

DeNederlandscheBank

EUROSYSTEEM

## **“Better save than sorry”**

Speech by Klaas Knot at The Global Social and Financial Skills Conference,  
Amsterdam, 31 October 2019

On World Savings Day, Aflatoun organized the Global Social and Financial Skills Conference. Klaas Knot was asked to deliver a keynote speech. In the speech, Klaas Knot explained why World Savings Day has a special significance for him, and how saving contributes to stability in the financial sector.

It is my pleasure to be here with you all on this special day: October 31st. Today marks a very special day for many young people. Because it is of course Halloween. This evening, children will dress up in scary masks and costumes to go out trick or treating. But for many people, young and old, the idea of saving for the future can also be scary. Fortunately, today is not only about Halloween; it is also World Savings Day! An annual event created to dispel these fears, and to increase awareness of the importance of saving. Professor Filippo Ravizza established this initiative ninety-five years ago. During the first International Savings Bank Congress, in Italy in 1924. Of course, he could not have known how this day would come to be eclipsed by the popularity of Halloween. Yet teaching people to be careful with their money is as important today as ever.

World Savings Day obviously has a very special significance for me too. Because when people save, it helps me do my job. All three of my jobs, in fact. Because saving contributes to financial stability. And this stability helps me as President of De Nederlandsche Bank, it helps me as a member of the Governing Council of the European Central Bank (ECB) and it helps me as vice-chair of the Financial Stability Board (FSB).

Today's message is "Better save than sorry". I want to discuss why it is so important for people to save. And why we should promote this. I also want to make it clear that both financial and digital literacy are key. And what we can do to nurture these skills among young people. Saving by people all over the world is important from a micro and macro perspective. But let me start by emphasizing the importance of saving from a micro-economic perspective.

If people save money, they have a buffer for unforeseen circumstances. In many cases, taking out insurance is impossible or undesirable. If people save money, it safeguards their independence. They can choose their own path in life, and take control over decisions. Moreover, saving provides a stepping stone for achieving life goals. Whether it is becoming a homeowner, or travelling around the world. There are also other motives. For example, the possibility to leave something behind for your children, to build up a pension, or to have a stable pattern of consumption.

So even when interest rates are low and saving becomes less attractive, there are still many reasons to keep putting money aside. Especially if you want to remain independent and be sure of achieving your goals.

Each year the Nederlandsche Bank conducts a survey of Dutch households. The survey shows that saving money to earn interest is not a significant factor in deciding to save. In fact of the 16 reasons given, it is almost at the bottom of the list, at number 15. The foremost reason for putting money aside is: "to have enough money in your bank account to be sure of meeting your financial liabilities". However, when taken together, the savings behaviour of individuals around the world also has far-reaching implications from a macroeconomic perspective. And therefore, far-reaching implications for me and the work I do.

When people around the world save money, this contributes to global financial stability. When people save more it naturally means they have to borrow less. This makes them less vulnerable to interest rate fluctuations, house price fluctuations and other shocks such as unemployment. When people save, this is also beneficial for long-term growth, because banks have funds to finance capital investments. And if people save via pension funds, these funds can reinvest money in stocks, which oils the wheels of business.

At the same time, it is important to realize that it is also possible to save too much! It is sometimes better for people if they consume a bit more now, and save a bit less for later. A country as a whole can also save excessively. This can have an adverse impact on imports and trading partners. But, since most of such case can be traced back to excessive corporate savings, and not individual savings, I will not dwell on this macro perspective any further here.

### **We need to improve financial literacy**

If we want to encourage people to save, we need to improve financial literacy. That is why we need people like you. Educational professionals who can improve the financial skills and knowledge of people all around the world.

Enhancing financial literacy is only possible with the right sort of financial education. Which is why we need to start with young people. Because what's learnt in the cradle is carried to the grave. It is important that schools put effort into improving financial knowledge and highlighting the importance of saving. This is especially true for children from disadvantaged backgrounds. Because these children are less likely to learn financial skills from their parents.

Even in prosperous countries like the Netherlands we need to improve financial skills and knowledge. Four out of ten Dutch children between twelve and eighteen say they never learned how to handle money at school. Dutch teachers have also highlighted the lack of attention to financial literacy at schools. They advise updating study materials to better prepare children for their financial future. And to teach children financial skills, such as how to budget.

There are other trends in the Netherlands which suggest there is room for improvement in our savings behaviour. For example, Dutch students are increasingly getting into debt. When I was student it was normal to do a part-time job to cover your expenses. I worked as a dishwasher, for example. But now, taking out a loan has become the new normal. Many Dutch adults also find it hard to save. 38% of households find it difficult or even very difficult to get by on their income. While 17% do not have a savings account.

But improving financial skills and knowledge is not enough. Good default options and compulsory saving schemes can also help people achieve their goals. These can help address behavioural biases that result in overspending. And biases that cause people to continually put off saving.

Going back to Halloween for a moment. Most children like to eat all the candy they have collected as soon as they get home. But wouldn't it be more rewarding if we could help them delay this instant gratification? To teach them to put some of this candy aside?

Financial education is more effective when it is not only focused on knowledge transfer but also on influencing behaviour. It helps if you try to educate people when they are dealing with life events like marriage or having children. This is the approach the Dutch Money Wise Platform has adopted, and it has proven to be a very successful strategy.

### **We also need to improve digital literacy**

We also need to improve digital literacy. Financial literacy alone is not enough. The world is becoming more and more digitalised. And financial inclusion is increasingly being driven by advances in financial technology. Digital infrastructure gives people from all around the world access to the financial system.

So next to financial knowledge, having access to this infrastructure is also vital to achieving financial inclusion. But there is a large gap between the possibilities that digital technologies offer, and people's ability to actually make use of them. Digital literacy is therefore a prerequisite for digital inclusion.

And again: it starts with children. I mentioned earlier that Dutch teachers have advised updating study materials to better prepare children for their financial future. They have also advocated doing the same to improve digital literacy. The use of new technologies can have both a positive and a negative effect on savings behaviour. Negative, because nowadays it is all too easy to buy something. For example, with a couple of taps on your smartphone. And it is young people in particular who quickly adopt these new shopping habits.

However, young people are also most likely to use their smartphones to take advantage of new tools to monitor spending, check balances, get budgetting advice and save automatically. The entry of bigtechs and fintechs into financial services has produced a plethora of these innovative financial services which can help people manage on their budget. We need to guide the digital revolution in a smart way. How can we use the new possibilities to help people save, become independent and give them the freedom to achieve their goals? I hope we can join forces to answer this question.

### **Recap and closure**

Today I have argued that it is better to save than be sorry. This doesn't just benefit the people who save. It also helps me do my job at De Nederlandsche Bank, the European Central Bank and the Financial Stability Board. But we still have a long way to go. And the only way we can get there is by working together.

We need to improve financial and digital literacy so people can benefit from easier access to products and services that can help them save. We also need to guide the digital revolution in a smart way.

That is why the world needs organisations like Aflatoun International. We need Aflatoun to continue its valuable work. We need Aflatoun to continue socially and economically empowering children.

So let's join forces and make sure the next generation is also aware that the 31st of October isn't just about putting on a scary costume and eating candy until your teeth hurt. It is also a perfect day for children to improve their saving skills. Maybe we can teach them to save some of that candy for later. It could be their first step towards responsible financial behaviour.

I would like to thank Aflatoun for organising this valuable conference. And for inviting me to speak here today. And of course I would like to thank all of you for listening.