

## THE IMPORTANCE OF FINANCIAL EDUCATION FOR THE INDIVIDUAL IN BRAZIL

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### Abstract

Due to the constant economic evolution, the ease and increased credit offered by financial institutions, the financial education is a topic that has been gaining visibility over the years. Because of the sophistication and complexity of dealing with financial matters, people are becoming increasingly indebted and having difficulty paying their debts. In these conditions, this article addresses the theme of financial education, with the objective of making individuals aware that acquiring financial knowledge is the way to make conscious financial decisions and guarantee a better quality of life. This work, based on the main authors and supporting on the most recent research on the subject, shows the real situation of Brazil in relation to the financial knowledge of the individuals and how financial illiteracy influences the decision-making and the indebtedness of the families. The results show a worrisome scenario regarding the financial knowledge of the individuals in Brazil, although the Brazilian believes that he has good or excellent financial knowledge and relies on the skills to deal with personal finances, only 35% of the population is financially literate.

**Keywords.** Financial Education, Financial Problems, Quality of Life.

## Introduction

Throughout life we have faced with financial issues. The economic instability of the country interferes directly in the daily life of people, and education enables decision-making with regard to matters related to financial planning. According to the Organization for Economic Cooperation and Development-OECD, developing financial knowledge or at least its basic principles favors the quality of life of people and their communities, just because financial education has great influence in the way individuals manage their resources. Financial, lack of knowledge is the cause by which people face serious financial problems in the personal and family environment (OECD, 2005).

In a survey conducted by the Credit Protection Service (SPC) and by the National Confederation of Shopkeepers (CndI), it was found that about 45% of Brazilians admit that they do not make any effective control of the budget itself. Still in this survey, the research reveals that, of those who have some degree of knowledge to manage their finances, 45% learned by themselves, 34% had their teachings early with the family, 14% learned from their companions, 9% Took a course and only 6% resorted to a specialist (SPC BRASIL, 2018).

The general objective of this study is to describe the importance of financial education for the individual in Brazil.

The specific objectives are: a) to make a bibliographical survey on financial education, in order to understand its importance to society and the individual; b) to describe in a simplified manner the basic concepts in financial education; c) Analyze the situation of the Brazilian individual in relation to the level of global financial knowledge.

As an academic justification, it can be considered that the theme of this article is related to how financial education plays an important role for the individual, influencing decision-making, This theme has been gaining more and more relevance in Brazil. As a social justification, it is important to raise awareness among individuals who are directly to this work so that they are aware of the dangers of lack of Knowledge Financial. While in personal justification, it is proposed to present information that may be Help people know, understand the topic and apply their basic concepts in everyday life.

With regard to financial education, it can be affirmed that the problem is in the need to improve the level of education in individuals' finances, so that they acquire the necessary knowledge to make conscious financial decisions. According to the Commodities and Futures Exchange – São Paulo stock Exchange (BM & FBOVESPA), The need to improve education financial is urgent, the sophistication of the financial market makes financial decisions more complex when the subject is "credit card, insurance, retirement, housing and education". The knowledge of techniques to deal with personal economic issues, becomes a means to achieve the well-desired welfare of people (BM&FBOVESPA, 2012).

From the bibliographical studies, the question that directed this article was: What is the importance of disseminating financial knowledge, an important factor in avoiding indebtedness?

The hypotheses were: a) It is essential that individuals acquire financial skills to cope with the complexities existing in the financial market; b) The lack of financial knowledge is directly linked to the indebtedness of individuals and families; c) The best way to avoid indebtedness is financial education.

This article is based on the bibliographic research method. According to Gil (2002), the bibliographic research allows the researcher a wider range of data than that which could be directly achieved. Lakatos (2003), adds that the bibliographic research methodology is the article of imposing providing current and relevant data to the researched theme.

## **2. Theoretical framework**

### **2.1 Financial Education**

According to the Organization for Economic Cooperation and development – OECD, financial education is the process by which individuals can improve their understanding of finance and financial products, so that their choices will be succeed and aware, as objective information, instruction and guidance, will help to develop confidence and competences in decision-making with regard to financial matters. Still in the context of the OECD, developing financial knowledge or at least its basic principles favors the

quality of life of people and their communities, since financial education has a great influence on the way individuals manage their Economic resources (OECD, 2005).

Brasil (2011), Adds that financial education is the process in which individuals and societies improve their knowledge of financial concepts, so that with clear information, training and guidance, they acquire the fundamental values and competences to Become aware of the opportunities and risks involved in it and then make wise decisions, guided by actions that improve their well-being, contributing to the formation of individuals and societies.

For Raimund (2010), financial education is the measure of the understanding that the individual has about the financial concepts and their suitability and security to adequately administer their personal finances, through short and long term decisions and planning, Through the events in his life and the changes in economic circumstances. But for Coutinho (2015), financial education is the way the individual can identify, understand, develop and use new technologies in situations related to solving problems involving the administration of personal finances.

Based on the definitions referenced, financial education aims to empower individuals and society in the management of personal economic resources. It is also observed that financial literacy helps decision making, makes people more conscious in their choices and is directly linked to the quality of life of the individual and their families. For this reason, Jacob *et al.* (2000) tells us that educating the individual financially is to make him aware of the rules, practices, laws, rights, duties and social norms, making him capable of understanding and putting into practice the essential financial activities in the day-to-day.

## **2.2. The importance of financial education**

Several authors, researchers and governmental institutions have given special attention to the topic. From this interest in the subject, which emerged in recent years, in this topic we evidenced how they justify the importance of financial education for the individual, the economy and the Brazilian society.

With regard to the individual, people need to learn and master financial skills, accounting and investments are important, but they are not teaching priorities in schools. This deficiency explains the training of professionals as "physicians and accountants", who have had great grades during the academic life, but who will face problems to manage their economic resources in the future (KYOSAKI e LECHTER, 2002). Although they do not realize, financial education is one of the most important factors influencing the financial life of people (CAIXA, 2009).

According to Teixeira (2015), financial education is important for the individual to use their economic resources with rationality, since through it it will be possible to improve the quality of life. Establishing rules, planning your personal budget and controlling expenses, is essential for those who want to achieve a healthy financial life, without excessive and unnecessary spending. Lack of knowledge in finance causes serious financial problems and affects the life of a person, a family, and even a society (FERREIRA, 2017).

On the economic perspective, financial literacy is relevant for the individual to have access to the tools available to understand and interpret the events that affect them directly or indirectly, on the decisions that will be taken before Diversity of everyday economic problems (CANTELLI, 2009). According to the [National Confederation of Shopkeepers](#) -CndI and the Credit protection service-SPC, properly plan home expenses, organise the budget according to available resources, control daily spending, take care of unnecessary consumption and remember the benefits to be paid, is The way to achieving a healthy and balanced financial life. Meanwhile, according to the last survey carried out by the Credit protection Service, 45% of Brazilians do not control expenditures and 58.7% feel difficult to control personal expenses (CNDL/SPC, 2018). As we see, despite the importance of planning personal finances, data from the last research disclosed by the main credit protection service in Brazil, indicates that personal financial planning is not a common habit for Brazilians.

### **2.3 Financial education in Brazil**

Brazil has been concerned about the new situations and financial operations unfamiliar to most people, proof of this was the creation, in 2010, of the National Strategy of financial Education – ENEF, established by the National Committee on Financial

Education – CONEF, in order to improve the degree of financial education of the Brazilian population. Driven by this literacy strategy, the Central Bank of Brazil (BCB) launched the "Financial Education Notebook", focused on personal finance issues, to stimulate people to make autonomous decisions, in the economic environment related Consumption, savings and investment. This initiative is part of the concept that financial education is the necessary tool to disseminate knowledge and ensure the assertive behavior of the citizen when relating to his money (BCB, 2013).

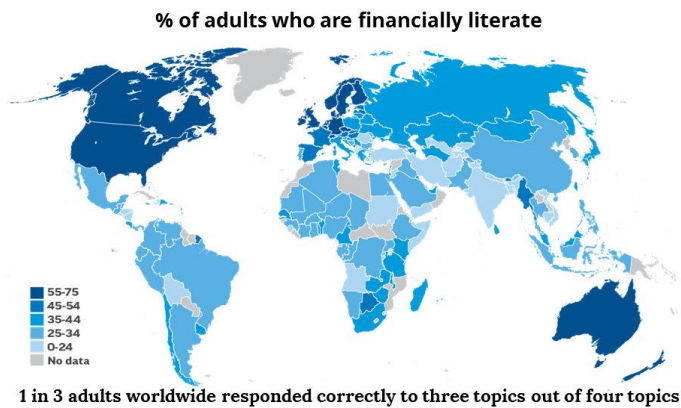
However, for Savóia et al. (2017) Despite the existing projects in the area of financial education, Brazil is distant from a positive reality necessary to empower the population on the subject. Developing the concepts of credit, investments and consumption in the university context, and inserting financial education at all levels of education, can be the first step in disseminating knowledge among individuals.

### **3. Materials and methods**

Data collection was carried out through the results of some studies conducted by the most important international and national institutions dedicated to promoting financial education in the world. The Collected information presents The level Global knowledge of countries in Financial education, the situation of Brazil in the global ranking of adult financial literacy and the most recent delinquency rate of Brazilians.

According to the Ranking Global *S&P Ratings Services Global Financial Literacy Survey de 2014*, only 1 in 3 adults in the world demonstrate understanding the basic concepts in financial education, two-thirds of the world's adult population considered financial illiterate, that is, 3.4 billion people in the world cannot be considered Financially educated. Search data, *Global S&P Ratings Services Global Financial Literacy Survey*, were obtained through interviews with 150,000 adults in more than 140 countries, Covering four basic financial concepts: Arithmetic, risk diversification, [Inflation](#) and compound interest. (KLAPPER et. al, 2014).

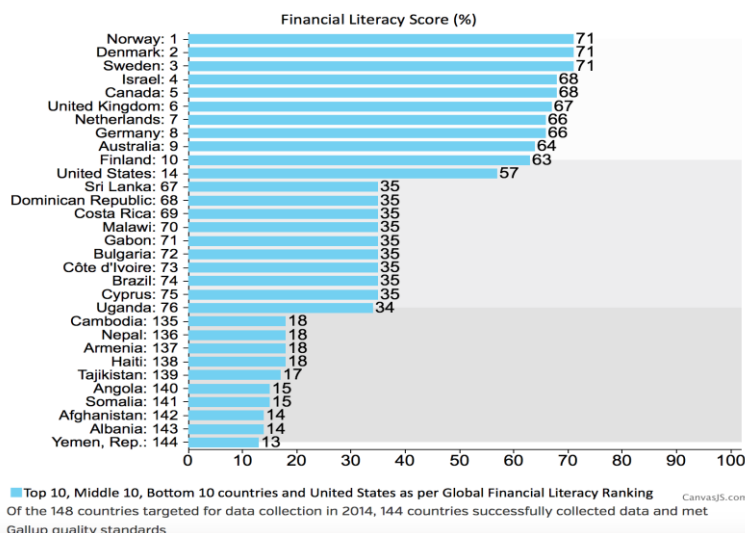
Figure 1-GLOBAL variation of financial knowledge



Source: GFLEC, 2014.

Australia, Canada, Denmark, Finland, Germany, Israel, Holland, Norway, Sweden and the United Kingdom, are the countries with the highest overall financial literacy rate and about 65% of adults have financial knowledge, in total only 33% of adults in the world were considered financially literate.

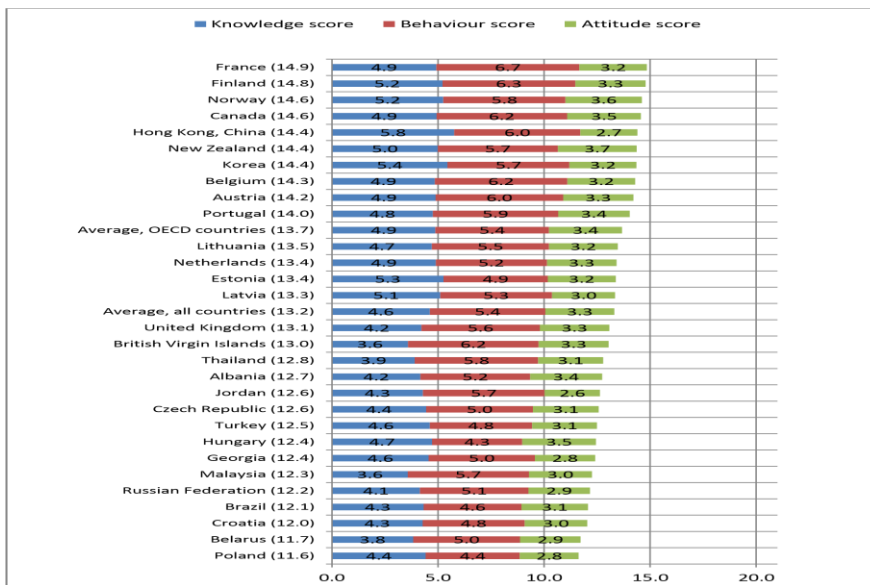
Graph 1 – Raking scoring in financial education



FYesterday: S&P Global FinLit Survey, 2014.

Brazil is the 74<sup>o</sup> country in the global ranking of financial education, because only 35% of respondents hit three of the four questions asked in the survey, the country has one of the lowest levels of financial education in the world, pretending to be behind Madagascar, Togo and Zimbabwe, the world's poorest countries (KLAPPER et. al, 2014).

Chart 2 – RAnking of knowledge, attitudes and financial behaviors



FYesterday: OECD, 2016.

Brazil has occupied the 27th place in the ranking of the research in financial education conducted by the OECD in 2016.

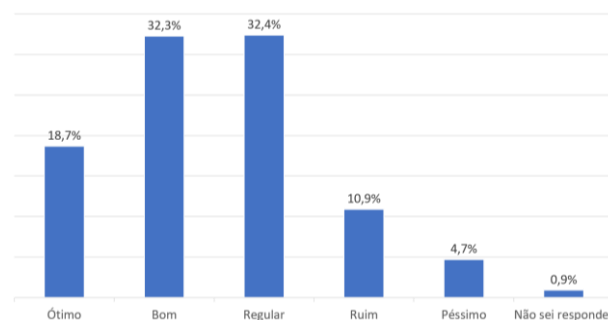
Graphic 3– How do you feel about financial knowledge



Source: CNDL/SPC, 2018.

According to the research on financial education of the CNDL/SPC 2018, 46% of Brazilians Feel safe Financially And believe they have sufficient financial knowledge for this, 31% feel insecure and would like to know more about this subject, while for 23%, financial education is an indifferent subject and does not worry them so much.

Graphic 4 – Degree of manage finances



knowledge to

Source: CNDL/SPC, 2018.

Still about SPC research, 51% of respondents consider having a good or excellent degree of knowledge to manage personal finances, while 32% believe they have a regular knowledge and only 16% consider themselves bad or poor.

Table 1 – Research of indebtedness and delinquency of the consumed, peic.

Síntese dos Resultados			
	Total de Endividados	Dívidas ou Contas em Atraso	Não Terão Condições de Pagar
set/17	61,7%	26,5%	10,9%
ago/18	60,7%	23,8%	9,8%
<b>set/18</b>	<b>60,7%</b>	<b>23,8%</b>	<b>9,9%</b>

Source: CNC, 2018.

According to the last survey conducted by the National Confederation of Trade in Goods, services and Tourism (CNC) in September 2018, the percentage of families sent increased from 59.6% in July to 60.7% in September. With respect to families who will not be able to pay the debts, there was an increase of 9.4% in July to 9.9% in September.

#### 4. Results and discussion

Compared to the global indices of knowledge in finance, it turns out that alphabetizing people financially should be a global concern, not only of some countries alone. The amount of adults in the world considered financial illiterate is still very high, as seen by the data from the last survey *S&P Global Finlit Survey*, where in total only 33% of adults in the world have some knowledge on the subject.

Through the analysis made from the *rankings* In financial education, we can see that Brazil plays a worrying role in the global scenario, research shows a country with literacy level and financial knowledge below the average, in addition to people demonstrating little familiarity with the topic, Getting behind some countries considered the poorest in the world.

According to bibliographical data, financial education plays an important role in the decision making of individuals. Thus, comparing the results, there is no surprise when

we verify that Brazil, a country that registers one of the worst indices of financial knowledge, currently has more than half of its population totally indebted.

In general, despite the increase in financial education actions in Brazil over the years, according to the information raised by the research, the lack of financial knowledge can be a factor of influence in the increase in the indebtedness rate and delinquency of Brazilian, data that undermines recent studies that demonstrate the lack of habit of Brazilians in the management of personal finances.

## **5. Final considerations**

This article aimed to describe the importance of financial education and how the lack of knowledge about the theme influences decision making. Thus, it was possible to show how understanding basic knowledge in finance can be the way for the individual to gain a healthy financial life.

Financial education is indispensable nowadays, and in Brazil it plays an important role in the economic scenario. If in the world the financial market seems sophisticated, in Brazil this complexity has an even greater weight, because the vast majority of the population does not have the basic knowledge necessary to deal with personal finances. For this reason, disseminating financial knowledge is extremely important, since financial education does not only assume the role of avoiding indebtedness, but makes the individual learn to control his finances and make conscious decisions about the Use of money.

Limiting itself to the bibliographic research method, it was possible to understand that in the case of Brazil the lack of financial knowledge is directly linked to the high rate of indebtedness and delinquency of Brazilians, since it confirms the hypothesis that acquiring Financial skills helps the individual cope with the complexities of the financial market and that financial education is the best way to avoid, not only indebtedness, but to raise awareness of the citizen's decision-making.

It is concluded that the lack of financial knowledge directly influences decision making. Although 46% of Brazilians believe they have the financial knowledge necessary to deal with personal finances and 51% Consider having a good or great knowledge degree,

this certainty is weakened when the researches reveal that 35% of the individuals in Brazil do not know the basic financial concepts and 45% assume that it does not control the expenditures. Therefore, it is probable that there is a divergence between what the Brazilian really understands about what it is to be financially literate and the real level of financial education that it possesses, so that this doubt is clarified if a new research is needed. With a deeper analysis of the data.

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