

# Financial competence as a key competence in lifelong learning. A new framework

Olav Aarna<sup>a1</sup>, Leonore Riitsalu<sup>b</sup> ja Urve Venesaar<sup>c</sup>

<sup>a</sup> *Estonian Business School;*

<sup>b</sup> *University of Tartu, Johan Skytte Institute of Political Studies;*

<sup>c</sup> *Tallinn University of Technology*

## Summary

Financial competence is increasingly important due to the ageing population, changing pension systems and labour markets. Furthermore, the rapidly developing financial services and digitalisation make it more challenging to navigate financial markets. Nevertheless, individuals should manage their finances to secure and increase their financial well-being during their lifetime. Recently, the European Commission and the OECD have launched a joint programme for creating a financial competence framework for the EU (European Commission, 2021).

In Estonia, financial competence has not yet been defined, and it has not been treated as a key competence in lifelong learning. In analyses of financial competence frameworks from other countries, we see a few attempts to define the concept, although the categories and competencies listed in various frameworks are diverse. We contribute to this stream by developing a financial competence framework for lifelong learners based on theoretical and applied competence literature analyses. We aim to operationalise financial competence as a key competence in lifelong learning for enabling the more systematic design of financial education and evaluation of its outcomes.

Our analysis focuses on three questions:

- 1) What does it mean to be competent?
- 2) How to describe a key competence in lifelong learning?
- 3) How to operationalise financial competence as a key competence in lifelong learning?

First, we discuss the conceptual approaches to competence from the point of view of education and academic research. We find that it is dualistic by its nature – it is important to make explicit whether the competence is defined from society's perspective or the learner's perspective. From the society's

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<sup>1</sup> Estonian Business School, A. Lauteri 3, Tallinn, 10114 Estonia; olav.aarna@ebs.ee

perspective, to be competent means the ability to perform a particular role, function or task. The learner's perspective stands for the expected performance based on necessary knowledge, skills and attitudes (learning outcomes) as a precondition. Based on this approach, we propose a generic model of key competence framework describing competence in terms of fields of competence, sub-competencies, performance indicators, learning outcomes and assessment criteria.

Second, we explain the main concepts related to financial competence – financial literacy, financial capability, financial education and financial well-being. We map and summarise existing financial competence frameworks and their categories from many countries worldwide, including the UK, US, Netherlands, Germany and Australia. Some of them treat financial competence as the synonym for financial capability or even financial knowledge. There is no common agreement on what constitutes financial competence.

Third, we analyse the structure of the EU entrepreneurship competence framework *EntreComp* and the Estonian entrepreneurship competence framework and analyse if and how these reflect financial competence as a sub-competence. We conclude that the description of financial literacy is expressing an important part in the content of both frameworks of entrepreneurship competence. In *EntreComp*, financial and economic literacy are described as knowing the main economic and financial principles, budgeting, taxation and finding financial resources. In the Estonian entrepreneurship competence framework, the following skills have been included in financial literacy for the systematic development of entrepreneurship education at all levels of education: coping with financial obligations; monitoring of finances; budgeting; planning financial matters; comparing and choosing financial services; awareness of the financial services offered, the economic situation, the possibilities for assistance and advice (Arro, et al., 2018). In our view, these cannot be used directly to explain the broader concept of financial competence in lifelong learning.

Finally, we propose a financial competence framework, together with definitions from the society's and the learner's perspectives and give examples of the learning outcomes and performance indicators of financial competence. The conceptualisation developed is based on the financial literacy definition used in the PISA tests (OECD, 2020) and the financial well-being concept by Brügggen et al. (2017). From society's perspective, we interpret financial competence as the ability to improve individual's and society's financial well-being and enable participation in economic life. From the individual's perspective, we see it as the motivation and confidence, knowledge and skills, attitudes and

behaviour that enable improving the financial well-being of individuals and society, and participation in economic life.

Based on the Estonian entrepreneurship competence framework, the OECD financial competence framework for adults and a review of other existing frameworks, we propose the fields of financial competence are as follows:

- managing day-to-day finances;
- planning finances;
- understanding and evaluating risks.

We suggest using the components of financial well-being defined by Brüggem et al. (2017) as the financial competence levels:

- 1) keeping the current lifestyle
- 2) reaching the desired lifestyle
- 3) achieving financial freedom.

We provide examples of the learning outcomes and performance indicators at each level across the four dimensions: motivation and confidence; knowledge and skills; attitudes, and behaviours. However, these are general examples. For defining them more precisely, setting the assessment criteria and methods requires choosing a particular target group as these depend on age and life-stage, needs and financial situation, and other circumstances.

We envisage further development of the financial competence framework together with internal and external assessment tools. The importance of the elaboration of financial competence as a key competence for life-long learning is confirmed also by the latest research where teachers indicated a need for defining the concept and explicitly adding it into the school curricula (Civitta Eesti AS, 2020), and in the recently launched second Estonian National Strategy for Financial Education (Rahandusministeerium, 2021). Future studies could empirically test our framework, define the assessment criteria and methods for specific target audiences.

*Keywords:* lifelong learning competence, financial competence, financial education, entrepreneurship competence, competence framework