

The Provision of Financial Education in Malta

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Abstract: It is becoming evident that preparation for life requires more than developing the ability to read and write, manipulate figures, and become technologically savvy. The provision of holistic education also entails developing other forms of literacies, amongst which is the ability to empower individuals to manage personal finances and understand corporate and public financial decisions and outcomes. In the absence of such a preparation, students emerge out of compulsory schooling vulnerable to scams and untrained to manage personal wealth and plan ahead. Given that little local research has so far been undertaken to investigate this area, this paper is an attempt to stimulate discussion on financial education in Malta. It takes a close look at the local educational system and investigates access and content in this area provided by compulsory schooling. This paper employs content analysis of local and international official documentation to bring to the fore the urgent need for local research on the requisites to enhance the provisions of financial literacy. Further research into the levels of school leavers' financial literacy and the quality of financial education is deemed crucial by this study to shed further light on the subject. This study emphasizes the lack of research in this important area, notwithstanding the fact that financial education is of direct interest to policy-makers, educators, and the business community.

Keywords: financial literacy, emancipatory education, national curriculum framework, subject syllabi, PISA financial literacy component

Financial services have become an intricate part of life, and as they become more complex and sophisticated there is a greater need for education in this area. In fact financial literacy is considered as one of the crucial educational pillars which enables an individual to function effectively and independently within a society.¹

Acknowledgement of financial literacy is not exactly deeply rooted in educational history. In fact the definition of literacy has for many decades remained restricted and static. Literacy has traditionally been defined as the ability to read knowledge, write coherently, and think critically about the written word. The latter part of the twentieth century has, however, witnessed a radical redefinition of the term to include varying conceptualisations of new literacies including visual literacy, spatial literacy, emotional literacy, digital literacy, media literacy, and economic and financial literacies, amongst others. The *Handbook of New Literacies Research*² notes that the latter forms of literacies ‘are used to refer to phenomena we would see as falling broadly under a new literacies umbrella’. Such reconceptualization of literacy has come about in response to a number of factors amongst which are technological innovation, changes in society and the economy, as well as a general acknowledgement of the wider baggage of skills, values, and knowledge base required to respond to the rapidly changing needs of the individual in contemporary society.

Educational policies and curricula all over the globe are experiencing a state of flux in an effort to embrace the broader spectrum of literacies. Various testing mechanisms have also evolved in an effort to describe, quantify, and analyse the current state of affairs in a wide array of literacy domains. Financial literacy and capability testing has become widespread in various countries, amongst which are Italy, UK, America, New Zealand, and Australia. An ASIC discussion paper (2003) suggests

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- 1 E. Johnson and M.S. Sherraden, ‘From financial literacy to financial capability among youth’, *Journal of Sociology and Social Welfare*, September 2002, Vol. 34, Number 3 (2007).
 - 2 J. Coiro, M. Knobel, C. Lankshear, & D.J. Leu, ‘Central issues in new literacies and new literacies research’, in J. Coiro, M. Knobel, C. Lankshear, & D.J. Leu (eds.), *Handbook of new literacies research* (New York, 2008), 1–22.

that in the current scenario ‘financial literacy should be considered as a vital skill for all consumers’.³ This is because financial literacy enables individuals to make informed and effective decisions through their understanding of finance. Educating students in basic principles of finance equips them with the necessary tools to manage their current and future resources, understand how financial institutions work and make effective use of the services of financial institutions. Generally, financial education is perceived as a process that empowers students to make informed choices to avoid common pitfalls, such as mismanagement of funds, overspending, and poor investment decisions. It offers the opportunity for a general awareness and interest in public spending which potentially reduces the misuse of public funds. It is, however, crucial that financial education is not limited to its functional use. It should also engage learners in a critical understanding of the manner by which money colours our perceptions about its holders and how it empowers certain individuals and nations, whilst disempowering others.

For the first time in 2012, the Programme for International Student Assessment (PISA) exercise has incorporated components in financial literacy in its international assessment mechanism. This process is the first attempt at assessing financial literacy on a large international sample. Malta did not participate in the 2012 exercise. Nevertheless, it is pertinent to compare how Maltese youths perform in financial literacy when compared to their counterparts in other countries.

Before delving in detail into the capabilities expected out of a financially literate individual, it is apt to present a basic definition of finance. Finance addresses the ways in which individuals, governments, business entities, and other organizations allocate and use monetary resources over time. Thus, financial education incorporates the study of money and other assets and their management. Finance may be divided into distinct domains: areas of personal finance, corporate finance, and public finance.

3 ASIC, ‘Financial Literacy in schools’, Consultation Paper 45 (2003), Retrieved from www.asic.gov.au/asic/.../FinLit_schools_DP.pdf on 15/6/2012.

Rationale and conduct of study

This paper discusses the objectives underlying the role of financial education in compulsory education. It examines various definitions and paradigms underlying the concepts of financial literacy and financial competencies. It also identifies a number of content areas, skills, and values which are pertinent to financial education. This is followed by an overview of the criteria and areas of assessment that were tested for the first time in the first PISA exercise in financial literacy.

An analysis of local educational provisions in the realm of financial education is also undertaken in an effort to bring to the fore aspects which need to be addressed in terms of policy, curriculum development, and practices. Finally this paper sets out to address potential routes in the development of local financial education and makes a number of suggestions in terms of research possibilities.

The conduct of study comprises a review of some of the major authors in the field of financial education and general educational theories. This has been carried out over the span of a number of months and was followed by a content analysis of local educational documents including the National Curriculum Framework (NCF) (2012) and local subject syllabi at primary and secondary level. Research by the Organization for Economic Co-operation and Development (OECD) and other findings pertaining to the field were subsequently sought and analysed.

In view of the fact that PISA currently provides the most updated international student assessment, PISA documentation was also sought, analysed, and finally compared to local documentation pertaining to the provision of financial education. Given that most documentation was available on-line, qualitative data analysis was initially categorized utilizing NVivo computer software. However, a manual system was ultimately applied in order to give weight to the less overt references to financial education. This process was followed by the sorting of data into key categories which ultimately formed the basis of this paper.

Perspectives of financial education

Definitions of financial education and financial literacy or competencies represent different schools of thought and ideologies. For the purpose of this paper, it was deemed necessary to limit such presentation to a few perspectives and some representative definitions. This was necessary to explain the author's position in the context.

The National Council on Economic Education⁴ comes up with a definition of financial education which focuses on personal finance issues such as income, money management, spending, credit, saving, and investing.⁵ Vitt *et al.* similarly define financial literacy as:

the ability to read, analyse, manage, and communicate about the personal financial conditions that affect material well-being. It includes the ability to discern financial choices, discuss money and financial issues without (or despite) discomfort, plan for the future, and respond competently to life events that affect everyday financial decisions, including events in the general economy.⁶

In this definition, financial literacy is presented as a tool to enhance financial knowledge and modify financial behaviour.⁷ Johnson and

4 NCEE, 'Financial Literacy: An Overview of Practice, Research, and Policy'. ... NBER Working Paper No. 5655 (2002), National Bureau of Economic Research, 12. Retrieved 6/3/2012 from www.ife.org/index.php/resources-clearinghouse/53

5 NCEE, Jump\$tart Coalition, 'Personal finance standards'. Retrieved from <http://www.jumpstart.org/guide.html> on 13/5/2006.

6 L. Vitt, C. Anderson, J. Kent, D. Lyter, J.K. Siegenthaler, and J. Ward, 'Personal Finance and the Rush to Competence: Financial literacy education in the US' (2000), 12. Retrieved 21/11/2005 from <http://www.isfs.org/exec-summ.html>

7 A.C. Lyons, L. Palmer, K. Jayaratne, and E. Scherf (2006), 'Are we making the grade? A national overview of financial education and program evaluation', *Journal of Consumer Affairs*, 40 (2) (2006); J. Hogarth, S.G. Beverly, and M. Hilgert, 'Patterns of financial behaviours: Implications for community educators and policymakers' Federal Reserve System Community Affairs Research conference (2003). Retrieved 13 May 2006. from http://www.federalreserve.gov/communityaffairs/mational/CA_Conf_SusCommDev/pdf/hogarthheanne.pdf; L. Mandell, 'Financial Literacy: Does it matter?' SUNY-Buffalo: University of Buffalo, Department of Finance and Managerial Economics (2004). Retrieved

Sherraden⁸ consider such a definition as incomplete and promote the notion of financial capabilities rather than financial literacy. They suggest that financial capabilities go beyond increasing knowledge as they also lay out the necessary baggage to act on knowledge by providing opportunities for informed action. Here the onus is on linking individual functioning to institutions by utilizing pedagogical methods which enable people to practise and gain competency in financial functioning. In simple terms, Johnson and Sherraden promote what they term as the vital link between financial education and access to financial services in such a manner that learners can indeed practice what they learn and learn through practice. Atkinson *et al.* (2006) further suggest that financial capabilities incorporate skills behaviour and knowledge in five areas: making ends meet; keeping track; planning ahead; choosing products; and staying informed.⁹

By contrast, Barnett argues that the emphasis on operational competence ‘may lead to a narrowing of human consciousness. Understanding is replaced by competence; insight is replaced by effectiveness; and rigour of interactive argument is replaced by communication skill’.¹⁰ He suggests that ideas such as vocationalism and training, transferable skill development and capability, although seemingly distinct from education can become embedded in its fabric. He warns that words and terminology which are apparently neutral indeed reflect different sets of interests.

‘Competence, skill, knowing-how, getting things done, technique, effectiveness, operation: all these are coming to form a constellation of

3/4/2006 from <http://www.jumpstartcoalition.com/upload/Mandell%20Paper%20April%202005.doc>; B. Bernheim, D. Garrettand, and D. Maki, *Education and saving: The long-term effects of high school financial curriculum mandates* (Working paper 6085), Cambridge: National Bureau of Economic Research (July 1997).

8 Johnson and Sherraden, 119–46.

9 A. Atkinson, S. McKay, E. Kempson, and S. Collard, *Levels of financial capability in the UK. Results of a baseline survey* (Bristol, 2006). Retrieved 27 November 2006 from http://www.pfrc.bris.ac.uk/completed_research/fincap_baseline.html

10 R. Barnett, *The limits of competence* (Milton Keynes, 1994), 37.

concepts marking out ... a set of interests.¹¹ Barnett's view is particularly interesting as it invites educators, particularly curriculum planners and developers, to address the following questions:

- Who is setting the agenda for financial education? Is it educators, or is it the financial sector?
- In whose interest are the sponsors of financial education (banks and other institutions) working?
- Does the emphasis on competence and practice override knowledge acquisition and critical thought?

The latter question squarely fits the notion of critical financial literacy to which the author subscribes. Critical financial literacy has lately been the focus of attention by authors like Landvogt¹² and Criddle¹³ who shift discourse to one which seeks to expose the less desirable elements of the financial education and the context of financial systems. Landvogt¹⁴ argues that current financial education programmes ought to 'engage in critical discourse and stand outside the market-based system to critique its dehumanizing effects'. In terms of 'financial capability this involves identifying the ways in which the concept of financial literacy itself can disempower and further oppress people'.

These arguments are of particular importance to the local context, given that Malta is currently at crossroads vis-à-vis financial education. European Union (EU) member states are being asked to examine what is being carried out in this area and to plan out the way ahead. In such a scenario, it is crucial to examine the major underlying interests in financial education. This shall enable a closer scrutiny of decisions being taken in the light of their ideological springboard.

11 Ibid, 170.

12 K. Landvogt, *Critical Financial Capability: Developing an alternative model* (Social Policy Research Unit, Good Shepherd Youth and Family Service, Collingwood, 2006). Retrieved 10/7/2012 from www.goodshepvic.org.au/.../Critical%20Financial%20Capability%20...

13 L. Criddle, 'Critical Financial Literacy', Presented in ACSA Conference, 9/11/2011.

14 Landvogt, 76.

Rationales underlying financial education

In the spirit of Barnett's advice to seek out the interests underlying financial education it is pertinent to identify the factors underpinning the rationale for financial education.

Indeed, many initiatives revolving around financial education have traditionally been sponsored by financial institutions, in fact major banks and investment companies have entrenched in their statements of corporate social responsibility a commitment towards improving the community's financial capabilities. This may be presented as the institutions' way of giving back to the community a portion of the monetary rewards gained. However, one cannot fail to mention the direct benefits reaped by the sponsoring institutions if financially capable individuals are able to manage their finances and plan ahead to meet their financial commitments. From this perspective, the objective is that of reducing financial risk and ensuring maximisation of profit. Given that financial education is here perceived as a tool to avoid/minimize irrecoverable debts and maximize profits, self-preservation and safeguarding the interests of the institution become the onus. In other words, capitalist rationality is here at play.

Safeguarding social interests and the interests of the state are the underlying motives which over the past decades have pushed several governments to channel funds towards financial literacy programmes. The underlying rationale is educating individuals towards achieving financial independence in view of alleviating the society and the state from the 'burden' of allocating a huge budget towards social benefits to support financially dependent individuals. In this context, financial education is also perceived as an investment in the human resources of a country in the hope of reaping collective economic benefits. At the backbone of this objective are the human capital theory and functionalist perspectives.

Protecting self-development is another rationale often quoted to justify the development and diffusion of financial education programmes. Here the central aim is to provide the individual with a learning experience of the economic and financial environment which shall hopefully, in turn, translate into improved personal financial welfare.

Very often such rationale translates into seeking financial literacy to improve one's financial baggage and avoid financial pitfalls. In this scenario, financial education is perceived as a tool for the individual to understand the financial terrain, for the sake of self-development and intellectual growth.

It is often the case where financial systems perpetuate inequalities and preserve the current state of affairs in the political and economic spheres. Whilst there is a shared and visible interest to protect the status quo by the elite and the financially powerful, pockets of resistance question, challenge, and aim for transformation. Such resistance highlights the struggle for social justice and action in favour of the most vulnerable groups in society. In this spirit, Billimoria makes a case for developing financial education frameworks which 'push forwards nations to legislate for financial products that protect children's interests and that aim at helping children in developing countries to break out of the poverty cycle'.¹⁵

The first two rationales of financial education mentioned above: safeguarding the interests of the institution and the state, and protecting self-interest neatly fit Habermas' Theory of Constitutive Interests.¹⁶ Both are the products of 'technical rationality' whereby knowledge and education become instrumental towards actively seeking to achieve an end. Such technocratic rationality often translates itself in educational spheres in curricula and pedagogical practices which place an emphasis on teaching the mechanism of private, public and corporate finance, finance options, jargon, and the preparation and analysis of financial reports. This is prevalent within vocational training institutions and curricula which aim to train people to understand the mechanism of the existing financial system and systematically fit into it.

Conversely the last two interests, those of self-development and transformation, may be associated with Habermas' notion of 'emancipatory interest'. In such a scenario, financial education is

15 J. Billimoria, 'Placement of Financial Literacy' (2010), 23. Retrieved from www.asic.gov.au/asic/.../FinLit_schools_DP.pdf on 12/07/2012

16 J.C. Habermas, *Knowledge and constitutive interests*, translated by J.J. Shapiro (London, 1972).

perceived and presented as a critical social science which engages individuals in reflection and critique on the notions of interests and power. In this context, the focus is on an understanding of the principles and mechanism of finance within the context of developing a social conscience. Such awareness is rooted in upholding social well being and acknowledges the shortfalls of current financial notions and practices. Pedagogical dialogue can be instrumental in promoting ethical and alternative models, such as micro-finance, which challenge traditional models of financing. In educational spheres this model is aptly portrayed by Freire and Macedo,¹⁷ who outline an orientation to education that starts off from the proposition that language and literacy, and control over how issues, problems, and aspects of the world are ‘named’, are directly tied to issues of political power. Moreover when reconstructed, financial literacy can be used as a force for political liberation and emancipation for disenfranchised social groups. Literacy is a powerful tool in this regard, and it is towards this end that financial education ought to be addressed.

Delving into the various often conflicting interests in financial education, it is important to enable the rationalisation of financial education initiatives and to expose the interests of sponsors which generally comprise banks and lending institutions, financial services, and consumer watchdogs, the state, philanthropic organizations, and educational authorities. Though in Malta, educational authorities have so far shunned back from mapping the way forward in financial education, it is imperative that they do so urgently, lest the local agenda becomes hijacked by the interests of other parties. The danger is that of divesting financial education of its transformative and educational potential.

17 P. Freire and D.P. Macedo, *Literacy: Reading the word & the world* (South Hadley, 1987).

The current state of affairs

Various research projects have been carried out across the globe to determine the levels of financial literacy. By comparison, local research into the area, among different age groups, is unfortunately sparse.

An international study is the OECD 2012¹⁸ pilot study measuring financial literacy which was carried out among fourteen countries from four continents in an effort to explore the levels of financial literacy by socio-demographics within each of the countries. The findings highlight reasons for concern. It appears that most people have some very basic financial knowledge, but understanding of other financial concepts, such as compound interest and diversification of investment is lacking amongst sizeable proportions of the population in every country. There is also some indication that certain respondents are over-confident, in that they have given incorrect responses rather than admitting that they do not know the answer. Analysis by socio-demographics suggests that inequality of opportunities may be preventing individuals from being more financially literate. In particular, low levels of education and income are associated with lower levels of financial literacy, suggesting that certain groups may currently be excluded from activities and learning opportunities that would improve their financial wellbeing. Research findings suggest that women have lower levels of financial knowledge than men in almost every country studied. This implies that some countries need to support women to ensure that they are not left behind. This exercise also shows that in the majority of countries surveyed, at least 30 per cent of the respondents failed to score successfully on the behaviour measure. This suggests that certain people could benefit from initiatives designed to change their behaviour. In some countries, such an effort would be consistent with consumer attitudes that are largely positive towards longer term plans whilst, in others, policy-makers would need to take into account the short-term preferences of the majority of the population.

18 OECD (2012), Draft PISA 2012 financial literacy framework. Assessing financial literacy in 12 countries; an OECD Pilot Exercise. Retrieved 1/7/2012 from www.oecd.org/dataoecd/8/43/46962580.pdf

Other research findings into the levels of financial capabilities of citizens confirm a bleak scenario; in fact poor financial literacy is considered as endemic in modern society. financial literacy indicates that UK consumers do not actively seek out financial information.¹⁹ The information they do receive is acquired by chance, for example by picking up a pamphlet at a bank or having a chance talk with a bank employee. The Canadian survey found that respondents considered choosing the right investments to be more stressful than going to the dentist. In Australia, 67 per cent of respondents indicated that they understood the concept of compound interest, yet when they were asked to solve a problem using the concept, only 28 per cent had a good level of understanding. A survey of Korean high-school students showed that they had failing scores; that is, they answered fewer than 60% of the questions correctly on tests designed to measure their ability to choose and manage a credit card, their knowledge about saving and investing for retirement, and their awareness of risk and the importance of insuring against it. Yet, the study comments that the few financial education programmes which have been evaluated have been found to be reasonably effective. This places particular importance on the development of educational programmes which address financial literacy. This is also suggested by the key findings of several research findings amongst which is that carried out by JA-YE Europe. This study suggests that 97 per cent of surveyed Europeans think that young people need to learn about financial management whilst they are still at school and 78 per cent of respondents think that currently young people's knowledge of their personal finances is 'little', 'next to none' or 'none at all'.

Trends in financial education across the world

In 2003 the OECD started an inter-governmental project with the objective of providing ways to improve financial education and literacy

19 OECD, 'Working Paper' (2010), Retrieved on 1/7/2012 from www.oecd.org/.../0,2350,en_2649_201185_1_

standards through the development of common financial principles. The OECD project in financial education recommends the inclusion of financial education programmes to intervene early in schools. This is to be complemented by general informal education programmes targeted at vulnerable sectors of the population, including women and indigenous people living in remote communities. This advice has been followed by several countries, amongst which are the UK, Australia, New Zealand, and America. This has also prompted the inclusion of finance studies in the core curriculum in several countries and the setting up of a number of initiatives such as the Jumpstart Programme (America) and the Money Advice Service (UK). Several programmes are also being implemented in less affluent countries in an effort to empower people through financial education and decrease poverty. Unfortunately the majority of initiatives focus mostly on personal finance and, to a lesser extent, corporate finance. Public finance is sadly disregarded. Another cause for concern is that most programmes follow the technical model and do not present financial education from a critical social science perspective. Indeed, the latter criticism may also be lodged at the PISA financial literacy assessment component.

The measurement of financial literacy in PISA

Given that the Programme for International Student Assessment 2012 was the first large-scale international study to assess the financial literacy of young people, it was deemed suitable as a point of reference for the purpose of discussing assessment of financial education.

PISA assesses the readiness of young people for life beyond compulsory schooling, and in particular their capacity to use knowledge and skills. This is achieved by collecting and analysing cognitive and other information from 15-year-olds in many countries. This study provides a set of comparative data that policy-makers and other stakeholders can use for policy and decision-making purposes. International comparative data on financial literacy can answer questions which address the extent of preparation of young people to understand and utilize the contemporary financial systems that are

exceedingly becoming more globalized and complex. The PISA study also attempts to identify which countries are the leaders in terms of financial literacy and which lag behind. The idea is to address financial illiteracy and take action.

Though Malta is not a participating country in PISA, it is insightful to start taking stock of the provision of financial literacy. Opting out of this international assessment exercise does not imply that as a country we bury our heads in the sand and act as if the introduction of financial literacy in PISA is a non-issue. If OECD and other participating countries have acknowledged the need of taking stock of financial literacy skills, knowledge, and values, then it is high time that as a country we get acquainted with the financial literacy component. PISA assessment in financial literacy shall be dealt with in detail as it is particularly insightful to help in mapping out the content, process, and attitudes for financial education.

In line with the core PISA domains of reading, mathematics, and science, the main focus of the financial literacy assessment in PISA is on measuring the proficiency of 15-year-olds in demonstrating and applying knowledge and skills. The content of financial literacy is conceived of as the areas of knowledge and understanding that must be drawn upon in order to perform a particular task. A review of the content of existing financial literacy learning frameworks from a wide range of countries (Australia, Brazil, England, Japan, Malaysia, the Netherlands, New Zealand, Northern Ireland, Scotland, South Africa, and the USA) indicated that notwithstanding cultural differences, there is some consensus on the financial literacy content areas.²⁰ Data analysis showed that despite cultural differences the content of financial education in schools is relatively similar and it was possible to identify a number of common areas.

The PISA paper-and-pen assessment is designed as a two-hour test comprising four, 30-minute clusters of test material from one or more cognitive domains. Financial literacy has been allocated two clusters (60 minutes of testing time) in the 2012 main survey. Forty financial

20 OECD 2011.

literacy tasks were selected for the main survey. The following four content areas, deemed congruent amongst countries, form the basis for PISA financial literacy: money and transactions, planning and managing finances, risk and reward, and the financial landscape.

The content of the PISA financial literacy component

Money and transactions

This content area focuses on a broad spectrum of personal finance topics such as everyday payments, spending and saving, understanding the value of money, bank cards, cheques, bank accounts, and currencies. Tasks in this content area require students to show that they understand that money is used to exchange goods and services, to recognize notes and coins, and to identify alternative methods of payment. Other aspects include calculating the correct change; comparing and determining which of two consumer items of different sizes would give better value for money; recognizing various ways of transferring money using automated cash machines; understanding transactions listed on a bank statement and noting any irregularities; understanding that money can be borrowed or lent; and the reasons for paying or receiving interest.

Planning and managing finances

Income and wealth requires both short and long-term planning and management. This content area includes tasks showing whether students can identify various types of income. These may include allowances; salary; commission; benefits; hourly wage; and gross and net income. This area also requires an understanding of government taxes and benefits and their impact on planning and managing finances. Young people are also expected to draw up a cash budget to plan regular spending and savings. They are to manipulate elements of a personal cash budget, such as prioritizing in case of a shortfall or finding options for reducing expenses or increasing income in order to increase levels of savings as well as accessing credit. Other aspects in this domain include planning in advance to meet future expenses; assessing the impact of different spending plans; understanding the idea of building wealth; the

impact of compound interest on savings; and a basic understanding of the strengths and weaknesses of investment products. The benefits of saving, especially for retirement planning, is another derivative of this aspect of financial literacy.

Risk and reward

PISA (2012) identifies this area as key to financial literacy. It assesses the ability of youths to identify ways of managing, balancing, and covering risks as well as an understanding of the potential for financial gains or losses across diverse financial contexts. Young people are expected to be familiar with risks related to financial losses that an individual cannot bear, such as those caused by catastrophic or repeated costs, as well as risk inherent in financial products. This content area assesses the idea that certain financial products such as insurance can be used to manage various risks, knowing why some methods of saving or investing are more risky than others, how to limit the risk to personal capital, as well as an understanding of the benefits of diversification. Tasks in this content category include:

- an examination of the potential risks or rewards associated with various types of investment and savings and insurance products;
- various forms of credit;
- the effects of compounding;
- the effects of defaulting on payment of bills and credit agreements;
- fluctuations in interest rates and exchange rates, and market changes.

The financial landscape

In this area the focus is on the understanding the nature and features of the financial world. The financial landscape comprises:

- knowledge of the rights and responsibilities of consumers and the main implications of financial contracts;
- knowledge of information resources and legal regulation;
- an understanding of the consequences of changes in economic conditions and public policies;
- an understanding of private spending and saving and the impact

of such choices on the public, private, national and international levels;

- awareness of where to seek advice in relation to financial matters;
- awareness of financial crimes, such as identity theft and scam; and
- know-how of precautionary measures and corrective action vis-à-vis financial crimes.

The processes

For the purpose of the PISA survey (p. 145), financial literacy has been defined as ‘a combination of awareness, knowledge, skills, attitude and behaviours necessary to make sound financial decisions and ultimately achieve individual financial wellbeing’. This definition makes it clear that financial literacy is more than just knowledge. It also includes attitudes, behaviours, and skills. It stresses the importance of decision-making, applying knowledge and skills to real-life processes, and indicates that the target should be improved financial well-being. The PISA financial literacy component identifies four cognitive process categories:

1. Identifying financial information;
2. Analysis of information in a financial context;
3. Evaluating financial issues;
4. Applying financial knowledge as well as understanding it.

While the verbs used here bear some resemblance to those in Bloom’s taxonomy,²¹ an important distinction is that the processes in the financial literacy construct are not operationalized as a hierarchy of skills, but as parallel essential cognitive approaches, all of which are part of the financially literate individual’s repertoire. The order in which the processes are presented relates to a typical sequence of thought processes and actions, rather than to an order of difficulty or challenge. At the same

21 B.S. Bloom, *Taxonomy of Educational Objectives*, Handbook I: The Cognitive Domain (New York, 1956).

time, it is recognized that financial thinking, decisions, and actions are often dependent on a recursive and interactive blend of the processes described in this section. For the purposes of the assessment, each task is identified with the process that is judged most central to its completion.

The PISA working definition of financial literacy also includes the non-cognitive terms *motivation* and *confidence*, attitudes which have great influence on money management behaviour.²² PISA conceives of both financial attitudes and behaviour as indicators of financial literacy in their own right. Attitudes and behaviour are also of interest in terms of their interactions with the cognitive elements of financial literacy. The financial literacy expert group identified four non-cognitive factors for focused attention:

- Access to information and education;
- Access to money and financial products;
- Attitudes towards and confidence about financial matters; and
- Spending and saving behaviour.

Equipped with an overview of the expectations of PISA assessment for financial literacy, it is pertinent to revolve our attention to the local scenario and the current preparation of youths in financial matters. This evaluation shall serve as a springboard to identify areas of strength and address possible shortfalls.

The provision of financial education in Malta

The venue where basic financial principles are first taught is within the family. Maltese families traditionally impart to their children the basic principles of spending and saving, the value of money, and personal financial matters.

The Dolceta project (of which Malta is a partner) has engaged in an informal educational campaign in finance education in an effort to communicate and explain important financial principles. One of the

22 C. Johnson and M. Staten, 'Do inter-temporal preferences trump financial education courses in driving borrowing and payment behaviour?', Paper presented at the 1st Annual Boulder Conference on Consumer Financial Decision Making (2010).

major outcomes of this project was the setting up of an educational website which targeted amongst others financial literacy for youths and children. Amongst the topics tackled are spending, saving, investing, borrowing, insuring, budgeting, cashflows, payment methods, social finance, inflation, investments, risk, insurance, assurance, Islamic banking, and tackling complaints of a financial nature. Another important initiative of the European Financial Education Partnership (EFEP) has been the publishing and dissemination of a students' guide to financial information in the Maltese language. Ignaczak (2009), a local educator, has also embarked on an initiative to promote core financial competencies by publishing a series of workbooks to promote financial literacy among secondary school students.

By comparison, it is disturbing to note that financial education targeted at the general public is generally provided by the service providers (banks, insurers, investment institutions, The Malta Financial Services Authority (MFSA), and similar organizations). Local education authorities have not responded to the increasing needs of educating the general public in financial matters. This notwithstanding the fact that lack of financial education ultimately undermines personal and social well-being. Furthermore financial illiteracy places vulnerable individuals at risk of poverty and potentially increases financial mismanagement and fraud. It also fuels a mentality which undermines public finances through tax evasion and unethical financial conduct.

The provision of financial education in formal education

Analysing the scenario of compulsory education in Malta with reference to financial education would be incomplete without an overview of the National Curriculum Framework.²³ This shall set the scene for analysing the proposed way forward in terms of the curriculum framework objectives. This shall be followed by a content analysis of the overt

23 Education Directorate, 'Official Syllabi for schools', Retrieved from curriculum.gov.mt/docs/syllab_pr_ on 1/1/2012.

and covert references to financial education, or their absence, in the different subject syllabi from year one up to year eleven.

The first aim of the National Curriculum Framework highlights the development of three important areas; literacy, numeracy, and digital literacy. According to the NCF, these areas shall enable learners to develop their full potential as life-long learners. Thus the NCF implicitly suggests that literacy, numeracy, and digital literacy are enough to ‘enable them (the students) to think and solve problems and communicate their ideas, promoting skills for conducting research as well as representing and communicating ideas and locating, storing and retrieving information’.²⁴

It is here pertinent to point out that, as from the start, the NCF makes no direct reference to financial literacy. This is in contrast with the second aim which refers to the need of learners to become capable of sustaining their chances in the world of work, whereby reference is made to economic stability and independence. ‘Young people need to know how to use personal, national and global resources in order to maximise their economic value. They need to develop a socially responsible economic ethic that prioritises approaches which promote the common good’.²⁵

More specifically, the second objective refers to the development of innovation and entrepreneurship, and the notions of risk-taking and risk assessment and planning. Indeed, this aim highlights the importance of developing certain aspects of financial literacy. Yet again it fails to make a direct claim for financial education. This omission is consolidated in the list of the main learning areas and sub-areas for the primary and secondary years which, according to the NCF shall comprise languages, mathematics, science, technology education, health education, physical education and sport, personal, social and health education, religious education, citizenship education, and arts education.

Besides these learning areas, the NCF rightly makes a claim for cross-curricular themes which feature across subjects. The list of

24 Ibid., 58.

25 Ibid., 59.

cross-curricular themes identified as essential for holistic education comprises eLearning, education for sustainable development, intercultural education, education for entrepreneurship, creativity and innovation. While the reference to education for entrepreneurship suggests some form of need to develop certain aspects of financial education, it is worth noting that the interpretation given by the NCF to entrepreneurship education is mostly on the process of learning and there is minor reference to the content required for such education to be effective. The NCF particularly mentions the development of skills though entrepreneurship and makes a distinction between the soft entrepreneurial skills, including social skills and entrepreneurial attitudes) and hard entrepreneurial skills (including such as drafting a business plan. It is crucial to note that drafting a business plan requires prior knowledge in basic business and financial principles and cannot be presented as a stand-alone technical exercise.

Whilst it is commendable that entrepreneurship education takes the pedagogical approach of hands-on learning, it is worth remembering that a complete educational experience comes by integrating skills, values, and ultimately also a sound knowledge base. Omitting the latter from the equation is hugely problematic. How does the NCF expect to promote education for entrepreneurship without acknowledging in any way financial literacy as one of the pillars in basic education? How shall entrepreneurship education be deemed complete if the emphasis is on what it terms as the ‘soft skills’ whilst the knowledge base or ‘hard skills’ are left to chance and provided only by a few optional subjects offered at secondary level? Barnett warns that approaches which favour operational competence may indeed be detrimental in the long term as they may lead to a narrow form of education which is neither desirable nor complete.²⁶

Indeed Malta did not participate in the first financial literacy assessment, but it is wise to take the cue and start thinking seriously about incorporating financial education in the National Curriculum Framework and in core curricular programmes. The current state of affairs is one where the only financial education available is either left to

26 Barnett, 60–5.

the personal initiative of teachers or limited to students who specialize in particular subjects.

The official school syllabi

Though OECD recommends early intervention programmes in financial education, locally there are no direct references to notions of finance in the primary-school curriculum and syllabi, except for spending and saving calculations in the mathematics syllabus and reference to wise use of money in some textbooks. Sporadic attempts at teaching about finance are carried out by individual teachers.

An in-depth analysis of the current secondary school syllabi reveals that little is formally taught about finance in the common core subjects. In fact the only two compulsory subjects which in some way make reference to finance are Mathematics and Personal and Social and Health Education (PSHE). The former deals with the calculation of simple and compound interest, borrowing and repayment, calculation of VAT, appreciation, and depreciation. On the other hand, PSHE tackles finance from a more humanistic perspective by incorporating some important aspects of personal finance which include the importance of budgeting, managing pocket money, and banking institutions and their services. Though limited, such reference to financial education in the core curriculum is a step in the right direction. However, a deeper understanding of personal finance as well as an understanding of public and corporate finance necessitate space in the core curriculum.

Only a few subject options offer the opportunity of financial education to be taken further. Home Economics tackles personal finance in more detail than PSHE by referring to methods of financing, methods of payment, budgeting and saving money, and a basic understanding of insurance and assurance. In line with its core rationale, the focus in this subject is finance within the context and the needs of the homemaker. The Business Studies syllabus tackles the three pillars of personal, corporate, and public finance in great detail encouraging students to manage personal finances wisely and systematically, gain an understanding of financing options, engage in an analysis of

public financing and spending, and ultimately be able to understand and analyse basic financial documents. This syllabus particularly encourages the study of finance from an ethical viewpoint. By comparison the current accounting syllabus dwells specifically on the preparation, understanding, and analysis of financial documents which implicitly necessitates the understanding of financing options. Yet, the onus is mostly on the technical recording of the traditional double entries in the books of accounts. Economics, on the other hand, delves deeply into the notion of corporate and public finance but forgoes the practical elements of finance, such as the preparation of a budget and the understanding of documents, such as the bank statement and other financial documentation. Though these optional subjects provide some form of financial education at secondary level, it is crucial to remember that none of them features in the core curriculum. This reflects a mentality which undervalues financial education as part of the core learning experience for all learners, irrespective of their career paths. It seems that it is not yet clear to local educational authorities that being unable to manage personal finances and being financially illiterate is indeed an educational disadvantage which shall not only prejudice the individual but shall also have negative repercussions on society and shall ultimately hamper economic growth.

It is worth noting that, whilst it is crucial that financial education becomes part of the core curriculum, it is important to promote a balanced mix of skills, content, and values. It is also crucial to combine financial education to a pedagogical tradition which goes beyond the technocratic rationality (or the knowledge of terms, financial mechanisms, and the double entry system) to promote emancipatory education, or learning which encourages critical thinking such as analysing notions of accumulation of wealth within the context of social justice, lest the messages imparted are those which reflect the current state of affairs in the financial sector. Dewey's (1916) advice for caution against transferring the rationality of industry in schools is timeless!²⁷ Similarly Jephcote and Abbott argue that 'Education,

27 J. Dewey, *Democracy and Education* (New York, 1916).

would not be concerned solely with transmitting of knowledge and inculcating ‘appropriate’ values, attitudes and beliefs but would also be concerned with questioning their basis’.²⁸ This acknowledges the transformative potential of schooling. Given the rather limited provision of financial education within compulsory education, it would be pertinent to find out the level of financial literacy amongst Maltese people. Through financial literacy on its own cannot claim to be the solution or the cause of future financial problems, research into financial literacy in Malta will perhaps explain the reasons why 44 per cent of Maltese households depend on credit for consumption. Ultimately borrowing to fund consumables renders individuals vulnerable to poverty.²⁹

Concluding remarks

This paper proposes an agenda for discussion on the current provision of financial education in Malta. It confirms that local research in this field is limited. Furthermore the provision of financial education is sporadic and generally not available. From the analysis undertaken, it appears that conducting field research to assess the financial competencies of youths and other sectors of the Maltese population is crucial. Applied research is useful to assess financial literacy levels within the context of the local cultural setting. It can also determine whether there are any differences in financial literacy on the basis of gender, age, and socio-economic conditions. Future research can also focus on the relationship between financially disadvantaged groups and their financial capabilities. Action research maybe more appropriate to examine pedagogical practices employed in teaching existing components of financial education.

Finally this paper amply demonstrates the importance of infusing basic financial education within a compulsory business educational programme.

28 Jephcote and Abbott, 7.

29 Caritas Survey, ‘Caritas Malta Study: A Minimum Budget for a Decent Living’, Retrieved from www.caritalmalta.org/?m=news&id=44on 2/7/2012