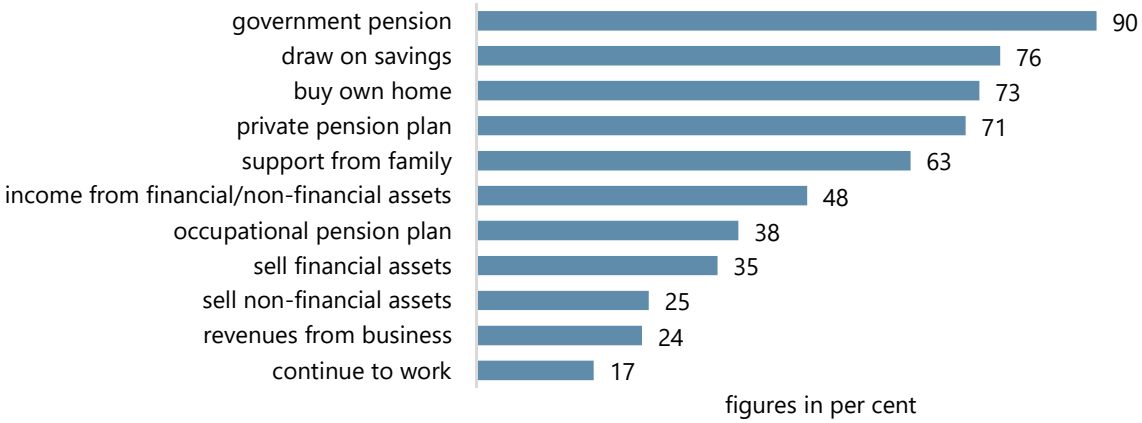
Initial coin offerings

Initial coin offerings (ICOs) are a new means of raising capital for enterprises. In ICOs, blockchain technology is used to create new digital units, crypto tokens for example, which providers then sell to interested investors – usually in an unregulated public bidding process. BaFin has already warned several times about the risks of ICOs (see expert article on the BaFin website dated 15 November 2017 and BaFinPerspectives, 1/2018).

Another focus for the survey was retirement planning. The core question was how people who had not yet retired intended to fund their retirements. 90 per cent of respondents stated they would draw a pension from the government. 85 per cent had at least one private or occupational pension plan, or financial assets, something that is not immediately evident from Figure 11 because it shows the results for each single option, and multiple answers were

possible. Looked at individually, private pension products such as endowment insurance plans and Riester pensions (71 per cent) range far ahead of occupational pension schemes (38 per cent). 35 per cent are planning for retirement with financial assets. These include stocks, bonds and mutual funds. Furthermore, the respondents attach great importance to savings. 76 per cent of respondents want to draw on them when they retire. 73 per cent of respondents have bought, or plan to buy, their own home in order to live rent-free in old age. 41 per cent are confident they have done a good job of making plans for their retirement. By contrast, 36 per cent are not confident or have no financial plans for retirement.

Figure 11: How are people who have not yet retired planning for retirement?



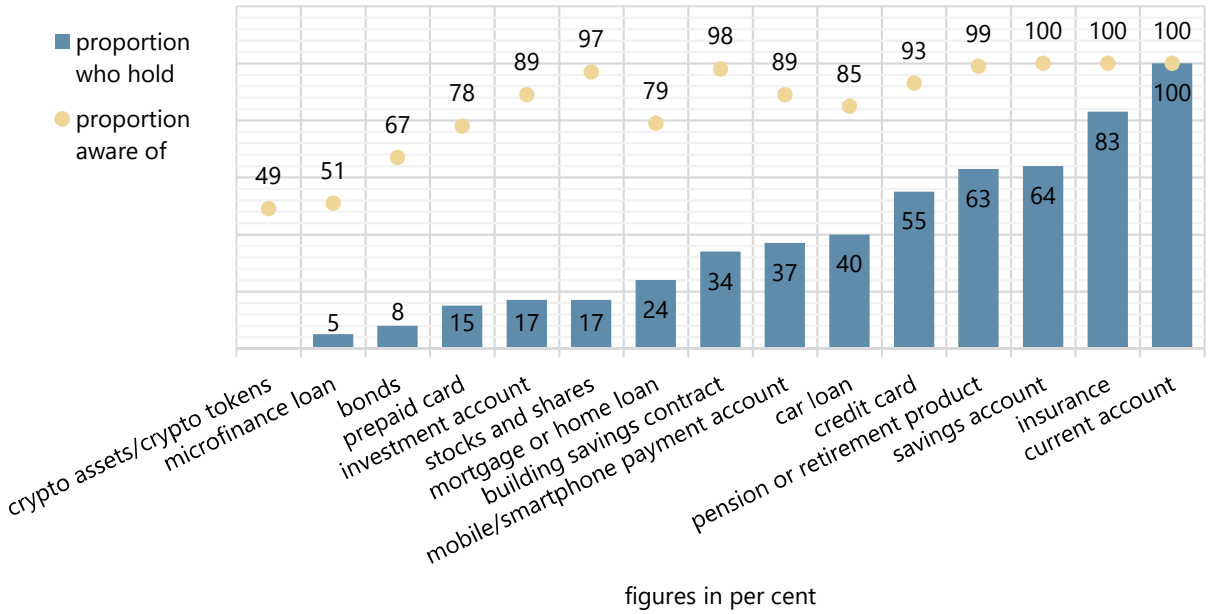
3.4 Using and choosing financial products

The greater the detail in which an investor learns about their investments, the better. Awareness of a form of investment is merely the first step. The results in this section show which financial products and financial services consumers are fundamentally aware of, and which they hold alone or together with someone else. It therefore establishes the connections between the products that are held and people's awareness of them.

The current account is universally known as an account for the management of payment transactions. All the respondents hold a current account, and 55 per cent have a credit card as well – the term credit card is known to 93 per cent. Other payment products are less widespread than the current account and the credit card. 37 per cent said they have a mobile/smartphone payment account, and 15 per cent stated they have a prepaid card.

The savings account is the investment product that enjoys the greatest popularity. 64 per cent hold a financial product of this kind. 34 per cent hold a building savings contract. According to their answers, 17 per cent of respondents hold stocks and shares and/or an investment account, for example in the form of an investment fund or a savings scheme into which they pay regular instalments. 9 out of 10 of the consumers surveyed are aware of these products, and some of them are known to all respondents. Furthermore, 67 per cent of respondents have heard of bonds, and 8 per cent also hold them. By contrast, there is less awareness of crypto tokens (49 per cent). They are currently of no relevance to the consumers who were surveyed.

Figure 12: Awareness and holding of financial products



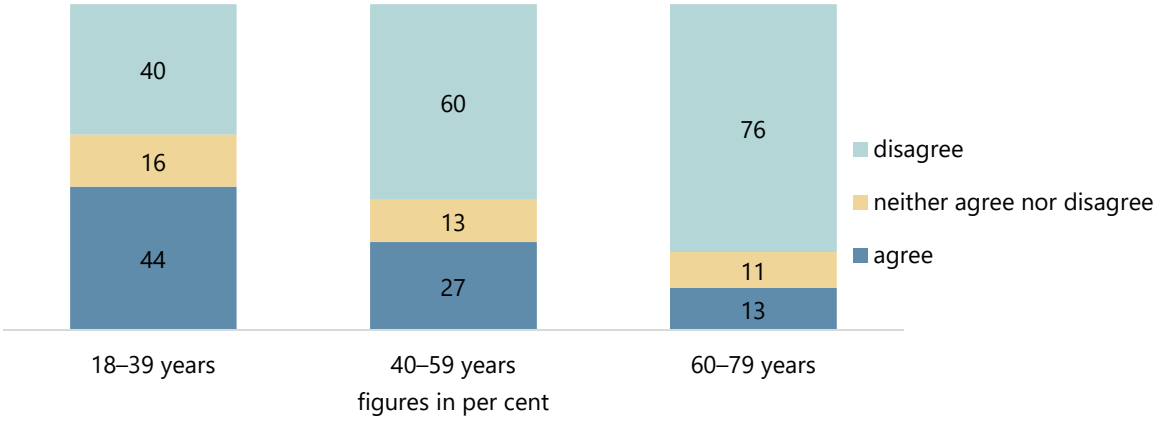
figures in per cent

It is apparent from the results how many consumers hold, or are aware of, car loans, mortgage or home loans or microfinance loans. 40 per cent stated they hold a car loan. 24 per cent hold a mortgage or home loan, and 5 per cent hold a microfinance loan. However, there are differences in the awareness of these credit products: 51 per cent have already come across the term microfinance loan. By contrast, markedly more consumers are aware of the other credit products they were asked about.

There is a high degree of awareness of the insurance products included in the survey. Furthermore, the majority of consumers stated they held an insurance product (83 per cent) or a pension or retirement product (63 per cent) themselves. The latter include, for instance, endowment life insurance policies and Riester pensions.

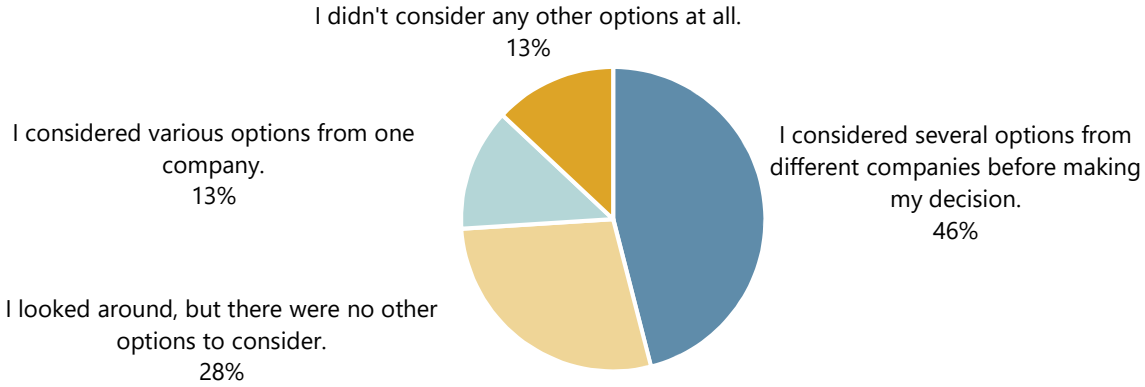
It is no longer possible to imagine society without mobile phones and smartphones. They have developed from communication devices that were primarily intended for making telephone calls into multipurpose digital appliances. Consumers have even been able to make payments with these devices for some time now. 37 per cent of respondents now have a payment account of this kind on their mobile phone or smartphone. From a statistical point of view, however, the extent to which consumers actually use their mobile phone or smartphone to make and receive payments is heavily dependent on their age. Whereas 44 per cent of 18-to-39-year-olds use their device for this purpose, the figures are 27 per cent for 40-to-59-year-olds and 13 per cent for 60-to-79-year-olds.

Figure 13: Use of mobile phones or smartphones for payments by age



The approaches people take when they choose products are to be looked at more closely below. How proactively do consumers in Germany go about choosing financial products? Over the previous two years, 65 per cent of all the individuals interviewed had taken out at least one financial product on their own initiative. Automatically renewed products are not counted in these figures, of course. Loans take first place on the list of products chosen. 36 per cent of all respondents had taken out at least one credit product, such as a car loan or a mortgage or home loan. Investment products come in second place on the list. 30 per cent had chosen one or more products from this group – an investment account, a building savings contract or stocks and shares, for example. By contrast, 21 per cent had decided in favour of private retirement or insurance products, and 18 per cent had taken out payment products.

Figure 14: Choosing products



74 per cent of individuals who took out a financial product had looked at information from different providers in order to compare products before they made their decision. However, some consumers stated that there were no other options for them to consider. 26 per cent had only looked at information from a single provider before they made their decision.

At a glance

Tips for consumers

Find out about conditions and costs from various providers and compare them.

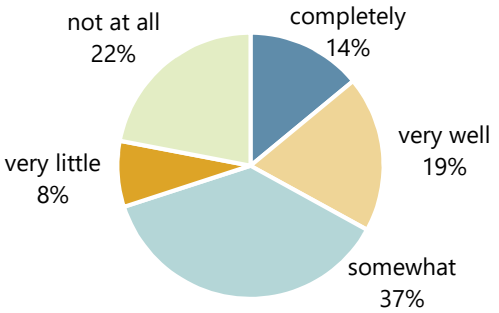
Always read the information given to you thoroughly before you sign a contract.

All respondents trusted their provider when it came to their choice of product. 49 per cent had previously taken out other financial products with the company they decided in favour of. By contrast, it was rare for respondents to take out a product with a company they had never heard of. It was important to 33 per cent to have a quick decision from the company. This was particularly the case when it came to credit products, in relation to which 48 per cent placed value upon a prompt decision.

The decision to take out a product was influenced by information from various sources. Consumers looked at product comparisons or best-buy guidance in specialist magazines or on the Internet, or consulted an independent financial advisor. 60 per cent stated their choice of product had been crucially influenced by information of this kind. 37 per cent said their decision had been influenced exclusively by information from bank staff, recommendations from friends, relatives or acquaintances, adverts, product information sheets or other types of information.

Figure 15: Small print

I tend to ignore the small print unless something goes wrong.



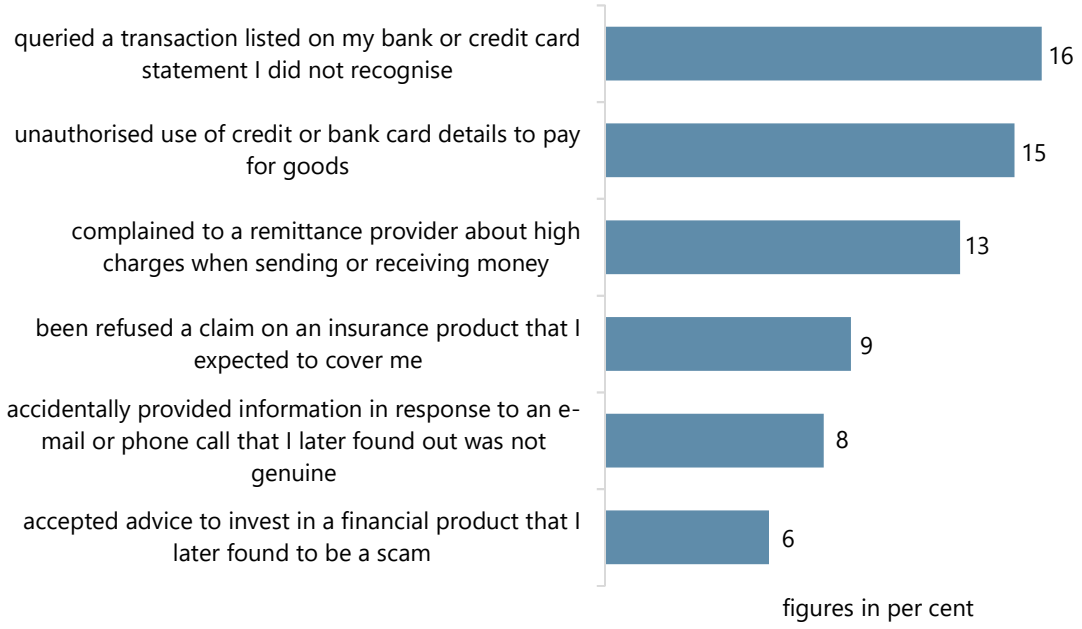
It can be laborious and time-consuming to read the small print. The survey shows that 33 per cent of consumers tend to ignore it unless something goes wrong. 30 per cent take the opposite approach: they prefer to look at the small print.

4. Problems with financial products or services

Consumers sometimes get annoyed about an insurance company that refuses a claim, or find out an unknown third party has been using their credit card without their authorisation. The survey reveals the problems consumers had been confronted with in the previous two years. For instance, 16 per cent of respondents had discovered transactions on their account or credit card statements they said they did not recognise. 15 per cent had the impression that someone had used their credit or bank card details to pay for goods without their authorisation. 13 per cent had complained to a remittance provider about high charges when sending or receiving money. 9 per cent had had a claim refused on an insurance product although they had thought they would be covered.

8 per cent of those surveyed had responded to telephone calls or e-mails and accidentally disclosed information that related to their financial affairs, only to find out later that the contacts had not been genuine. Dubious offers give the appearance of being uncomplicated and promise big returns. 6 per cent of respondents stated they had accepted advice to invest in a financial product that later proved to be a scam.

Figure 16: Most common problems with finances in the past two years



A few consumers had faced obstacles when they wanted to open a bank account. Their applications were rejected for reasons of all kinds. In rare cases, respondents had lost money as a result of hacking or phishing attacks.

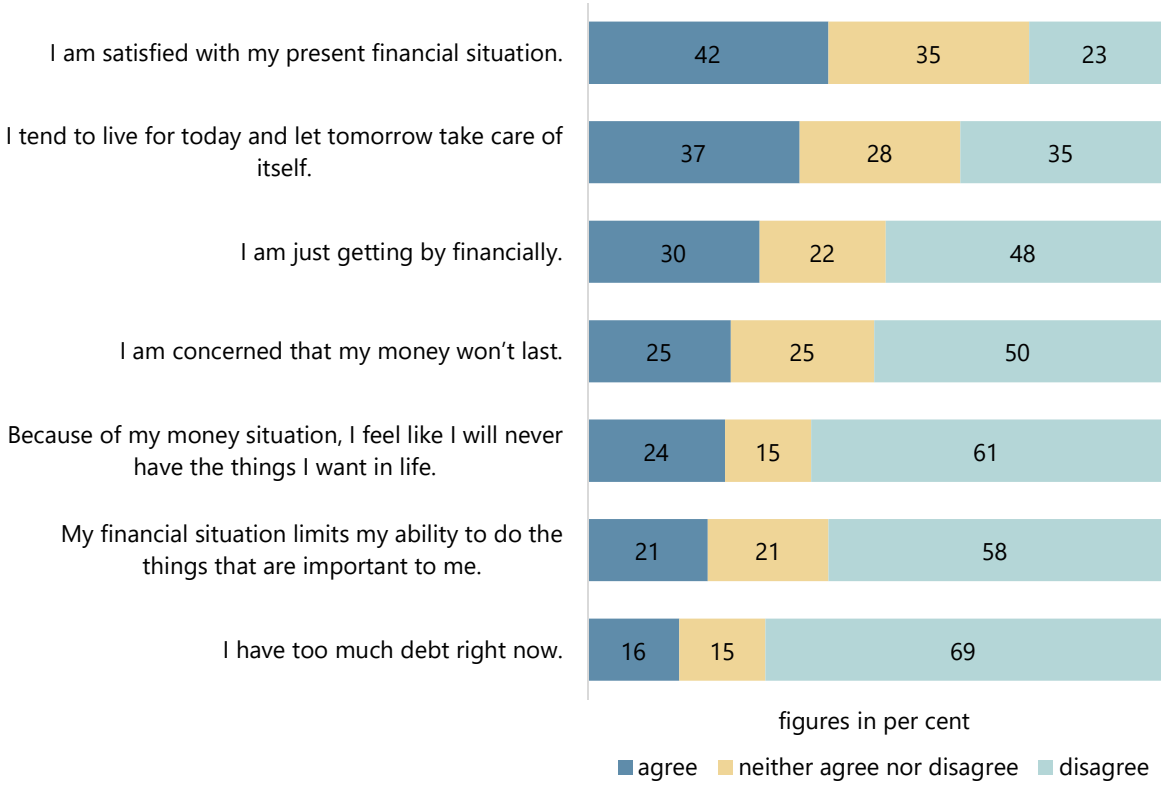
The survey also shows that consumers only occasionally make official complaints about the services provided by banks and other financial companies.

5. Financial wellbeing

Peace of mind increases wellbeing. People's satisfaction with their finances does not depend purely on their objective financial situation, but also on how they assess their circumstances subjectively. An individual with modest expectations may be satisfied with comparatively limited financial resources. This satisfaction is an important part of people's personal quality of life.

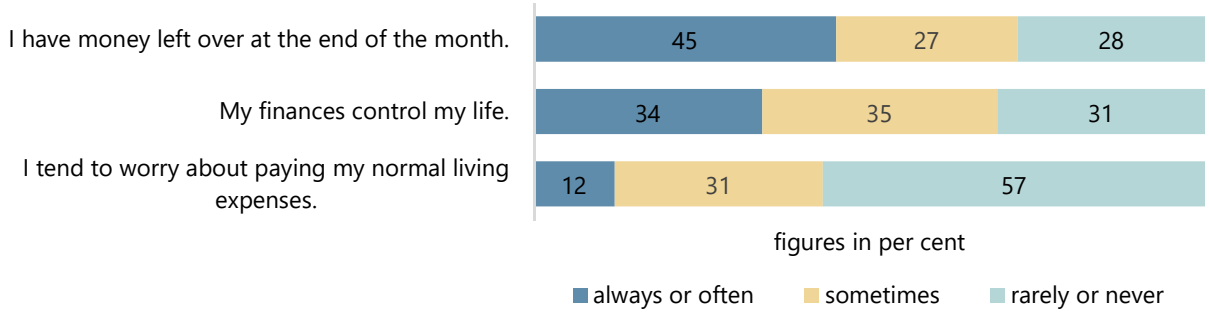
Many people in Germany are satisfied with their financial situation (42 per cent). However, this is not true for everyone. 30 per cent of respondents are just about getting by financially. And 25 per cent are even concerned that their money will not last.

Figure 17: Financial wellbeing



Do people have the feeling they will never have the things they want in life because of their money situation? 24 per cent believe this to be the case, while 61 per cent do not share this opinion. 21 per cent feel their freedom of action is constrained. These people are unable to do the things that are important to them. In addition to this, 16 per cent of respondents said they had too much debt at the time when they were interviewed.

Figure 18: Financial wellbeing II

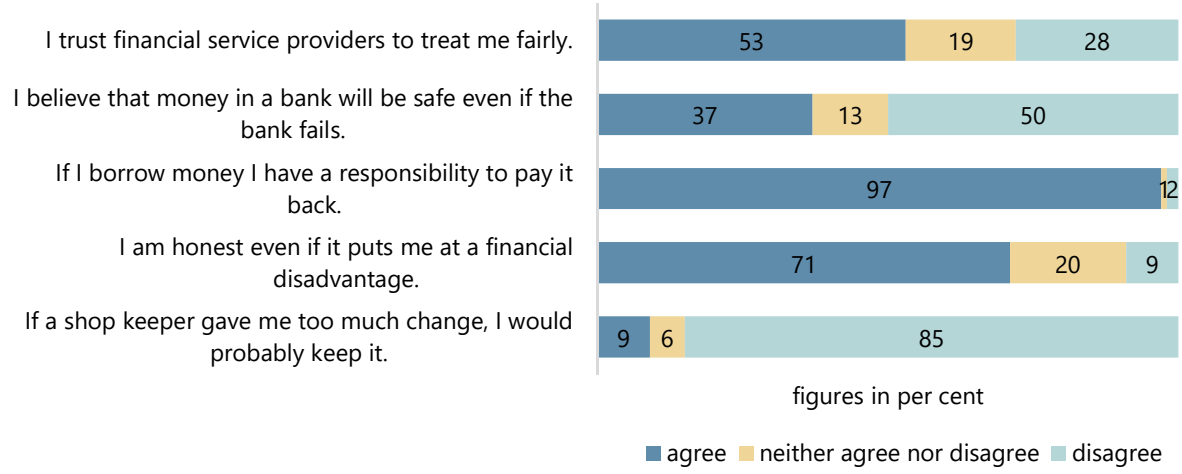


Do people have money left over at the end of the month? This is always or often the case for 45 per cent of respondents. It is rarely or never the case for 28 per cent of consumers. 12 per cent of respondents always or frequently worry about paying their normal living expenses.

6. Integrity and trust in the financial system

Consumers' trust in the functioning and integrity of the financial market and its providers is a mainstay of financial market stability. However, the 2008 global financial crisis significantly shook their confidence. A major package of regulatory measures helped to restore and/or even strengthen people's trust in the financial system at that time. Apart from this, legislators significantly enhanced the status of consumer protection.

Figure 19: Integrity and trust



The results of the survey are revealing. 53 per cent of respondents trust financial service providers to treat them fairly. 37 per cent believe money will be safe in a bank even if the bank fails. By contrast, 50 per cent doubt this.

Almost all respondents feel they have a responsibility to pay back money they have borrowed. 71 per cent regard themselves as honest, even if it would put them at a financial disadvantage. In response to a question about an everyday situation, 85 per cent said they would probably not keep the money if a shop keeper gave them too much change.