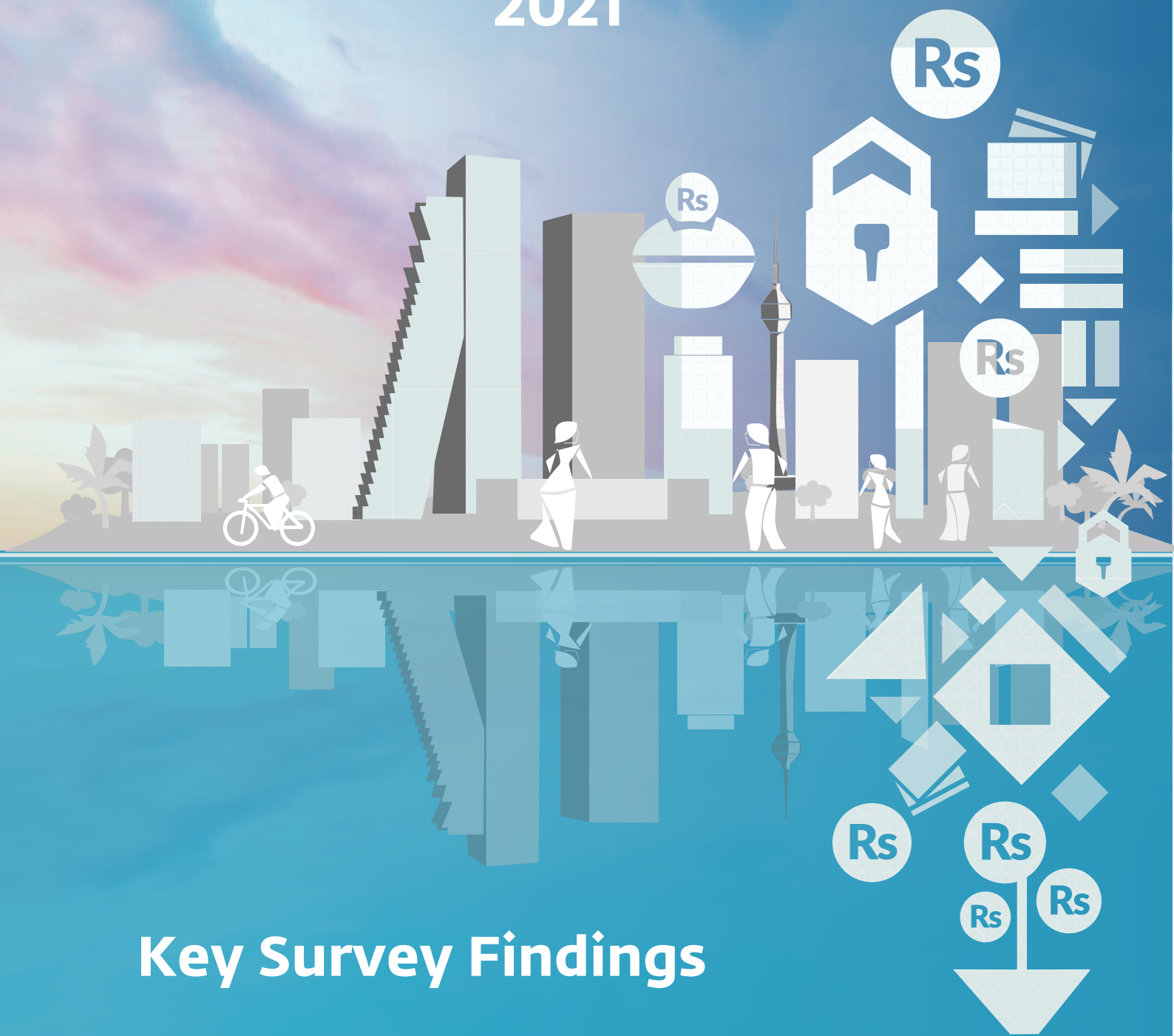


FINANCIAL LITERACY SURVEY SRI LANKA 2021



Key Survey Findings



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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

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BACKGROUND

The Financial Literacy Survey Sri Lanka 2021 (the "Survey") was conducted as a part of the implementation of the National Financial Inclusion Strategy (NFIS) of Sri Lanka 2021-2024. The survey was led by the Central Bank of Sri Lanka (CBSL) with the technical and financial assistance of the International Finance Corporation (IFC), a member of the World Bank Group.

Despite the high accessibility of the formal financial sector, financial services are underutilized by the public, as highlighted by the National Financial Inclusion Survey 2018 (FIS).

The FIS revealed that bank account ownership in Sri Lanka is around 88 percent of the total population (corroborated by 2021 World Bank Group Global Findex data).¹ This rate is higher than the South Asian average of 68 percent, supported by a high level of bank branch penetration (branch density of 16.4 branches per 100,000 adults,² nearly double the South Asian regional average of 9.4).³ Further, the FIS noted that 48 percent of borrowers relied on semi-formal and informal financial service providers for their financial needs. Although, Sri Lanka has made impressive strides in digital payment infrastructure, there is room for increasing the usage.

Given this background and in the extensive NFIS consultations, the lack of financial literacy emerged as a key impediment to financial inclusion in Sri Lanka. The Survey was thus commissioned to identify the financial literacy levels of the population with a view to shaping appropriate policy measures.



¹ Account Ownership in Sri Lanka is 89%, World Bank Group's (WBG) Global Findex, 2021.

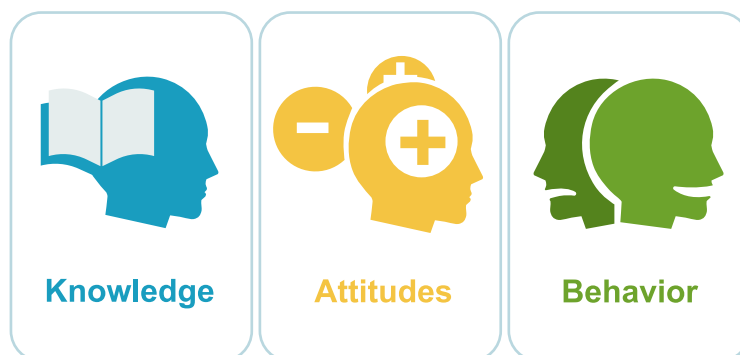
² Central Bank of Sri Lanka, 2021.

³ National Financial Inclusion Strategy of Sri Lanka, (Central Bank of Sri Lanka, 2021).

1. Introduction

1.1 Focus of the Survey

Financial literacy was defined as the combination of knowledge, attitudes and behavior necessary to make informed financial decisions and achieve financial wellbeing. Within the element of behavior, the necessary skills for making wise financial decisions was also considered.



1.2 Objectives of the Survey

The purpose of the survey was to understand the current state of financial literacy across the population of the country. More specifically, it aimed to:



Measure the overall level of financial literacy in Sri Lanka

In 2014, the Global Financial Literacy Survey (GFLS) conducted by Standard and Poor's Ratings Services measured Sri Lanka's financial literacy as 35 percent. The Survey focused on updating this indicator.



Develop individual financial literacy scores for Knowledge, Attitudes and Behavior dimensions

The different dimensions of knowledge, attitudes and behavior have an influence on the overall level of financial literacy. Therefore, an assessment of these dimensions would reveal any room for improvement and thereby support the formulation of tailored policy recommendations.



Use the financial literacy scores as a baseline to monitor the effectiveness of the NFIS initiatives

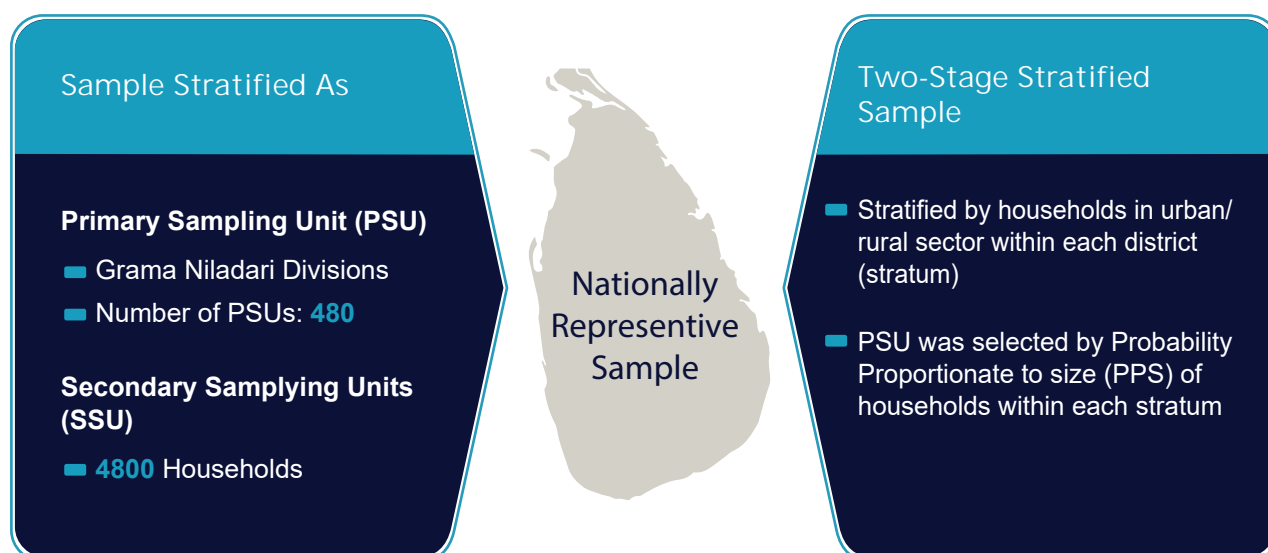
The findings will be used as key performance indicators (KPIs) pertaining to the range of policy actions of NFIS under the "Financial Literacy and Capacity Building" pillar.

2. The Survey

2.1 Scope of the Survey and the Questionnaire

The survey was conducted with a nationally-representative sample of 4,800 household members aged 18 and above, with a maximum of one member per household. Data collection was carried out by Nielsen IQ Sri Lanka, a well-reputed research firm, who conducted face-to face interviews with household members using CAPI (Computer Aided Personal Interviews). Interviews were based on the questionnaire jointly developed by the CBSL and IFC. The survey questionnaire comprised questions on financial knowledge, attitudes, and behavior relating to various aspects of financial literacy including budgeting and money management, short- and long-term financial plans, and choices of financial products. In addition, some questions were also included to collect data on important socio-demographic details of the household members such as age, gender, education, and income.

2.2 Sampling Process



- **Sample Size:** The survey was conducted with a nationally representative sample of 4,800 households. Households were drawn from the household population in the 2012 census of households and persons, carried out by the Department of Census and Statistics.
- **Household Listing:** The selected 480 GN divisions/PSUs were divided into segments based on the number of households in each division as per the 2012 census. Using the random sampling technique, 10 households were randomly selected per PSU.
- **Respondent Selection:** Out of the eligible members (aged over 18 and less than 80) in the sampled households, individual respondents were selected using the Krish Grid.⁴
- **Pilot Tests:** Pre-pilot tests were carried out in four districts. Pilot tests (79 interviews) were carried out covering all the nine provinces.
- **Data Collection:** Carried out from July to December 2021.

⁴ The Kish grid or Kish selection grid is a method for selecting members within a household to be interviewed. It uses a pre-assigned table of random numbers to find the person to be interviewed.

3. Demographic Profile

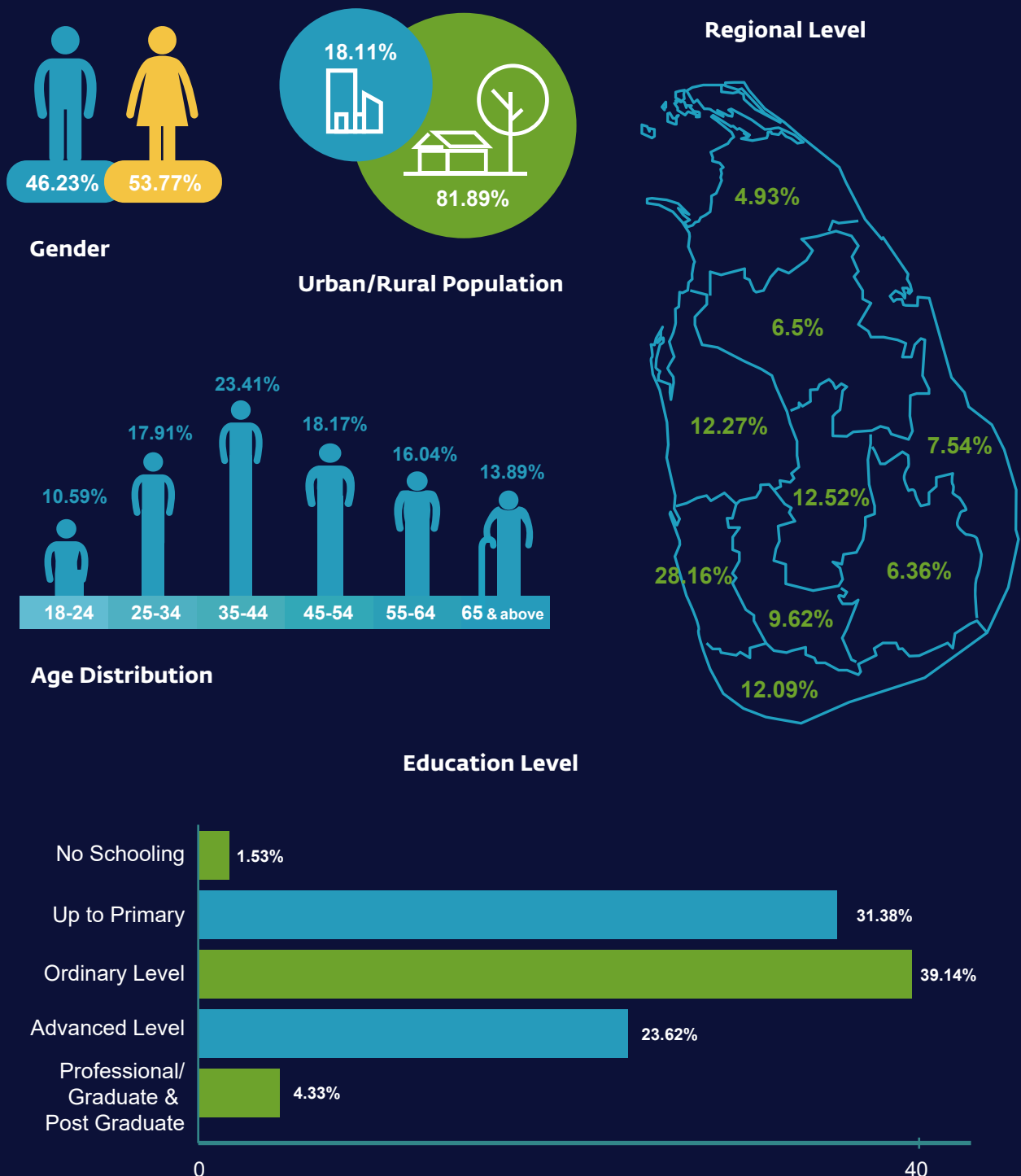


Figure 1: Demographic Profile of Survey Participants

4. Findings

4.1 Overall Level of Financial Literacy/ Financial Literacy Rate in Sri Lanka

This Survey computed a single indicator for the financial literacy level of the population.

This indicator was calculated focusing on the four fundamental concepts for financial decision making: numeracy, compound interest rate, inflation and risk diversification. A person was considered financially literate if that person correctly answered at least three out of four questions from these financial concepts.

Based on the findings, 57.9 percent of adults were reported to be financially literate in Sri Lanka, which shows a significant increase from the 35 percent reported by the GFLS 2014. Moreover, the gender gap in the financial literacy rates of males and females was 5.9 percentage points.

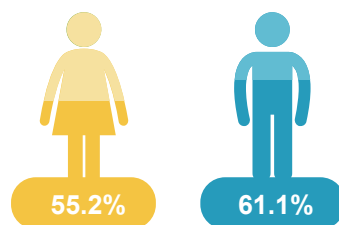


Figure 2: Financial Literacy Rate by Gender

Among the four concepts considered in calculating the overall financial literacy level, the concepts of numeracy and the compound interest rate were most frequently understood by the participants. Just over half of the population understood the concept of inflation, while only 33 percent of the population correctly answered the survey question on risk diversification.

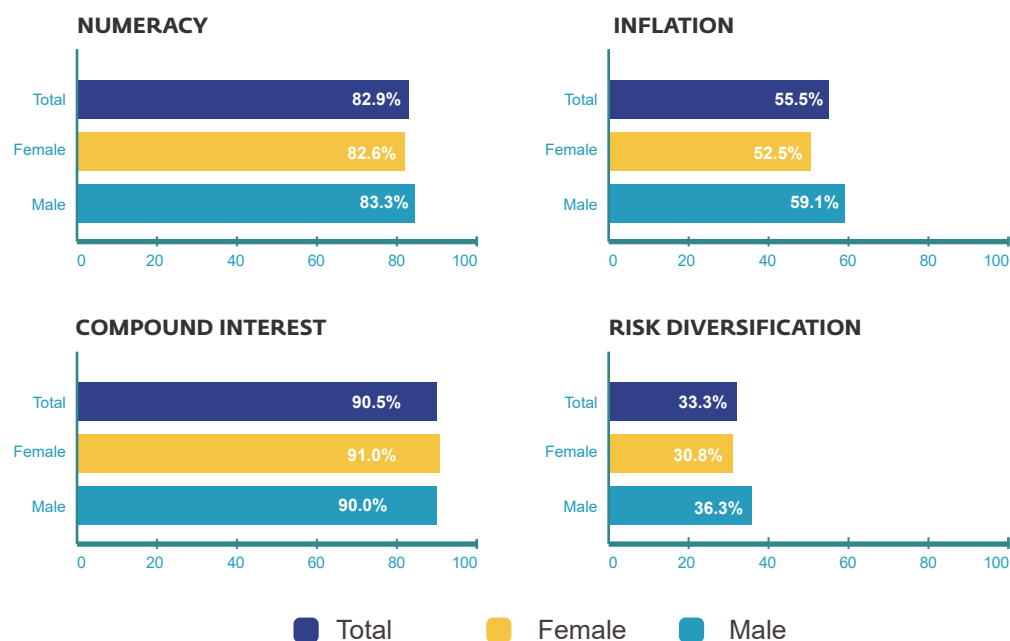


Figure 3: Level of Understanding of Financial Concepts
(Percentage of adults with correct answers)

The Overall Level of Financial Literacy/ Financial Literacy Rate above, provides easy reference to the level of financial literacy in the country. Even though the usability of this rate is widely accepted, it focuses only on the knowledge aspect of financial literacy. However, financial literacy is a broader concept that implies an individual's capability to make informed financial decisions that build upon not only knowledge, but also attitudes, skills and behavior.

4.2 Financial Literacy Scores

4.2.1. Financial Knowledge Score

This score measures the basic understanding of financial concepts like inflation, simple and cumulative interest rates, and the risks associated with investments and borrowing. The financial knowledge score ranged from 0 to 7.

Based on the survey findings, the average financial knowledge score of the sample was 5.03, which just meets the minimum target score of 5, in order to define a person as financially knowledgeable.⁵

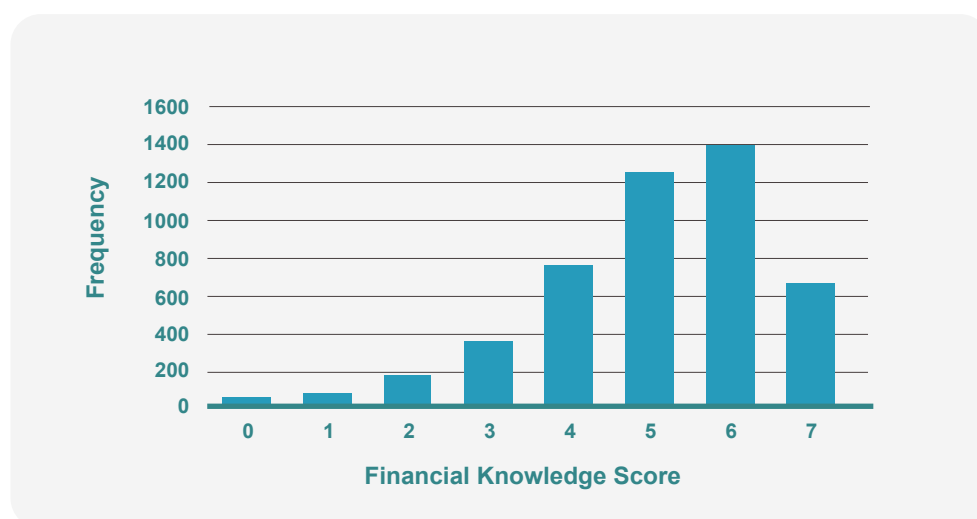


Figure 4: Financial Knowledge Score Distribution

Some variations were observed among the different aspects of knowledge contributing to the overall financial knowledge score. For example, respondents demonstrated an adequate understanding of inflation. However, only 55.5 percent of adults showed knowledge of inflation in terms of the real value of money across time when making financial decisions. Although an understanding of risk diversification was relatively low, there was a higher understanding of the relationship between risk and reward. Overall, the other aspects of knowledge demonstrated satisfactory results as illustrated by Figure 5.

⁵ OECD/INFE 2020 International Survey of Adult Financial Literacy, (OECD, 2020).

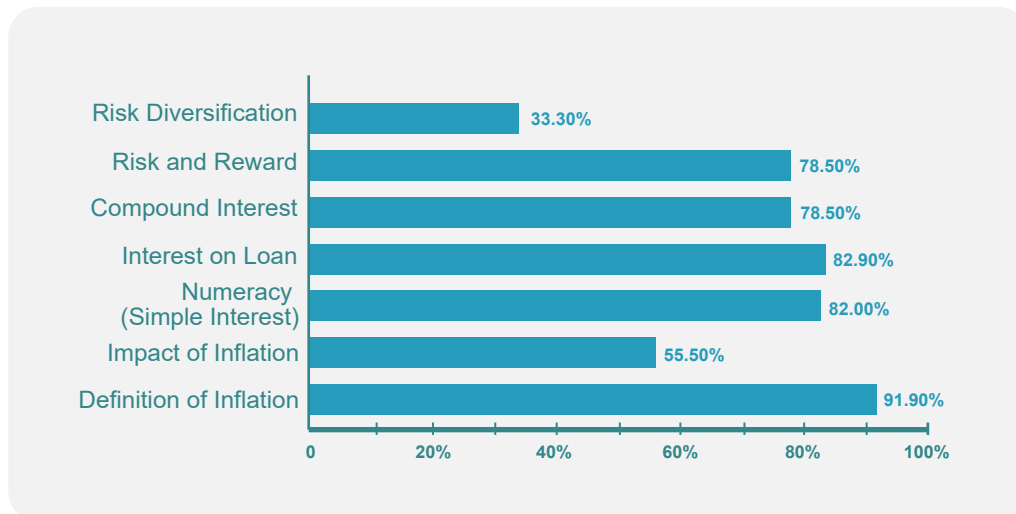


Figure 5: Percentage of Correct Responses - Financial Knowledge

4.2.2. Financial Attitude Score

The financial attitude score measures attitudes towards money, money management, and planning for the future. The financial attitude score ranged from one to five. Higher scores indicated a higher level of financially literate attitudes.

The minimum target score was 3 (OECD, 2020), while the average financial attitude score reported by the survey was 2.65.

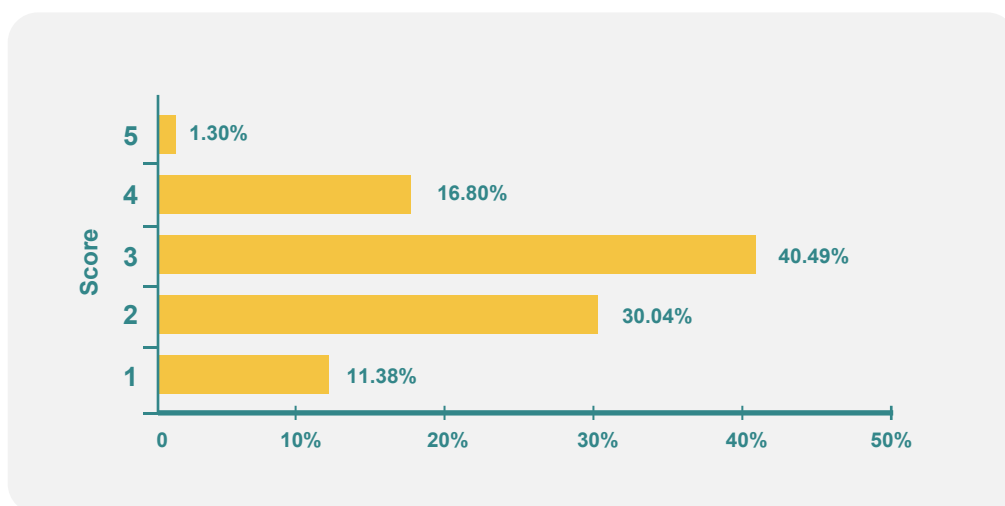


Figure 6: Financially Literate Attitudes Among Respondents

Sample statements presented to respondents

"My financial situation limits my ability to do the things that are important to me."



"I have too much debt right now."



"I tend to live for today and let tomorrow take care of itself."



Completely Agree

Completely Disagree



Figure 7: Spectrum of Attitudes



Figure 8: Financial Attitude Score Distribution

In addition, the survey measured the respondents' attitudes towards digital payment methods, considering the timely importance of the concept. The survey result revealed that more than half of the respondents have positive attitudes towards the safety and efficiency of digital payment methods.

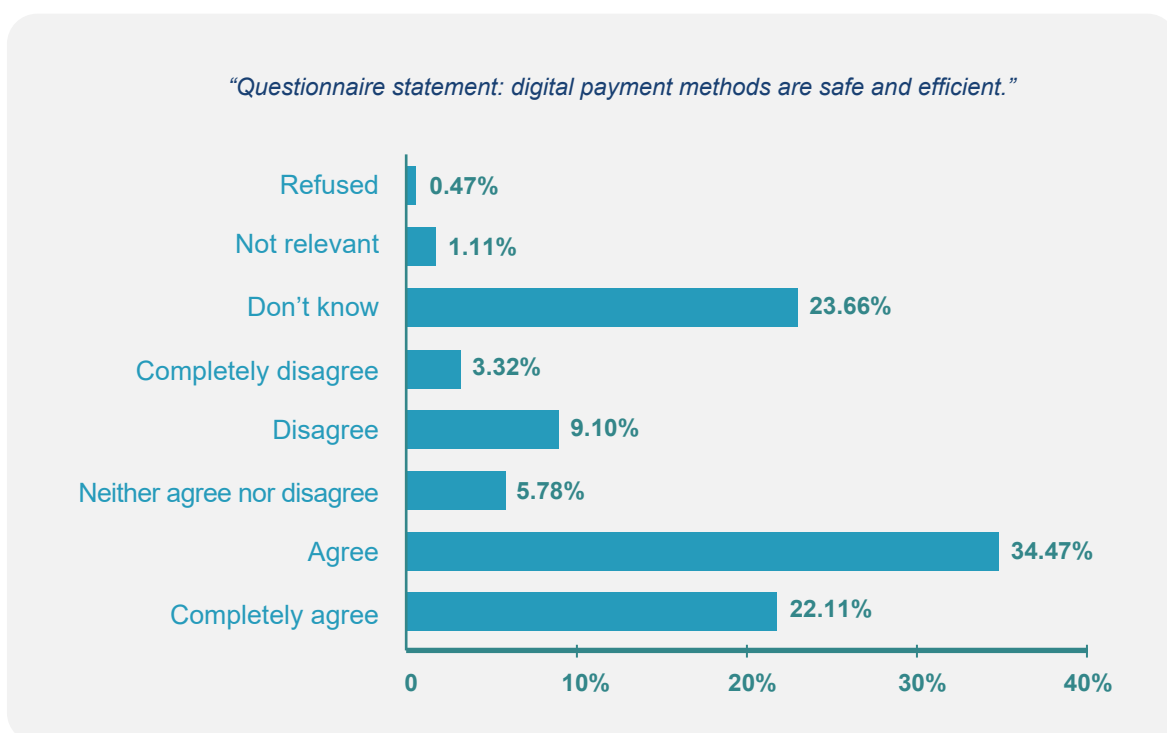


Figure 9: Attitudes towards Digital Payment Methods

4.2.3. Financial Behavior Score

Financial behavior is recognized as one of the most important elements of financial literacy, as it drives the positive outcomes of being financially literate. Therefore, the study gave emphasis to measuring this element by incorporating a variety of questions on topics such as savings, short and long-term investment planning, making rational purchases, and keeping track of cash flow.

The score was graded from zero to nine, with six considered as the minimum target score.⁶

According to the survey findings, the average financial behavior score was 4.44, lower than the minimum target score.

4.2.4. Overall Financial Literacy Score

The overall financial literacy score ranged from one to twenty one. The score was computed by adding the respective value of the financial knowledge score (0 to 7), financial attitude score (1 to 5), and financial behavior score (0 to 9). Whilst the financial knowledge score is widely adopted as a single digit score for easy comparison, the analysis is expanded to include the OECD methodology for wider comparison. Thus, financial behavior is given a higher weight.

The overall financial literacy score was thus 12, which shows an ample space for improving the level of financial literacy in Sri Lanka.

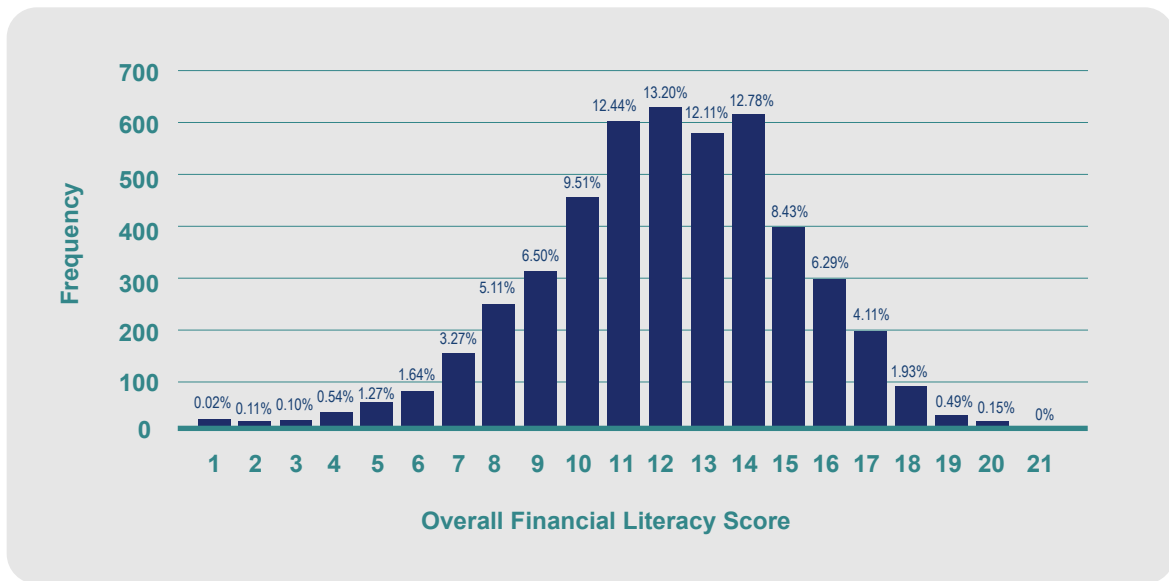


Figure 10: Financial Literacy Score Distribution

Component	Max. Possible Score	Avg. Achieved Score	Minimum Target Score
Financial Knowledge (1)	07	5.03	5
Financial Attitude (2)	05	2.65	3
Financial Behavior (3)	09	4.44	6
Overall Financial Literacy Score (1+2+3)	21	12.12	14

Table 1: Summary of Financial Literacy Scores

The weighted average contribution to the overall score is largely from the knowledge element, followed by their behavior and attitudes.

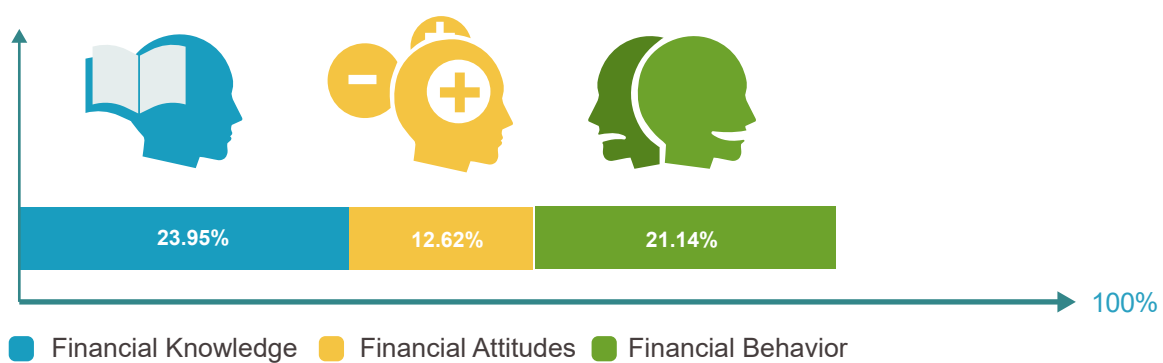


Figure 11: Weighted Average Contribution to the Overall Score according to Three Components

5. Vulnerable Groups

The survey also sought to identify significant differences in financial literacy levels between different demographic groups, facilitating a more targeted policy-making process. This section reports the scores of different demographic groups.

5.1 Gender

Gender analysis of the survey across the entire sample revealed that men appeared to have the higher financial knowledge and financial behavior scores on average, resulting in a greater overall financial literacy score. Conversely, women received slightly higher scores for financial attitude.

Gender	Financial Knowledge Score	Financial Attitude Score	Financial Behavior Score	Overall Financial Literacy Score
Male	5.12	2.64	4.54	12.30
Female	4.95	2.66	4.36	11.97

Table 2: Financial Literacy Scores by Gender

5.2 Age Level

The sample was divided into three age groups with the purpose of identifying and adopting the most appropriate financial education approach. The people in the age group 18-29 appeared consistently to have higher financial literacy derived from higher financial knowledge, attitude and behavior scores than the other age groups in the sample. People aged 60 and above showed a significantly lower financial behavior score, perhaps reflecting comparatively lower engagement in economic activities and financial management in real life.

Age Group	Financial Knowledge Score	Financial Attitude Score	Financial Behavior Score	Overall Financial Literacy Score
18 - 29	5.33	2.85	4.63	12.81
30 - 59	5.08	2.65	4.59	12.31
60 and above	4.63	2.49	3.91	11.04

Table 3: Financial Literacy Scores by Age Group

5.3 Education Level

It is no surprise that the survey confirmed a positive correlation between education level and financial literacy. Those who obtained an education above the General Certificate of Education (GCE) - Ordinary Level (O/L) scored above the overall sample's average score. Those with the highest levels of education (graduate and postgraduate) were the top scorers in this category.

Education Level	Financial Knowledge Score	Financial Attitude Score	Financial Behavior Score	Overall Financial Literacy Score
No Schooling	3.92	2.06	3.55	9.54
Up to Primary	4.36	2.46	3.89	10.70
Ordinary Level	5.08	2.67	4.47	12.22
Advanced Level	5.66	2.86	4.93	13.46
Graduate and Postgraduate	6.26	2.93	5.80	14.99

Table 4: Financial Literacy Scores by Educational Level

5.4 Urban and Rural Population

The survey findings suggested a slight gap between urban and rural individuals in terms of financial knowledge, financial attitude, and financial behavior. Overall financial literacy levels among urban residents were higher than those of rural Sri Lankan residents.

Area	Financial Knowledge Score	Financial Attitude Score	Financial Behavior Score	Overall Financial Literacy Score
Urban	5.12	2.52	4.54	12.18
Rural	5.01	2.68	4.42	12.10

Table 5: Financial Literacy among Urban and Rural Population

5.5 Digital Usage

Individuals who use digital transaction tools such as debit or credit cards, internet or mobile banking, QR codes, or mobile money accounts are considered digitally literate. The findings revealed that digital usage positively correlates with higher financial literacy.

Usage	Financial Knowledge Score	Financial Attitude Score	Financial Behavior Score	Overall Financial Literacy Score
Yes	5.34	2.75	4.95	13.04
No	4.64	2.53	3.81	10.98

Table 6: Digital Usage and Financial Literacy

Conclusion

The survey explored the current state of financial literacy in Sri Lanka. By focusing on results from selected demographic groups, the survey will aid policymakers as they determine the best measures to improve overall financial inclusion through financial education. Financial education enables individuals to handle their money prudently and achieve their financial goals, while managing financial stresses and ensuring financial wellbeing.

The financial literacy rate of Sri Lanka has improved almost by 23 percentage points compared to the rate that was reported in 2014 by Standard and Poor's Ratings Services. Risk diversification appears to be the most challenging concept of the four key concepts used to assess the financial literacy rate.

The findings illustrated that levels of financial literacy vary across segments of the population. It is also noteworthy that there is a significant difference in the financial literacy levels between men and women, with a gender gap of 5.9 percentage points. Furthermore, men appeared to have the greater financial knowledge and financial behavior scores across the sample. Given this gender difference in financial literacy, special attention of policymakers to identify how financial education could contribute to the financial empowerment of women is merited.

The survey findings further suggest that young adults in Sri Lanka are more financially literate than the elderly population. This is a positive shift, as it reveals that the population might be more financially resilient in the future. In addition, people who use digital financial devices or services exhibit significantly higher financial literacy levels, which is quite similar to the survey outcomes of other countries. This also indicates the need to ensure equitable access to digital literacy among different population segments.

In conclusion, the survey reinforced the FIS findings and further revealed the need to target the policy interventions by designing and conducting programs in the implementation of NFIS.



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