

FINANCIAL LITERACY

Bohuslava Mihalčová – Iveta Podofáková

The article is dealing with financial literacy, describing its importance for the people. Part one describes education and its importance for the society. The following part is devoted to the issue of financial education and financial literacy. Then it provides grounds for financial literacy also revealing the insufficient level of financial literacy on the part of the inhabitants.

K e y w o r d s: financial literacy, education, financial education,

1 INTRODUCTION

Financial literacy is the ability of making use of the knowledge, skills and experiences for efficient control of one's own financial resources with the aim to ensure life-long financial security for himself and his household. The knowledge covered by financial literacy is applied on an every-day basis by each of us, at each act of buying or selling performed so many times in our life. Some of them are carried out automatically, without deeper thinking, while others require sound consideration and analysis. Financial education should provide sufficient knowledge and tools, which lead to a better understanding of financial products and notions so as to enable sound decision-making, thus avoiding difficult situations. Currently, the need for financial education is motivated not only by the high rate of indebtedness of households, rapid development and „aggressive“ selling practices of financial products, but also the on-going economic crisis.[1]

Education is very closely related to productivity, (un)employment and the so-called overall literacy on our part. One of the ways of education is also the financial one. Contact with the world of finance is inseparable part of everyday life in any kind of profession. Thus financial education is currently becoming the key aspect of decision-making in all walks of life. The ability to understand financial products, not so frequently seen in our life, or the financial behaviour of people itself is the reflexion of financial literacy of each of us. Insufficient level of it is a worldwide issue, and deserves a much deeper consideration. The contribution is aimed firstly to define literacy generally, and then deal with financial literacy by way of a selected survey in this field, as well as by defining indicators of financial literacy and financial education.

2 EDUCATION VERSUS LITERACY

If a society stops improving, if it is satisfied with what it has, there will always come a competition, which will progress. Despite the loss of many jobs as a result of crisis, the labour market still lacks qualified people. Currently, due to the dynamical development of the society, both internal and external changes occur to which companies will have to adapt in order to survive, do so in all areas, with education included. This relation has been best reflected in the field of information and communication and in the field of research and

development. Current trends show further deepening of the deficit. This fact[2] is to be acted upon by modernizing syllabi, extending education of the staff at their workplaces. The issue seems to be simple, at first sight, however, it is deeply concerned with literacy. It need not be the lack of IQ, but that of knowledge. It is about lack of information and their processing to the benefit of the so-called civilizational literacy. Education is a gate, but also a way, along which each society in every corner of the world is capable of surviving in the complex and economically demanding environment. To many of us, the notion of literacy means the ability to read or write. It is however about areas termed in sum as functional literacy [3], which is the ability to use material written in upper- and lower-cases to meet the wide array of human desires, at home, in free time, at work etc. It is also a tool of expanding knowledge and potential of the personality. Of the many, let us quote only some of them illustrated in Fig. 1.

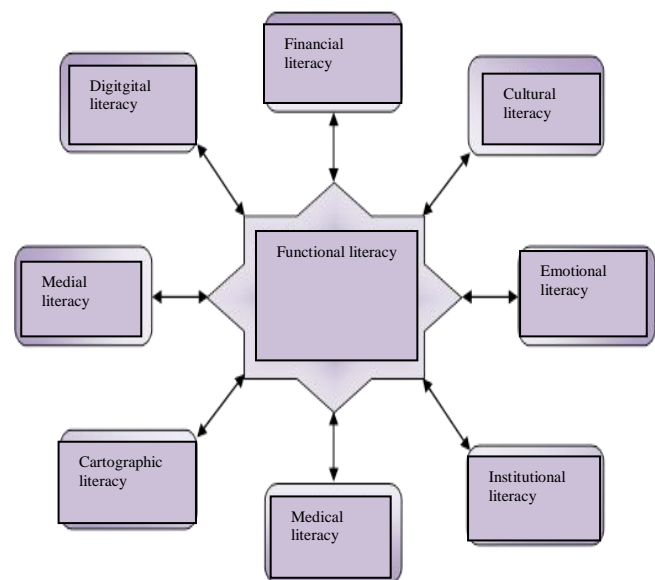


Fig. 1 Functional literacy
Source: own development

2.1 Financial literacy can be divided into three parts:

- **Monetary literacy** representing competencies needed for administration cash and non-cash money and the tools to it (e.g. current account, currencies, etc.).
- **Price literacy** includes the issue of price mechanisms and inflation. To understand it, one needs orientation at least in the macroeconomic indicators of the national economy. Related to this are the issues of tax system influencing revenues of the inhabitants.
- **Budgetary literacy** represents the competencies needed to administering personal/family budgets (capability of developing a budget, setting financial goals and deciding on the purchase of assets).[1]

Successful functioning of an individual in the field of administering personal finances, however, is affected by other skills and capabilities, eg.:

- **Informational literacy** – sum of capabilities and knowledge enabling one to receive, understand and evaluate information based on their credibility, purpose and real information value.
- **Legal literacy** – sum of knowledge and information from the field of laws in force, which are to be known to the customer so as to enforce his or her rights, fulfill tasks based competently and make decisions.
- **Digital literacy** – Ability to understand information and use them in various formats from different sources presented via information and communication technology.
- **Reader's literacy** – capability of understanding, using and being considerate in reading written texts so that the individual is capable of achieving one's goals, extending knowledge and potential to participate in social life.
- **Social or emotional literacy** – capability of successfully managing interpersonal communication and desires.
- **Cultural literacy** – capability of existing and getting around in a cultural environment, possibly co-operating or joining the creation of it.
- **Worker's literacy** – capability of finding a job, business, presenting oneself in a working team. [1]

This issue will be dealt with in more details in the remaining part of the contribution. Areas to be mastered for the orientation in a family, social or labour environment are plenty. If we want to be successful in our life, we need constant education that enlarges the diapason of overall literacy.

3 FINANCIAL EDUCATION AND FINANCIAL LITERACY

As we have already stated, financial literacy is one of the important notions of functional literacy and at the same time a subsystem of economical literacy. Financial literacy can be defined as the capability of making use of one's own financial resources for the purpose of ensuring life-long financial safety for one's self and household. It is a competence thanks to which we are able to understand the basic financial products, we come across in our everyday life and have substantial influence on our position. Education in finance should enable citizens to expand their decision-making competence in finance, managing it and knowing the risks of investing in them. As a result, people with financial literacy will be capable of considerate financial decision thereby achieving financial welfare.

The importance of sound financial education[4] is recognized worldwide. The council of ECOFIN at the EU is recommending that member states „substantially step up their efforts to heighten the level of know-how of the households as to how to receive relevant information and education, or to improve their readiness in via responsible approach and initiative in the branch of finance while retaining the proportional protection of the investor“.

The main goal of financial education is to create a consumer who would be held accountable for his, her decisions, taking responsibility, being capable of assessing the actual financial situation and allocating financial resources so as to reveal the burden both from family and the society. There are lots of ways of financial education, e.g.,

- Official school-based education on finance (nursery, elementary school, secondary school, university);
- Education provided in courses and seminars for adults;
- Education provided by national, regional authorities and non-governmental agencies and the sector of financial services;

3.1 Financial literacy and its impact on human being

Practically everybody has a bank account, and there lots of people, who save for their retirement, while other took a loan to have a roof over their head paying amortized mortgage to banks.

Financial products are in abundance, so it is a problem to make one's choice. Well, people with elementary cognizance of finance, will understand notions such as risk, revenue, financial reserves, thus finding themselves in an incomparably advantage to those, who do not know what is important when deciding in favour of a certain financial product.

Money is not everything, however, it is a fact that lack of financial literacy may turn out to be very expensive for some people. [5]

4 SURVEYING FINANCIAL LITERACY

Most systems investigated in Great Britain, Germany, Austria, in the Netherlands and France are modern and provide a extra level of educations, however, despite of it, in some areas they proved inefficient. In the area of financial education, the most active member state in Eastern Europe is Poland. Bulgaria, Latvia, Luxemburg, Slovenia, Slovakia and Romania appear to be active only in areas concerning some supranational programmes of the EU. An example of financial education in the Czech republic is integration of the issue into the educational syllaby, already taking concrete forms. Thus, pupils and students are capable of handling their money, understand inflation and have a minimum regarding the basic right of consumers. Later on, they will be capable of selecting not only the most suitable bank but their most suitable loan, or even the more advantageous financial product (insurance policies, investment in funds).

Currently, the main group targeted for financial education currently are children, youngsters and adults. Among the most important tools is the Internet and of six educational systems of financial education one is offered by private providers of financial services, who are focused mostly on their own clients, however their contents remain impartial.

In Slovakia, the issue is the responsibility of a joint expert group, which developed till 30.10.2008 a draft of a material titled as „National standard of financial literacy“ [6] version 1.0 (further only the National standard of financial literacy). The National standard of financial literacy has been developed and maintained by the Joint expert group assigned by the Minister of Education of SR in compliance with the Statute. The National standard of financial literacy is outlining the width of knowledge, skills and experiences in the field of financial education and personal finance management.

The Slovak Banks Association [7] realized in the first decade of September 2007 a survey on financial literacy of Slovak citizens on a sample of 1 107 respondents. Gathering data in the terrain employing the face-to-face interview was performed at the households of the respondents by the MVK public survey network. The block of questions was focused on the issue of financial education and has resulted in an interesting finding, namely that there is a relatively narrow relation between the relative level of financial literacy and the self-evaluation of the respondents: the lower the financial literacy, the more negative the self-evaluation (and vice versa). The average value of the index for financial literacy reached 0.56, which reflects only an average level of knowing the issue of personal finance. Over 70% of the respondents assumed that everybody should be knowledgeable of notions related to the field of finance. The majority of the interviewees felt that the language of finance is complicated, and financial education should be integrated into school syllaby, but addressing all age categories.

In the year of 2010 the Centre for social research at the INFOSTATE performed a survey „Functioning of individuals and families in the world of finance“ with the goal to know how financial education is viewed and identify financial behaviour of consumers. Based on the results, 46% of the respondents is learning from one's own mistakes or successes and only 12% referred to an educational institute, whereas introduction of financial education into syllaby would be welcome by 26% of the interviewees. As much as 43% is obtaining information related to economics and financial products from banks and financial institutions, 32% in via their family and friendly ties. By the results of the survey, respondents prefer state supervision over financial education.

5 GROUNDS FOR FINANCIAL LITERACY

Illiteracy in finance is one of the factors that were contributory to the financial crisis. Incompetence to make qualified financial decisions is a rather negative factor intermeddling the lives of people. Financial education is beneficial to the protection of consumers' rights in the market of financial products and services, which is constantly expanding, with growing complexity into the offered portfolio and the tools of financial institutions.

5.1 Insufficient financial literacy of the inhabitants

There are lots of studies pointing out that the overwhelming of inhabitants possesses almost zero level of basic financial operations. A survey made by Citygroup two of three consumers think that financial matters are too complicated to be understood by them.

A similar survey arrived at the same conclusion also in Italy, France and Spain. In Hungary as much as 70 % of the interviewees did not know what is meant by inflation. Several studies supported by the European Commission, pointing out that almost half of the population in Eastern Europe has no bank account at all, which could be a starting point to financial operations.

On the other hand, among the inhabitants there is a growing support to financial awareness. A Visa survey made in the USA says that the majority of parents is for introducing financial education into school syllaby. As a ground for it, they maintained that their children need sound fiscal skills and it is also good for their personal safety. [7]

Level of financial literacy can be measured not only by the index of financial literacy. In order to identify the level of financial proficiency it is necessary to define indicators [8], which could serve as a benchmark for comparing what consumers should know so as to efficiently manage their financial assets. With the majority of educational programmes and questionnaires the following four aspects are tested:

- a) **Managing financial assets** – ability to develop a family budget and regularly check the sides of costs and revenues;

- b) **Planning financial cost and revenues** – integrating future needs, both those expected or unexpected into their budget;
- c) **Selection of products properly** – occasional monitoring and analysing and selecting the right products, based on the needs and situation that have arisen;
- d) **Setting up a database of product providers** – for consumers to be informed as to who is the provider of the services, which is of interest to them and on what conditions these services can be applied to and what package of services will be offered by the provider within its category management.

6 CONCLUSION

Financial literacy is the capability of making use of the information, skills and experiences for effective management of one's own financial resources with the aim to ensure life-long financial reliability for themselves and their households. However, financial literacy is not an absolute status, but a continuum of capabilities, which are the function of relative variables like age, family, culture or residence. It is the mark of continuous development, which gives every individual to react efficiently new personal events and the ever changing economic environment. In our modern era, it is a must that can be regarded as a certain gate to education, capability of obtaining and processing the necessary information, or in the endless row of everyday events of life.

Results of domestic and foreign surveys are pointing out the still average level of knowledge and experiences in this field. Apart from the fact that an individual has the right to transparent information, he or she also has the responsibility to familiarize and transform them into standard life. Even though various institutions are interested in educating their clients in these fields, a proper orientation in the abundance of news, coming from various providers of financial products and services as well as their implementation in practice will to great extent depend on the motivation of the consumer to educate himself or herself. The way that leads to financial literacy is to Only in this way can one acquire financial literacy.

BIBLIOGRAPHY

- [1] Základy finančnej gramotnosti.[online].[cit. 12.10. 2012]. Dostupné na internete: http://www.mpc-edu.sk/library/files/z_klady_finannej_gramotnosti.pdf
- [2] PRUŽINSKÝ, M., MIHALČOVÁ, B. 2011. Rozvojové vzdelávanie ako potreba i nový trend. In: *WSPÓŁCZESNE STRATEGIE I WYZWANIA EDUKACYJNE*. Zborník vedeckých prác. Chelm, 2011. s. 13-19. ISBN 978-83-61149-05-7.
- [3] KIRSCH, I.S. 1986. *Literacy profiles of America's young adults. Výskumná práca*. Princeton NJ : Educational Testing Service, 1986

- [4] PASTORÁKOVÁ, E. 2011. Výzvy a prekážky finančnej gramotnosti v oblasti poisťovníctva. In *Finančná gramotnosť ako súčasť ekonomického vzdelávania*. Recenzovaný zborník príspevkov z medzinárodnej vedeckej konferencie. Bratislava Katedra pedagogiky NHF EU, 2011. s. 128-132. ISBN 978-80-225-3249-5.
- [5] Peniaze nie sú všetko, ale finančne gramotní sú vo výhode [online]. Publikované november 2012. [cit. 10.11. 2012]. Dostupné na internete: <http://www.afisp.sk/sk/content/m-nalevanko-peniaze-nie-su-vsetko-ale-financne-gramotni-su-vo-vyhode>
- [6] Ministerstvo školstva SR, Ministerstvo financií SR. *Národný štandard finančnej gramotnosti*. [online]. Publikované 30.10.2008. [cit. 15.10.2012]. Dostupné na internete : http://www.mpc-edu.sk/library/files/narodny_standard.pdf
- [6] Slovenská banková asociácia. *Finančná gramotnosť slovenského spotrebiteľa*. [online]. Publikované október 2007. [cit. 15.10.2012]. Dostupné na internete : <http://www.sbaonline.sk/files/subory/analzy/verejne/fingram-IFIG.pdf>
- [7] Finančné vzdelávanie. [online]. [cit. 10.11. 2012]. Dostupné na internete: http://www.euractiv.sk/ekonomika-a-euro/zoznam_liniek/financne-vzdelavanie-000228
- [8] Sovics, P. *Quo vadis finančné vzdelávanie?* [online]. Publikované január 2012. [cit. 15.10.2012]. Dostupné na Internete http://www.nbs.sk/img/Documents/PUBLIK_NBS_FSR/Biat/ec/Rok2012/1-2012/02_biatic12-1_szovisc.pdf
- [9] PRUŽINSKÝ, M., MIHALČOVÁ, B. 2011. Rozvojové vzdelávanie ako potreba i nový trend. In: *WSPÓŁCZESNE STRATEGIE I WYZWANIA EDUKACYJNE*. Zborník vedeckých prác. Chelm, 2011. s. 13-19. ISBN 978-83-61149-05-7.
- [10] HLAVATÝ, I. 2011. Podpora finančnej gramotnosti v krajinách EÚ. In *Finančná gramotnosť ako súčasť ekonomického vzdelávania*. Recenzovaný zborník príspevkov z medzinárodnej vedeckej konferencie. Bratislava : Katedra pedagogiky NHF EU, 2011. s. 47-50. ISBN 978-80-225-3249-5.
- [11] MFČR. *Strategie finančního vzdělávání, ve znění koncepčního materiálu vytvořeného MF*. [online]. Publikované október 2007. [cit. 15.10.2012]. Dostupné na internete : http://www.mfcr.cz/cps/rde/xbcr/mfcr/Strategie_Finvzdelavani_CR.pdf

AUTHOR'S ADDRESSES

prof. Ing. Bohuslava Mihalčová PhD., Technická univerzita, Letecká fakulta, Katedra manažmentu leteckej prevádzky, Rampová 7, 041 21 Košice, e-mail:

Ing. Iveta Podoláková, Technická univerzita, Letecká fakulta, Rampová 7, 041 21 Košice, e-mail: iveta.podolakova@gmail.com