

Bank of Albania

BUILDING OUR FUTURE
THROUGH FINANCIAL
LITERACY

PROCEEDINGS

Bank of Albania's 8th International Conference

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CONTENT

THE CONTRIBUTORS	7
OPENING AND WELCOME REMARKS <i>Ardian Fullani, Governor, Bank of Albania</i>	13
OPENING REMARKS <i>Halit Shamata, Deputy Minister of Education and Science</i>	21
OPENING AND WELCOME REMARKS <i>Ridvan Bode, Minister of Finance</i>	23
OPENING REMARKS <i>Ettore Sequi, Ambassador of the EU Delegation to Albania</i>	29
BUILDING TRUST THROUGH FINANCIAL LITERACY <i>Mr. Franco Passacantando, Managing Director, Bank of Italy</i>	33
FINANCIAL LITERACY AND FINANCIAL STABILITY <i>Dejan Šoškić, Governor of the National Bank of Serbia</i>	37

SESSION I	
LESSONS AND CHALLENGES ON FINANCIAL LITERACY ISSUES	47
FINANCIAL EDUCATION: THEORY AND PRACTICE	49
<i>Umberto Filotto, Professor at University of Rome "Tor Vergata"</i>	
DELIVERING AND ENHANCING FINANCIAL LITERACY THROUGH THE EDUCATIONAL PROJECTS OF THE NATIONAL BANK OF POLAND	59
<i>Dariusz Rostkowski, Adviser, Department of Education and Publishing, National Bank of Poland, Warsaw</i>	
WHY FINANCIAL EDUCATION SHOULD START AT SCHOOL: THE ITALIAN EXPERIENCE	67
<i>Maurizio Trifilidis, Head of the Financial Education Unit, Bank of Italy</i>	
HELPING PEOPLE TAKE CONTROL OF THEIR FINANCES: UK EXPERIENCE	77
<i>Steve Stillwell, Senior Manager, Money Advise Service, UK</i>	
FINANCIAL LITERACY IN THE CZECH REPUBLIC	83
<i>Helena Kolmanova, Executive Director, Consumer Protection Department, Czech National Bank</i>	
SESSION II	
FINANCIAL LITERACY IN ALBANIA	91
EDUCATION SYSTEM IN ALBANIA	93
<i>Erjon Luçi, Representative of the World Bank Office in Albania</i>	
FINANCIAL EDUCATION AND FINANCIAL LITERACY IN ALBANIA: THE STATE OF PLAY	101
<i>Gaetano Chionsini, Banca d'Italia, Banking and Financial Supervision</i>	

FINANCIAL LITERACY MEASUREMENT IN
THE CZECH REPUBLIC

*Dusan Hradil, Deputy Director of Financial Markets,
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119

THE CONTRIBUTORS

Ardian FULLANI

Governor, Bank of Albania

Mr. Ardian Fullani has been the Governor of the Bank of Albania since 2004. He graduated in Finance in 1977 and then in Law in 1991 from the University of Tirana, Albania. His extensive experience in the banking sector started with the key positions of Deputy Director of the Foreign Relations Department at the State Bank of Albania during 1987-1990 and Head of the Foreign Department at the Albanian Commercial Bank during 1990-1992. Mr. Fullani's intensive career at the Italian-Albanian Bank includes senior positions first as Deputy General Manager and Head of the Financial Department (1997-2000) and later as General Manager (2000-2004). Mr. Fullani joined the Bank of Albania as Deputy Governor in 1992 and was appointed later as Head of the Foreign Relations Department. Business consultancy and coordination have also been an important part of his professional career. Major projects include German-Albanian projects on financing small and medium-sized enterprises in agriculture and agro-industry, foreign exchange market restructuring and institutionalization and capital market development in Albania, and capital market analysis in Albania.

Mr. Fullani has co-authored a research paper on risks and consequences of formalization, restructuring and transformation of the pyramid schemes in Albania. His research interests mostly focus on topics such as financial risks and market failures, economics of reform and transition, monetary and fiscal policies.

Dejan ŠOŠKIĆ

Governor, National Bank of Serbia

Mr. Dejan Šoškić obtained his BA degree in 1989, MSc degree in 1993 and PhD degree in 1999 from Belgrade University and has attended specialised financial market courses at US universities and the Swiss National Bank

Mr. Šoškić is an Associate Professor at the Faculty of Economics in Belgrade and a lecturer at graduate and MBA courses at the University of Nebraska, USA. He has been a guest lecturer at the universities of

New Haven, Rhode Island and Berkeley, USA.

He is a Fulbright alumnus and member of the Presidency of the Scientific Association of Economists in Serbia.

Mr. Šoškić has served as a special financial markets advisor in the National Bank of Yugoslavia (end-2000–2002), economic policy advisor in the EU Policy and Legal Advice Centre (2002-2003), and a member of the Council of the National Bank of Serbia (2003-2004) and its Chairman until 28 July 2010.

He authored the book “Securities: Portfolio Management and Investment Funds” and co-authored “Financial Markets and Institutions”, “Economic Statistics” and “Stock Exchange Glossary”. He has published articles and papers on financial markets and institutions and transition in Serbia.

He was appointed Governor of the National Bank of Serbia on 28 July 2010 for a six-year term.

Prof. Umberto FILOTTO

Professor of Banking, University of Rome “Tor Vergata”

Mr. Umberto Filotto is a Professor of Banking Management and Retail Banking at the University of Rome “Tor Vergata”. He is a professor of post-graduate studies in Banking and Finance and of Masters in Savings Management.

Mr. Filotto is also the Director of the Consumer Credit Research Centre and a senior professor at the Università Bocconi Business School.

Professor Filotto is a member of the Editorial Board of *Bancaria* publishing house of the Italian Association of Banks.

Professor Filotto is Secretary General of the Italian Consumer and Mortgage Credit Association. He is also a Member of the Board of Eurofinas in Brussels and chairs its Committee on Statistics and Legislation. He is a member of various Technical Committees of the Italian Banking Association and Member of the Board of Cardif S.p.A. Groupe BNPParibas.

He has served as a consultant for the DG Enterprise of the European Union, the Italian Labour Ministry, as well as several other private entities and banks.

He is author of various articles and books on banking and finance. His main field of research focuses on retail banking, consumer lending, and financial education.

Dariusz ROSTKOWSKI

Adviser to Education and Publishing Department, National Bank of Poland

Mr. Dariusz Rostkowski completed his philosophy and European studies and post-graduate studies, first in Economics and Management Studies at the University of Warsaw and later on Monetary Policy at the Polish Academy of Sciences.

He has been working for the National Bank of Poland (NBP) since 2007. He started his career as a journalist on international conflicts and social affairs for main Polish newspapers and magazines. Thereafter, he worked for the Ministry of Foreign Affairs as Deputy Director for Poland's cultural promotion internationally.

When Mr. Rostowski joined the National Bank of Poland as Deputy Director of the Public Communications Department, he worked to bridge the gap between National Bank of Poland and the media and the public.

Later, he moved to the position of the NBP's Adviser to Education and Publishing Department, whose task is to produce and implement education programs concerning Polish accession to the Eurozone. A key component of its work is to provide sound economic education through diverse media channels.

Maurizio TRIFILIDIS

Head of the Financial Education Unit, Bank of Italy

Mr. Maurizio Trifilidis graduated with honours in Economics and Commerce from the University "La Sapienza" in Rome, in 1976. He continued his studies at the University College of North Wales - Bangor in the U.K.

Mr. Trifilidis joined the Bank of Italy in 1976 at the Supervision Office of Turin branch. In 1988, he was transferred to the New York Representative Office. He returned to Rome in 1991 at the Banking and Financial Supervision unit. Later he was appointed as Head of the Division for New Banks, Ownership Structures and Competition in 1994, the Head of the Competition Division in 1999, and finally Head of the Area Coordination and Branch Liaison Unit in 2008.

On 1 August 2011, he was appointed Head of the Financial Education Unit. He is a member of the Joint Committee with the Ministry of Education

on financial education, the OECD International Network on Financial Education Advisory Board, and the EC Expert Group on Financial Education.

He is the author of numerous publications.

Steve STILLWELL

Senior manager, Money Advice Service

Mr. Steve Stillwell is a senior manager at the newly created Money Advice Service, which helps people in the UK to better understand and manage their money and make informed choices.

Mr. Stillwell joined the Financial Services Authority (FSA) in 2001 to help take forward the early financial capability work in schools. Since then, he has been involved in many aspects of financial capability in the UK with the FSA, the Consumer Finance Education Body and now the Money Advice Service.

His career began as a secondary school teacher in London. In 1987, he became an education advisor in the London Borough of Enfield, followed by 10 years as a regional director with the Centre for Education and Industry based at the University of Warwick.

Mr. Stillwell represents the Money Advice Service on the OECD's International Network on Financial Education and is a member of an expert's subgroup on national strategy.

Helena KOLMANOVÁ

Executive Director, Consumer Protection Department, Czech National Bank

Ms. Helena Kolmanová graduated from the Faculty of Law and later pursued her "Europeum" postgraduate studies at the Faculty of Social Sciences at Charles University in Prague.

Her professional experience includes commercial banking in Czech and international banks, trade and corporate finance, documentary credits and guarantees, and inter-bank credit agreements.

In her 20 years of work experience in the banking sector, her career has focused for five years on central bank regulation and transposition and implementation of the Capital Requirements Directive into the Czech legislation.

In 2001, she joined the Banking Regulation and Supervision Department at the Czech National Bank, which she eventually left in April 2006 to work as chief lawyer and coordinator of the Legal Committee at the Czech Banking Association.

Since September 2008, she has been the Executive Director of the Consumer Protection Department in the Czech National Bank.

Ms. Kolmanová has undertaken numerous fellowships and training courses in foreign central and commercial banks. She speaks English, German and some French.

Erjon LUÇI

Country economist World Bank, Albania

Mr. Erjon Luçi graduated in Economics from the University of Tirana in 1996. He holds a Masters Degree in Economics (1998) and a PhD (2002) from the Staffordshire University (UK).

Mr. Luçi is the country economist at the World Bank in Albania. Previously, he has held several significant positions such as Director of Research Department at the Bank of Albania (2003-2006), Head of the Monetary sector, Macroeconomic unit at the Council of Ministers (1996-1998), Lecturer at the Economics Faculty - University of Tirana, and Research Associate at Staffordshire University.

His research activity mainly focuses on problems related to the financial systems, while his interest has extended to other areas of economic development such as employment and small and medium enterprise development.

Dušan HRADIL

Deputy Director, Financial Markets I Ministry of Finance of the Czech Republic

Mr Hradil graduated in Finance at the University of Economics in Prague.

He has worked in the field of financial markets since 2001, first as a financial editor and later in commercial banking sector.

Since 2005, he has been working for the Ministry of Finance of the Czech Republic.

In 2006-07, he was the team leader for the first Czech Financial Education Strategy, which was updated in 2010 and approved by the Czech government as the National Strategy for Financial Education. Currently, he is the chairperson of the national Working Group on Financial Education, which serves as a platform for exchange of information and experience between representatives of government institutions, financial industry, financial education project providers and educational experts.

Mr. Hradil is a member of the European Commission Expert Group on Financial Education, the OECD International Network for Financial Education and the PISA Financial Literacy Expert Group.

Gaetano CHIONSINI

Economist, Financial Education Unit

Banking Supervision Department, BANK OF ITALY

Mr. Chionsini has been working for the Bank of Italy, since 2001, at various positions within the Banking Supervision Department.

He is a member of financial education initiatives such as the Joint Committee for the promotion of financial education at school with representatives from the Ministry of Education, University, and Research and the OECD-INFE Sub-group on the measurement of financial literacy.

Under the EU-funded IPA project – Central Bank Training for the Bank of Albania, Mr. Chionsini is the designated Key Expert in the area of financial literacy.

In 2009, he was seconded to the Financial Services Authority in UK, as part of the External Work Experiences within the ESCB to share experiences on personal finance education, developing teaching material, and measuring the effectiveness of financial literacy programmes.

Mr. Chionsini is author to a number of publications and working papers on financial education and other central banking topics.

OPENING AND WELCOME REMARKS

Ardian Fullani*

*Honourable Minister of Finance,
Honourable deputy Minister of Education,
Your excellencies Ambassadors,
Honourable NBS Governor Šoškica,
Honourable Mr. Passacantando,*

It is a special pleasure for me to open the 9th conference of the Bank of Albania which this time is dedicated to financial education. I take this opportunity to wish a warm welcome to all the participants in this room and in particular to our foreign guests.

If you asked me directly what I mean by financial education, I would summarise it as: the ability of consumers and investors to understand financial concepts and products; ability to understand how to protect oneself against unwanted developments; ability of people to make sound decisions about their money in accordance with their life's circumstances.

Financial education should start with understanding the role of finance in a free market economy. Finance "lubricates" the economic growth process. It also provides opportunities for all those who do not have sufficient financial resources. In 1911, the renowned Austrian economist Joseph Schumpeter said: "...that the structure of modern

industry could not be erected without finance, that it makes the individual to a certain extent independent of inherited possessions, that talent in economic life 'rides to success on its debts' even the most conservative orthodoxy of the theorists cannot well deny." If you asked me why is financial education important, I would say it in these words: because it contributes to Albanians' financial welfare.

The more literate we are financially, the more capable we are to make decisions that contribute to our improved welfare. This is true for everyone, regardless of who we are or where we come from. As Friedman, the Nobel prize winner, says: "Economic freedom is an essential condition for political freedom." Our exercising rights that result from economic freedom would be unavailing in absence of financial literacy and equality in the marketplace. This implies not only the same information at the same time, but also the capacity to use this information.

Finances create an added value not only for the rich, but also for the entire society. It is necessary to create equal access for all citizens. Equal access to finances and equality before the law are the foundations of modern market economy. Finance and financial education walk side by side. While literacy may turn a poor man into a rich man, illiteracy, on the other hand, may conduct a rich man into misery. Finances are dangerous when you are not financially literate enough. That is why I consider this conference as highly important.

The Bank of Albania has devoted constant attention to financial education. Our education agenda is integral and comprehensive both in terms of geography and age groups, full of interactive elements and modern communication methodology. Furthermore, I would like to refer to some of the elements that constitute the philosophical grounds of our educational work.

First, I would like to recall that financial welfare is inextricably related with the country's economic progress.

It has been already proven that individual's welfare is proportionate to economic activity and prices of financial assets. The cause-effect relation is true on both directions. Our economy and financial

institutions are strong when revenues and wealth grow. Financially healthy individuals are inclined to increase their consumption and, therefore, boost their spending, consequently pushing the economy forward. Moreover, financially successful people boost lending potential by channelling their savings into deposits. Therefore, they are in a position to have access in crediting by the banking system, giving life to new businesses which, in turn, provide higher employment and welfare.

To most of the people, having a job and a salary or estate is essential to personal financial welfare. However, the fact that you may have a job or a salary does not imply that you automatically have the capacity to make wise decisions on effective money utilisation.

This is the point where our relation with financial education is subjected to the test of the truth. Is this test passed? The sub-standard credit crisis in the US revealed that individuals in most cases did not manage to pass this test. Consequently, the debt load on individuals grew even heavier, while access to crediting became tighter, resulting in a big risk for their financial future. A similar analogy may be drawn for lending in foreign currency in some Eastern European countries.

Secondly, financial education should be seen as a public good that brings about positive externalities to the society. It not only increases individuals' financial welfare, but also affects directly economic policy efficiency undertaken by relevant authorities.

The more-educated the public, the higher economic policy efficiency is. Maintaining inflation and economic activity under control is almost impossible in a society ailing from financial illiteracy. Macro-economic balances are achieved and maintained through monetary and fiscal policy instruments. The society needs to be aware of these instruments, understand them, evaluate stimuli and incentives, and properly respond to them.

The important role of consumer behaviour for the policy success is clearly evidenced in the "rational expectations" theory. A simple intuition behind this theory is that rational individuals shape their expectations using the available information optimally. They respond to new information by adopting their behaviour to maximise welfare.

In this case, individuals “equipped” with financial literacy read and understand developments in economic policies and respond to them rationally. This mutual understanding would drive the economy towards the desired direction. The central bank adjusts its policies in response to the actual behaviour of agents, who would adjust their behaviour in line with the central bank policy. For this interaction to happen, both the public and the central bank need to speak the same language and understand each other unequivocally. Money management needs this two-way understanding and the active role of individuals. Consequently, the trust and confidence of the public is earned, monetary policy objectives are achieved and its reliability is enhanced.

Thirdly, I would like to underline that financial education of individuals establishes a more stable society on one hand and a stronger and secure banking system on the other.

Efficient and ongoing financial education is a path trotted by millions of individuals and families in their endeavour to achieve financial goals and accumulate wealth.

The positive effect of this process is reflected in a stronger economic and financial stability for the entire society. The banking system has its role to play in this process, mainly through lending to businesses and households. As a regulator, the Bank of Albania gives its share of contribution ensuring that banks strictly abide by legal and regulatory obligations in relations with their customers. On the other hand, financially literate customers contribute to the development of the banking system with their increasing demand for financial products and services. Therefore, the result is clear: higher efficiency, lower charges, better services and healthier and safer banking system.

Fourthly, I would like to highlight that financial education, over time, improves the living standard in the long run, including retirement age.

In a recent analysis, the essential reason why an individual needs to amplify his financial literacy is that this investment will help him to reach his money management objectives.

Although personal objectives may vary from an individual to another,

from the financial education point of view, improvement of society's living standard is guaranteed and confidence for the future is boosted.

Financially literate individuals, are capable to make healthy financial plans, from an early stage of their career. Their knowledge enables them to plan their finances for retirement, children's education and accumulation of financial assets. These individual behaviours, seemingly irrelevant, bring about great benefits in the national perspective.

Fifth, I would like to underline that financial education is a long-term process, extended over time, and that the presence of specialised institutions is indispensable.

Although in financial crisis individuals incur large damage, they continue to be involved in future crisis. The number of individuals, who are familiar with interest rates they either receive or pay in financial transactions, remains low.

The same may be said about investment strategies, financial risk identification and assessment, and other elementary money management concepts.

Many people do not think in financial terms and do not perceive accurately profits and costs resulting from bank loan use, or wealth-related effects originating from home ownership and other similar long-term assets.

Reasons behind this behaviour are understandable and related to the fact that the majority of the society acquires information circumstantially, hoping that the actual failure becomes a lesson for the future.

One way to eradicate circumstantial learning is the introduction of financial reading at an early stage of education. In this view, I would proudly say that the Bank of Albania has provided an outstanding contribution. Allow me to briefly make a résumé of our work in this aspect.

The first strategic station of financial education provided by the Bank of Albania was assessment of needs and identification of training priorities. From this point of view, we assessed that it was

indispensable to open the Bank “de facto” to the public. More frequent communications with the market and its important participants, as well as periodic explanations of monetary policy decision-making and risks balance related to inflation and financial stability, are some initiatives that we consider as a very effective education process.

I am proud to say that now we have:

- A public opinion that builds up expectation as regards our decision-making;
- A media sector, which has admirably enhanced understanding, interpretation and expectations related to our decision-making;
- A banking sector, which reads accurately and responds with high flexibility to the direction oriented by us;
- A qualified public critique, where the Bank of Albania finds a mirror of alternative opinions on its adopted decisions and practices.

Another important aspect is the identification and division of the population according to their demographic, geographic and cultural characteristics. For us, financial education is a public good intended for all. In compliance with the best international experiences, we identified financial education for young people as highly important, targeting not only students but also their educators. Its practical realisation has been a complex process requiring adequate human and financial resources.

For that purpose, the slogan adopted by us is very meaningful: “Education may be costly, but it is priceless”. The implementation methodology is widely known: meeting face-to-face, interactive games that intrigue children’s imagination, a series of publication with a flexible level of difficulties, training of teachers of economy, and a tour in various schools of the country.

In this regard, I would like to point out the recent contribution of the Bank of Albania to high-school students with the book: “Personal finance in your hands”, which is conceptualised as an elective subject for high schools.

Honourable participants,

Education is a never-ending process. Learning is lifelong. It is deep, immense, and comprehensive. Therefore, I have to say that in spite of what we have done so far, we still have a long way to go. The Bank of Albania deems as imperative the drafting and implementation of a national strategy on contemporary financial education. The Bank of Albania stands ready to join any initiative at national level, which aims at promoting literacy across the country.

Thank you!

* Ardian Fullani, Governor of the Bank of Albania

OPENING REMARKS

Halit Shamata*

*Honourable Governor of the Bank of Albania,
Honourable Minister of Finance,
Y.E. Mr. Ambassador of the EU Delegation in Albania,
Ladies and Gentlemen,*

First of all, let me thank our host not only for inviting me but also for giving me the opportunity to participate in such a special event, to share ideas and best practices in policy-making. We have held and have also been invited to many meetings, discussing the financing of education at different levels. This conference focuses on financial education.

In parallel will the development of economy, entrepreneurship and innovation, there is added interest in developing education programs to promote entrepreneurship as a key competence in European education, which constitutes one of the standard to be reached by Albanian education in the context of EU integration processes. Economic and financial education, as an integral part of entrepreneurship education, which constitutes one of the challenges of our education system, is becoming increasingly important in education programs and activities.

By means of the free-choice curriculum, there are established all the premises for providing high-school students with the opportunity to learn and practice the elements of financial literacy. It has involved a project designed by the Bank of Albania on financial literacy of high-school students. The essence of the project is a module for financial

literacy, which is included in the free-choice curriculum of the 11-th grade high-school students. The project is implemented through a cooperation memorandum signed between the Ministry of Education and Science and the Bank of Albania. It aims to provide students with practical insights on:

1. Managing personal finances;
2. Facilitating relations with banks and financial institutions;
3. Planning career and growth of entrepreneurial skills.

The Bank of Albania's support in terms of teachers' training and provision of numerous teaching materials is to be commended and I avail myself of the opportunity to thank the Governor of the Bank of Albania, Mr. Fullani, for his personal contribution and incentive to support financial education in schools. In the basic and secondary education (including vocational one), subjects such as "Civic Education", "Career Education", "Economics" or "Entrepreneurship", etc.. integrate elements of financial literacy.

We are in the process of reforming the basic education curriculum. It is likely that economic and financial education will be regarded with priority at all levels of education, primary one included. The experience of the Bank of Albania and other institutions (NGOs, foreign donors, etc.) will be welcomed at possible curriculum alterations.

We intend that the whole education system - from primary to university – treats financial literacy as such. This can not be achieved without cooperation between educational structures and stakeholders involved in the financial world and even broader, in entrepreneurship. Entrepreneurship is a mindset and an approach. It is more than an economic value; it is a social investment. This investment in the field of education is straightforward. We should make students turn risks into opportunities and nurture self-confidence to face challenges.

Therefore, referring to advanced educational experiences in terms of financial literacy, we may see the possibility of upgrading educational strategies, awareness of all stakeholders to policymakers.

Thank you!

* Halit Shamata, Deputy Minister of Education and Science

OPENING AND WELCOME REMARKS¹

Ridvan Bode*

*Honourable Governor Fullani,
Governor Šoškić,
Your Excellency Mr. Sequi,
Mr. Passacantando,
Mr. Shamata,
Distinguished Ladies and Gentlemen,*

Several weeks ago, a ceremony launched the cooperation between the Bank of Albania and the Bank of Italy, and we are gathered today, in this first activity, which I would like to commend precisely for the topic chosen, which is the pillar of this cooperation, expected to bring about significant improvements in the Albanian financial market in general and in the banking market in particular.

The financial education topic is pivotal because of the situation in the financial markets and Albania's specifics in the field of financial literacy of economic agents, citizens and the population. It is also important at the moment because the world pretends it has just exited from the global financial crisis, which has deeply shaken the confidence of individuals, citizens and economic agents in the financial system. I think

¹ A transcript of the presentation held at the Bank of Albania 9th International Conference on "Building our future through financial literacy", Tirana, September 15th, 2011.

that enhancement of transparency and public awareness about financial and banking market developments is the best way to draw attention and increase participation of economic agents in financial markets.

Any attempts to prevent the causes that led to the global financial crisis would not serve for a rapid recovery. One of the most essential elements or causes of this crisis was precisely the need for detailed information, lack of transparency needed to orient economic agents and households to financial market developments. Deforming the truth, the events and outcomes of these financial markets in the citizen's opinion made us have wrong investments, a global economic crisis and a high public and private cost of citizens to prevent and exit from this crisis.

Therefore, a greater transparency and a better and broader information of citizens on the financial market developments are pivotal elements for overcoming in a short time possible, the follow-on effects of the global financial crisis that the world is currently experiencing.

Naturally, the enhancement of financial information in general and transparency in particular is a fundamental requirement for market development. Markets are not just places where goods are exchanged, where money is exchanged, but they are also places where information, knowledge and insights about economic developments are shared. Therefore, detailed information on the development of these markets is an indispensability for all institutions. Moreover, the complexity of financial market developments makes it imperative for us to focus specifically on enhancing the economic agents' education and information about financial market developments.

Financial markets are much more complex than common markets where common goods are exchanged. Financial markets, due to their specifics and dynamics in the last twenty years, have detached more and more the object from the subject. Therefore, information on concrete developments, phenomena and products provided by these markets is a necessity, not only for institutions, economic agents, the banking system, the overall financial system, but also for institutions such as central banks, governments and other public information centres, which through their analysis, promotion or disclosure of facts help orient citizens in due time.

Public information and financial education target first of all citizens, as the most exposed agents to financial markets. Information of citizens is and will certainly be their long-term priority, implying public education aiming to create financial literacy among citizens, so that they can make right choices. This is of crucial importance and is a very long process, which constitutes a long-term priority of a country's institutions and also of agents operating in the financial sector, banks and other non-bank financial agencies.

However, I think that public education is an urgency, a necessity, and as such it requires immediate action. It also requires concrete norms and surveillance to increase public awareness of financial market developments and provide citizens with necessary information on concrete market. Therefore, I think that the focus on individual and education of individuals will be long-term, since it requires a coordinated and systemized work, not only by the Bank of Albania, as the central institution of the banking system information on major developments in the Albanian financial markets, but also by the government and other information institutions in the country.

Financial education and information have a great importance not only for the public at large but also for the development of the financial sector in Albania and in any other country, as it fosters the competition and enhances the transparency. Because of an aggressive advertising process, the information process is often confused with the advertising process. I think that we have much to do in this regard, so as not to confuse advertisements that are personal and for commercial purposes, with the information process that is not merely an individual process of economic agents operating in financial markets, but also a process that should be coordinated and organized by the central institutions of our country.

Our tradition has not been so satisfying in this regard. So I think that central institutions and other information centres, through the publication of data, facts and developments in the financial markets, should better orient the general public opinion.

The financial position of companies or elements related to their products, as well as other financial reports on assessment of individual

agents operating in the Albanian financial system, are neither a secret nor a taboo. Therefore, I think that financial education and information of citizens will also help enhance transparency and foster competition of economic agents operating in our financial markets.

Public education and information of citizens are necessary because we are often faced with intentional manipulations about financial market developments. These manipulations stem from commercial interests of companies operating in the markets and from genuine political interests. Political representatives appear in the public and make calls or draw conclusions about the overall financial system or individual banks, creating unpleasant situations that trigger panic and disinformation, detrimental to the country and the economy. This is because we make room for disinformation, leaving real publications out. Therefore, a better campaign for public awareness and financial literacy would discourage any intentional disinformation about financial market developments in Albania.

The need to increase public information and financial literacy, I think, is particularly specific in Albania, because of the non-developed inheritance of financial literacy in our country. Several years ago everything that had to do with the financial system was regarded as a state secret. No data or information of any individuals on the financial system, which was not market-oriented, could be disclosed.

I am of the opinion that in this area, we need to speed up the public education and information, in order to increase the presence and participation of citizens, because most of products offered by the financial system are still unknown to the public, compared with those offered by the markets of goods and services. So I think that the whole financial system should be more present in publications and information of citizens, in drawing their attention to and attracting them as genuine agents of the Albanian financial market.

Public information is essential for real financial market developments. In Albania, the backwardness in information and financial literacy is evidenced even by the financial market structure. Currently, the banking market shares about 90 percent of the whole financial market, while less than 10 percent is shared by other non-bank financial services. It

is a huge gap, hence our education process should aim at attracting the interest and participation of economic agents in non-bank financial markets, in order to develop them in the parameters and dimensions of other comparable economies or advanced economies of the region.

Possibilities to increase public information and financial literacy are expanding. Currently, the extension and expansion of public education through electronic media and the Internet, is a great facility. However, it would be wrong if we considered the work as completed only through publication of statistics, data or products in the media, on the Internet and not through a campaign and a daily contact with the public in various ways.

Once more, I would like to commend today's activity and particularly the need for everyone's commitment to public education and financial literacy in Albania.

Thank you!

OPENING REMARKS

Ettore Sequi*

*Dear Mr. Governor Fullani
Dear Mr. Minister Bode,
Deputy Minister of Education,
Distinguished panelists,*

First, I want to thank the Bank of Albania Governor Fullani particular, for organizing this important international event, which goes exactly in the direction we, the EU wish to encourage.

Speaking about financial literacy is very relevant and timely in my view, in particularly in the context of shocks experienced by the financial markets in Europe and the U.S. as a consequence of the recent global financial crisis.

David Bach, an author of “The Armchair Millionaire”, said that: “Financial education needs to become a part of our national curriculum and sourcing system, so that is not only the rich kids that learns about money but it’s all of us“

The economic and financial crisis has made financial supervision and fiscal consolidation imperative in the EU countries and around the world.

The general EU priorities of financial reform remain clear: to develop

a more effective supervisory response; to strengthen the tools to ensure financial stability and to improve adjustment capacity of the EU economy through better functioning of markets

Today is widely recognized that financial literacy is a key tool in improving people to take greater control of their financial decisions.

The importance of a sound financial education is acknowledged by the EU since 2007, when the European Commission adopted a Communication on Financial Education, which stressed the role of financial education in the Internal Market policy and its benefits for individuals, society and economy as a whole.

The European Commission pointed out the extent of the problems faced by consumers:

- Individuals find financial matters difficult to understand.
- Individuals often overestimate their understanding of financial services.
- Many individuals fail to plan ahead or choose products that meet their needs.

This means that they are much more liable to fall into debt and to experience difficulties, if their personal circumstances change (e.g. due to bereavement, relationship breakdown or periods of unemployment). It also, makes harder for individuals to ensure a satisfactory standard of living in retirement.

I believe these issues relevant to for Albanians. Financial education can play an important role for the development of the Albanian financial system and to build public confidence in the financial sector.

The EU believes that improved financial education will bring concrete benefits to individuals and society as a whole. A better understanding by the customers of the financial industry, of the available information and an enhanced awareness of the risks that are inherent in any financial investments are essential for raising public confidence in the Albanian financial system.

Albania has applied for membership in the EU and in this context, improving the financial literacy can not be dissociated from the approximation Albanian standards to the Europe.

The main objective of the EU acquis as regards financial services is to ensure financial stability, financial soundness of companies operating in the financial sector and appropriate protection of consumers, investors and policy holders. As was identified in the European Commission's 2010 Opinion on Albania's application for membership, Albania's legislation in the field of financial services is partly in line with EU standards and lays a solid foundation for further alignment.

Strengthening surveillance of fiscal macroeconomic imbalances remains crucial for Albania. The implementation of a fiscal rule, the reduction of public debt and implementation of structural reforms are considered the main pillar for sustainable economic development that would stimulate economic growth and increase internal demand.

While there is adequate capacity in the Albanian banking sector, further efforts will be needed in non-bank financial sector to enforce market surveillance and ensure adequate capacity for future challenges.

Let me stress that the European Commission funded of a 1 million euros Twinning Project between the Bank of Albania, the Bank of Italy and Bank of France with the aim revamping the Bank of Albania's legal, regulatory operational framework in order to bring it broadly in line with EU acquis communautaire with specific regard among others also to Financial Literacy.

We consider critically important to help customers become more capable and confident in the decisions they have to make, to ensure that consumers receive and use clear, simple and understandable information from banks, nonbanking financial institutions, to access clear and impartial financial information from the Financial supervisory authority, and to ensure that a proportionate and risk-based regulatory regime is implemented.

Events like this are extremely important to discuss the current situation and to propose actions.

Let me finally convey my warmest thanks to the Bank of Albania and to Governor Fullani, whose commitment, vision and professionalism which we very much appreciate.

* Ettore Sequi, Ambassador of the EU Delegation to Albania

“BUILDING TRUST THROUGH FINANCIAL LITERACY”

Franco Passacantando*

FOREWORD

Banca d'Italia greatly appreciates the initiative of Governor Fullani to organize a Conference on Financial Education. The recent financial crisis has shown that many households and investors are unaware or only partially aware of the implications of many of the financial decisions they take. The credit boom that preceded the crisis, particularly in the United States, was fuelled by overconfidence in ever-increasing home values and asset prices. As we all know, these expectations proved to be dramatically wrong, and overconfidence in the financial system was followed, after the crisis, by a deep mistrust in the financial system. The same is happening today in certain bond markets in Europe. Both, overconfidence and mistrust, can exacerbate instability and it is now essential to rebuild trust in a better regulated financial system.

The issue of trust in the financial system has become crucial at a time in which the life of most individuals heavily relies on the ability of the system to protect their savings, to offer credit, to ensure a well functioning payment system. In the past, pension systems were mostly publicly funded, mortgage markets were less developed and consumption more tied to current income streams. Today, our personal welfare and that of our children greatly depend on financial decisions

that we take at the individual level, because of demographic changes and the tighter constraints on public finances.

II. FINANCIAL EDUCATION AND CONSUMER PROTECTION

Of course trust in the financial system depends very much on the quality of regulation and supervision. Two other factors play an important role: transparency and competition. Transparency allows rational customers to make informed choices. Competition can ensure that financial intermediaries work in the best interest of their clients.

However proper regulation and supervision, transparency, competition can be effective only if individuals, who ultimately remain responsible for their financial decisions, take rational decisions. Unfortunately studies in behavioural economics show that individuals cannot always be considered as rational processors of information. Besides, when overloaded with information, individuals find it more difficult to make informed decisions, as they are unable to process large amounts of data.

In Italy the 2008 Survey on Household Income and Wealth (SHIW) showed that about one third of the population is unable to read a bank statement, calculate changes in purchasing power, distinguish between different types of mortgage and evaluate the associated interest rate risk. More than half of Italian households do not understand the importance of investment diversification, and two thirds do not know the difference between shares and bonds in terms of risk. Less than one household out of three knows the main features of supplementary pension schemes.

This phenomenon is common to many other countries. According to a survey conducted in the United Kingdom, households' ability to plan ahead is poor. More than 80 per cent of people think that a state pension will not provide them with the standard of living they hope for in retirement. Nevertheless, only slightly more than half of them have made some additional pension provision. Also, 70 per cent of the population have made no personal provision to cover an unexpected drop in income. Households also expend little effort in choosing products. For example, one out of two holders of saving accounts is

unaware of the current interest rate.

The latest survey conducted in high schools and colleges in the US by the Jump\$start coalition shows that more than 50 per cent of high school students do not correctly understand how to manage their credit card debts or choose the repayment rates; only 17 per cent are able to appreciate the different returns of stocks, savings bonds, savings accounts and checking accounts; 60 per cent are not familiar with their health insurance coverage.

Without proper financial education, even good rules of transparency and a competitive environment may not ensure consumer protection. Therefore supervisory authorities cannot ignore this problem and have to consider financial education as a key component of their institutional activity. For this reason I greatly appreciate the leadership that the Bank of Albania is taking in this field.

III. LIMITS AND SCOPE OF FINANCIAL EDUCATION

For all its merits, financial education should not be regarded as a silver bullet by any of the interested parties ,consumers, regulators, industry representatives. First, knowledge takes time to build. Second, evidence on the effectiveness of financial education in improving financial behaviour is mixed, and clearly depends on the quality of the programmes provided. Third, we should not expect financially literate consumers never to make mistakes: the financial sophistication of the people fooled by Bernie Madoff, and their numbers, are a sober reminder that financial education does not provide foolproof protection against fraud.

In Italy, financial education has recently entered the limelight. Since 2007, the Bank of Italy's website contains a section dedicated to financial education. It provides easily understandable information on the main banking products as well as clear explanations of banking, economic and financial matters. Based on a Memorandum of Understanding with the Ministry of Education signed in November 2007, an experimental project to incorporate financial education into school curricula was launched in 2008. The Bank of Italy is cooperating with the other supervisors and regulatory agencies in Italy to define a

coordinated national strategy. A single financial education web portal has been envisaged to pool all the educational material and tools already present in the websites of the individual supervisory authorities.

IV. CONCLUSIONS

Changes in regulation and supervision currently being implemented will make the financial system more resilient to shocks and will enhance efficiency. This process will most likely result in less risk-taking and possibly lower returns for the financial industry and for its customers. There is a risk that some people may be discouraged to exploit even the safest investment opportunities because of their low returns, while others may seek high yields without understanding the higher risks attached; for most, a wariness concerning the use of debt.

Thus investing in financial education is crucial to avoid the unintended consequences of the reforms being implemented. Financial literacy requirements should be identified in a national perspective. As this Symposium shows, developing common strategies and sharing information and experience at the international level is essential to achieve the best results.

* Franco Passacantando, Managing Director, Bank of Italy

FINANCIAL LITERACY AND FINANCIAL STABILITY¹

Dejan Šoškić*

Honorable Governor Fullani, Excellencies, distinguished participants and guests,

It is my great pleasure to greet you all at the 9th International Conference on Financial Literacy, here in Albania, on behalf of the National Bank of Serbia. I would like to thank our host for giving me the opportunity to be the keynote speaker on such an important issue, not only for the region of Southeast Europe but worldwide.

Although financial literacy has been a concern and policy priority for some years now in many countries, it was the financial crisis that additionally propelled the issue into the limelight. With the rapid credit expansion experienced throughout the global financial system and to a certain extent in Southeast Europe (SEE) over the past decade, it is hardly surprising that the importance of financial literacy has become exposed and painfully vivid. The increased availability and complexity of financial products have highlighted the worryingly low levels of financial literacy of the general public. In order to provide efficient, stable and sound financial markets that offer quality financial services, we have to offer and ensure financial education for all financial market participants on various levels and in various points in their personal and professional development.

¹ Keynote Speech for the Bank of Albania 9th International Conference: "Building Our Future through Financial Literacy"

It is not by chance that teaching experts know that by learning early we know better, and that by knowing deeper we know forever.

Financial literacy is the ability to understand finance. More specifically, it refers to the acquired financial skills and knowledge that allow us to make informed and effective decisions through our understanding of finance. Such an approach extends this concept beyond households and corporates to existing and potential investors. Although the expanding financial crisis does not stem from a single cause, the role of financial literacy, or rather lack of it, has been evident. Yes, the crisis was to a large extent caused by the combination of the risky and less than proper actions and decisions by various stakeholders; including financial institutions, experts and sometimes regulators who unquestionably carry most of the responsibility. But the lack of understanding of households on financial issues and, in particular, on credit and investment, has also played a major role. As a result, individuals have accepted (sometimes unknowingly) to support more financial risks than they could afford.

That is precisely why it is never too early to start learning basic concepts in finance and why it is never too late to revisit the fundamentals and increase and deepen the body of knowledge in finance.

We should never neglect the importance of basic individual level of understanding financial issues, knowledge on how to appropriately manage one's budget and personal/households' wealth. This is important in the short and medium but especially in the long term, and has become an essential asset for financial stability.

Greed needs to be contained by understanding.

Financial industry professionals need to be aware of the risks the products carry and be able to explain their services to the customers. Financial literacy is being increasingly acknowledged as an important pillar of a sound financial regulatory and supervisory framework on the global scene and a critical component of economic and financial stability and development. Additionally, in order for the financial products on offer to be fully utilized and sustainably increase the wealth of a society it is essential that both professionals in the industry and consumers (corporate and households) have full knowledge and

understanding about financial products they consume and potential risks they can be submitted to.

Basic financial literacy is a key component of rationale decision making in finance. The fundamental concepts need to be widely understood, like: time value of money, flexibility of annuities payments design, importance of maturity in calculating the overall cost of credit... to name just a few. In addition, it is important to have clear understanding of a bit more complex matters, like: flexible and fixed interest rates and the importance of interest rate risk, what an FX clause means for an unhedged borrower and what the importance of FX risk is, what EURIBOR/LIBOR and other reference rates are and how they can move through time... again to name just a few. If we provide wide understanding of these concepts and combine them with legislation on consumer protection of financial products, we have done a lot in preventing future excessive credit growth, potential asset price bubbles and undesirable movement in nonperforming loans. And this is in the interest not just to the regulators and consumers of financial products, but to the banking industry and sustainable economic growth of our economies.

It is also important to underline that financial literacy can support the overall efforts to decrease tax evasion and legalize most of the economic activities in the country. This is an important issue not just for the SEE countries but elsewhere as well, especially in the context of increasing budget deficits and diminishing growth rates in many countries.

What is sometimes forgotten in SEE is that a solid basis for loan qualification is and should be exclusively past and expected fully declared net-income both for companies and for individuals. This can be vital information for loan approval and interest rate pricing. By increasing financial literacy of potential financial products consumers in this area, we can significantly influence the decrease of so called “gray economy” with a positive impact on tax collection, budget deficit and accuracy of economic data in the system, and therefore, future efficiency of economic policies. That is why it is very important in this respect as well, to increase financial literacy so as to make people fully understand and realize that fully declared and legal cash-flow is a primary prerequisite for individuals and companies to successfully qualify for banking loans.

Another, similar aspect is making people fully understand the role and significance of credit bureaus. By obtaining information from credit bureaus on total borrowing and bill paying habits for corporate and individuals, lenders can obviously better assess credit worthiness of a potential borrower. This can in turn influence the decision to lend or not to lend, and can affect the interest rate and other terms of a loan. Consumers must be aware that interest rates are not the same for everyone, and are, as a rule, determined by risk-based pricing. Obviously, highly leveraged consumers with poor credit repayment histories will pay a higher annual interest rate than consumers with lower overall debt and good payment habits. Full awareness of these simple rules in finance and maintenance of good credit profile in a credit bureau can potentially decrease the overall leverage in the economy, keep the NPLs under control, help avoid the creation of asset bubbles and avoid unnecessary overdue payments court procedures. Again, financial literacy in this domain can protect both the lenders and the consumers, avoiding unnecessary shocks to the financial systems as a whole.

Closely related is understanding the importance of full legalization and registration of real estate properties as a common collateral for mortgage lending. Again, this is an area that should be very important for financial literacy and education providers. The task is particularly vital in SEE and other transition and post-transition countries where public awareness of the importance of registering real estate is not so developed in comparison to the rest of Europe and developed world economies.

Lack of understanding and the significance of real-estate registration, can have serious economic repercussions; most importantly, the inability to guarantee any obligations with one's property. This would pose a particular problem for enterprises as loans are, in most cases, one of the most crucial sources of financing. The existence of a means of guarantee would put the enterprises into a better negotiating position, when considering credit contract conditions, as they can offer concrete collateral. In circumstances where there are no means or possibilities of land registration, or a way for creditors to register their mortgage rights, credit becomes a very risky transaction in which the lender claims much higher interest rates if he decides to lend at

all. A developed land registry systems should provide for 'cheaper' credit for enterprises and consumers. Real estate registration also has consequences with regards to financial reporting. If one enterprise has registered real estate property, its balance sheet will improve and so will their chances to provide adequate financing. From a historical perspective, it was not by chance that successful empires throughout history often had well-developed land registry systems. Sophisticated land registry system improves legal security of property rights and thus improves the basis for finance and market economy.

If we consider the relevant publications that take into account assessments of the South-East European region, we can see that one of the most exploited subjects lately has been the region's exposure to foreign currency lending. As interest rate differentials across currencies during the last decade have been considerable, and the region is mostly export-oriented towards the Euro zone, it may appear that efforts of market participants' education on such issues as risks linked to currency mismatch and existence of hedging instruments are long overdue. This is especially important for the corporate and small business sectors that have the ability to access a wide range of instruments (such as futures, forwards, options and swap contracts) that may serve as protective tools, especially during these turbulent times with rapid changes in international markets. Furthermore, our corporate sector needs to know that FX hedging instruments serve to insure oneself against exchange rate volatility in either direction. Just as importers may use forwards to buy foreign exchange, exporters may use them to buy their own currency. Indirect consequences have given us a signal that these efforts need to be focused towards banking sector as well. Although with the introduction of Basel II we should be aware that sometimes it can be pro-cyclical and short-sighted. The harm to financial stability of the systems that may arise from such behaviour of market participants especially during 'downturn' phases of the business cycle, if not properly communicated and managed, may instigate systemic risk that could to a certain extent potentially backfire on financial institutions.

Even if we look at the United States, we can say that the sub-prime mortgage crisis was primarily the result of poor risk management and misled selling practices by lenders and financial institutions, in

a context of real estate overvaluation and lax monetary policy and regulatory oversight in the financial sector. However, the development of a speculative bubble and its subsequent shattering happened also due to the reckless financial behaviour of households, including the most vulnerable ones who contracted mortgages they should not have subscribed to, considering their financial circumstances. In fact, individuals were often not aware of the risks they were exposed to and did not understand the terms and conditions of the mortgages they purchased, which often resulted in significant increases in their monthly payments over time. They either relied on the limited and incomplete financial advice from relatives or sometimes less than honest lenders in the form of mortgage brokers, or even sheepishly followed the less than responsible behaviour of others. In this respect, higher levels of understanding of financial products may have helped these individuals consider more accurately the risks and conditions of the credit products they were buying. Additionally, this process was further emphasized by the loosened and remote link between households and banks, or poorly regulated financial institutions. Concerned financial providers did not price appropriately and assess the risks of default, partly owing to the possibility of transferring this risk to other institutions through various types of securitization: mortgage backed securities, collateralized debt obligations and other kinds of securitized products.

Credit rating agencies played an important role at various stages in the sub-prime crisis. They have been highly criticized for understating the risk involved with new, complex securities that fuelled the United States housing bubble such as mortgage-backed securities (MBS) and collateralized debt obligations (CDO). The Financial Crisis Inquiry Commission reported in January 2011 that: “The three credit rating agencies were key enablers of the financial meltdown.” The mortgage-related securities at the heart of the crisis could not have been marketed and sold without their seal of approval. Investors relied on them, often blindly. In some cases, they were obligated to use them, and regulatory capital standards were hinged on them. This crisis could not have happened without the rating agencies. Their ratings helped the market soar and their downgrades through 2007 and 2008 wreaked havoc across markets and firms.

Only if there was a wide-spread understanding that credit rating is just a professional opinion which can, and sometimes is, wrong!

Learning from the bad experiences of the large-scale crisis, our main job as central banks and educators will be to explain to the investors that the primary role of the credit rating agencies is to give an opinion and direction on the creditworthiness of a debt issued or issuer. The rating does not provide complete guidance on other aspects essential for investment decisions, such as market liquidity or price volatility. Accordingly, as we are all aware, bonds with the same rating may have very different market prices. Despite this fact, and even though each rating agency has its own rating methodologies and scales, market participants have often treated similarly rated securities as generally the same. Our job is also to underline the responsibility of the investors in estimating the risk exposure of the debt issue. Furthermore, we should direct and highlight to the professional investors the importance of developing their own risk management function, not solely taking into account the opinion of the rating agency, but going deeper and fully understanding underlying assets and risks.

Long periods of rapid economic growth worldwide resulted in the narrowing of focus towards high financial gains – circumstances which gave the potential to constantly create new types of hybrid financial instruments that majority of the market did not fully understand – in some cases, not even the sophisticated financial analysts and not even the regulators themselves. More importantly, the instruments were sometimes not completely and clearly understood by the institutions that we have all looked to for proper interpretation – the rating agencies. The primary lesson of this crisis is that we can no longer rely on other market participants, and we must both individually and on national level invest significantly in financial education. In increasingly globalized world, the possibility for localized problem solving becomes more and more difficult and we must put additional effort on taking pre-emptive action in the future. The experience has taught us that efficiency and effectiveness of measures that are justified by future possible outcomes is only productive when communicated with well-informed and properly educated market participants.

Financial institutions should have a responsibility to provide clients with information that clearly and accurately represents the terms and conditions associated with the products they offer. For example, effective interest rate (EIR) should allow consumers of financial

services to find out the actual cost of a financial product. On macroeconomic level effective interest rate is important to provide efficient allocation of money and capital. The task of a loan officer has to be to explain to the consumer that EIR includes all the credit payments and costs payable by the financial services consumer (e.g. interest, fees, taxes) and/or benefits to be received by the consumer (interest and other unconditional benefits) and costs relating to ancillary services which are prerequisite for the use of financial service or for its use in a specific manner (e.g. costs of life assurance, property and personal insurance). Thus, financial education can serve to augment and strengthen consumer protection but also to enable more effective allocation of money and capital on macroeconomic level. Financially educated consumers are in a better position to protect themselves on their own and to report possible misconducts by financial institutions to the authorities. Consumer protection and financial education share many of the same goals but each takes a somewhat different approach. Both financial education and consumer protection have as aims to ensure the well-being of consumers and to shield them from misconduct.

The National Bank of Serbia has been addressing the need to expand activities in the field of financial education and financial consumer protection since 2005. At the beginning of 2011 the NBS introduced the Law on Financial Consumers Protection. This Law is prescribed not only in line with EU Directive 48/2008 relating to Consumer Credit, but includes a wider range of financial products, because our intention was to cover all kind of banking services: loans including mortgages, deposits, accounts, debit and credit cards etc. The purpose was to ensure maximum protection of financial consumers in Serbia.

The NBS has been actively promoting consumer education and financial literacy training and programmes over the years. We are now in the process of introducing a Financial Education Strategy of the NBS (2011-2015) not only in order to improve our activities in this field, but also to provide a more adequate way for our citizens, entrepreneurs, farmers, schoolchildren, and students to obtain information that are of significance for them both currently and in the future. Bearing in mind that consumer protection has a reactive function – the actual problem has already taken place when the consumer is asking for help – we are

aiming to place the main emphasis on financial education, especially of schoolchildren, with the aim of having a financially literate population in 5, 10 or 15 years. Our overall aim however remains the need for all the participants in the financial market to be financially literate. We intend to initiate the creation of a National Strategy for Financial Education as a necessary complement to a sound financial regulatory and supervisory framework. In doing so, we should favour and promote the establishment of coordinated public-private partnerships. All stakeholders should be encouraged to consider and implement international principles, guidelines and good practices developed by the OECD and the International Network for Financial Education (INFE) in the financial education field.

It is not possible to overestimate the importance of financial literacy and financial education. Literacy and education are the essence of building confidence. Without confidence there is no financial stability. Persistence, systematic and inclusive approach, innovative, user-friendly and technologically advanced methods used – all of these should be the properties of a far-reaching, effective and long run effort in financial literacy and education. As some wise people rightfully noted: it might be costly but undoubtedly priceless.

* Dejan Šoškić, Governor of the National Bank of Serbia

SESSION I

LESSONS AND CHALLENGES ON
NATIONAL LITERACY ISSUES

FINANCIAL EDUCATION: THEORY AND PRACTICE¹

Umberto Filotto*

First of all thank you very much; I am happy to thank the Bank of Albania and also the Bank of Italy for having invited me to this conference. It is a real honour to be here today in this very important occasion, to talk about what many of us consider a crucial issue. The title of my speech is “Financial Education: Theory and Practice”. Actually, I will briefly mention the theory because we have already talked a lot about it, and I’d rather focus more on practice.

What is financial education? What is financial literacy?

Here are a couple of classical definitions:

“Financial Education should help to enable citizens to develop the knowledge, understanding, skills and confidence needed to adequately appraise and understand their rights and responsibilities and the various options available to them.” (OECD 2008).

“Financial Literacy is the ability to make informed judgements and take effective decisions regarding the use and management of money.” (Noctor 1992)

I will not go deep into details in examining these definitions; they are

¹ A transcript of the presentation held at the Bank of Albania 9th International Conference on “Building our future through financial literacy”, Tirana, September 15th, 2011.

extremely precise and generally accepted. But once we agree on the terminology we still have to address the most important question. Is financial education worth all the efforts and investments it requires?

We all should bear in mind that while financial education is certainly important, it is important not per se, but only if it can have a real impact on financial literacy. This may sound obvious, but it is not so if we consider that one of the main problems that we have and that we must solve is measuring the impact of financial education on the behaviour and knowledge of individuals. How can we possibly justify the investments we make in financial education if we cannot measure their performance? I totally agree with the expression cited before: “financial education is costly but priceless”. Under financial constraints, there is an issue for allocating resources efficiently. We can do it only if we can measure the impact of financial education, its effects on the level of financial literacy. Because we don’t always have data and the methodology to do it, this exercise is difficult; but difficult doesn’t mean impossible and, more than that, it does not reduce its necessity and importance; this is why it is mandatory that we work on that.

All that said, why is financial literacy relevant? Basically, this is because people, who are financially illiterate, tend to make wrong choices.

A low level of financial literacy has several severe setbacks:

- Predatory lending and irresponsible borrowing;
- Financial shorttermism (lag of perception about insurance needs, pension planning, long term saving plans, etc.);
- Market failures (inability in order to evaluate properly different products, services or financial institutions).

It is clear that all these are phenomena that have to be avoided: but there are at least two possible answers. Financial education is one option, the other being regulation. Regulation is always necessary and in many circumstances it is the sole and more efficient solution; however a regulation that prevents individuals that do not possess the necessary decision tools (i.e., knowledge) from making wrong choices would have to go so deep in determining what can be and what cannot be done that it will end up in prohibiting nearly everything. Actually regulation must define what is the playing field and decide rules, but it should not be playing en lieu of the players.

This is why financial education is necessary, as it avoids two extreme situations: the first is opportunism, negative incentives and indifference. This is what will happen if we leave everything up to the market. People would make wrong choices and nobody would care. The opposite extreme is paternalism: this would mean that there is somebody who is deciding for the people, prohibiting nearly everything because nearly everything is potentially dangerous, even sovereign debt, as we have learned. Everything would be prohibited and this is something which is unacceptable; also, awkward situations would arise as, for example people would be free to do some things, like deciding which home to buy but they would not be allowed to pick the mortgage they like.

Financial education is, therefore, the viable, good and sustainable alternative to those two extreme situations. It is making people responsible and capable of making sound financial decisions, thus establishing mature relationships and making the market efficient. No doubt financial education has to be in the agenda of any public body in charge of financial issues and also of responsible financial institutions and firms.

However, there is a problem. Financial markets are, as we all know, complicated. There are a lot of difficult and different things that we should know, such as money management, credit, asset management, saving & planning, thinking about retirement, and so on. Can we possibly teach everything to everybody? We could fall into a classical problem, which is overloading people with information up to the point that this information is useless. Therefore, we have to approach it in different and efficient way.

Adults, do they need financial education?

Once we have reached a general agreement on the role and need of financial education, we must however consider that programs are generally aimed at youngsters and persons in school age. I know that Maurizio Trifilidis will tell you about the wonderful experience that Banca D'Italia (Bank of Italy) is making in schools in Italy.

But there is the other half of the apple: adults. Do they need financial education? Unfortunately, yes. Why unfortunately? Because it is difficult

to teach adults; they have little time and even lesser will to study boring financial issues. However, we can not ignore them and skip a generation. Why? Not only because it would be unfair (and also, to some extent, offensive for ourselves); more important is the fact that adults are those that are making financial decisions now and that those decisions will have an impact not only on themselves but also on others. At the end of the day the impact of those choices will fall into the heads of people who are now at school age, who would come out financially savvy but would inherit a lot of problems deriving from the wrong choices made by their parents.

So we have to educate adults to finance. But here the problem is that after a hard working day, they would rather drive away to drink a good beer, watching a football match or going to a theatre, etc.. certainly not attending classes to learn about finance. We have experiences about university courses for adults, with a very, very low attendance. People, indeed, have little time, little motivation and also little learning skills. We are ready to learn when we are young, we are not so responsive when we are older. But we must continue to bear in mind that those that are making financial choices (often wrong) are adults, and they are making them now.

So what can we do? How can we teach them?

While programs for adults cannot replicate traditional learning curricula this doesn't mean that adults are not available for learning in specific situations. There are however some basic rules. Education has to be available when financial choices are made, focussed on topics related to the decision which has to be made and provided in an understandable form and language.

There is one magic word, i.e., ergonomics, which means giving people information the way they are able to use it, when they are able to use it and the kind of information that is useful for them, thus complying with three principles that are:

1. The Contingency Principle = FE when it is useful;
2. The Usefulness Principle = FE that is useful;
3. The Delivery Principle = FE the way it is useful.

We have to be aware that ignoring these principles normally turns out in great disappointments, while complying with them proves normally very successful. A couple of examples: Do you remember videocassette recorders? Nobody could use them. Why? Because using a VCR was so complicated. It had so many features built in. It was difficult to programme them. It could do wonderful things but nobody had the time and the will to study how to use it. Now think about iPods: they are so wonderfully easy to use, so intuitive. Why? Because Steve Jobs and Apple worked a lot on making them simple, easy to use for people. People want it simple and we must never forget it.

The case for Monitorata®

In these last five minutes, I am going to talk to you about what we have done at the University of Roma “Tor Vergata”, together with Assofin the Italian Consumer Credit and Mortgage Association. We have developed a very simple tool, named Monitorata®, which enables consumers to:

- build their financial budget;
- undergo a simplified scoring procedure capable of evaluating their potential default rate;
- have a quick but focussed training on borrowing.

Monitorata® is basically a financial calculator. What does that have to do with financial education? Actually it is tool for people that are thinking about borrowing money; while they are considering different options they are really available for financial education as that is the time when they need the information (in this case concerning loans). The information has to be focussed, though: when they consider borrowing money, they don't care about retirement; they do not consider investing money. What they need is knowing about an interest rate, a variable rate, a mortgage, a personal loan and Monitorata® can give them the answers they need.

However, coming back to its original features Monitorata® allows individuals to do their own accounting. Using a formal tool is necessary as the results of mental accounting are hampered by:

- Shorttermism, i.e. concentration on the impact of the purchased good (Lichtenstein, Fischhoff 1977 e Hilgert, Hogart, Beverly 2003)
- Inability to consider all the relevant profiles of the financial contract (e.g. concentrating on instalments and forgetting about the APR)
- A fragmented view of their situation, considering a single loan not the overall indebtedness
- Overconfidence: people tend to credit themselves for financial success and thus they make choices not having full command of the relevant variables

The need for more formalism can be satisfied with a specific tool: this can also be used to make consumers familiar with specific accounting and budgeting techniques. Also, the tool must be able to assess the consumer free cash flow and determine the vulnerability to possible over indebtedness risks.

But, as it was said before, it is mandatory that principles of ergonomics are satisfied: the tool has to be

- user friendly;
- useful;
- easy to feed (data to input have to be not excessive nor difficult to get);
- clear and easy to understand in terms of output.

While the tool gives answers to specific and contingent questions, it is indeed a way to teach people that considering interest rates, building a financial budget, getting hold of expenses and income is relevant to take decisions.

The interface is very easy, (remember the iPod example), but while the look and feel is basic, the technology behind is sophisticated. Just think that Monitorata[®] makes a simplified scoring system available to individuals who can do their own scoring and understand how they are exposed to defaults.

While you use Monitorata[®], you can drill into some word and terminology and you can test your overall knowledge with a series of tests that give you an idea of your expertise in financial issues.

But does it work?

As I said in the very beginning, no financial education program has really a meaning, if we cannot measure how effective it is; this is why Assofin, Università di Roma Tor Vergata with the financial support of Visa Europe decided to assess the impact of Monitorata. What we wanted to do was:

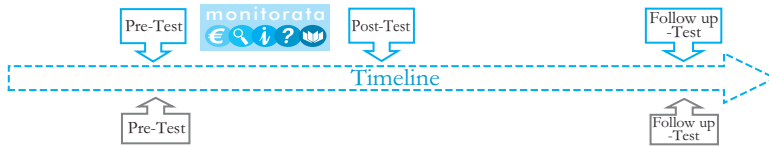
- measuring its potential as a financial education instrument devoted to adults;
- developing a reliable procedure to evaluate the impact and the cost to benefit ratio of different initiatives in order to allocate funds efficiently;
- considering the possibility of applying the methodology in different contexts.

We used a sample methodology. Data were collected by GfK Eurisko. The test was designed to verify pre and post results in two stages: immediately after the exposure to Monitorata® and after some time. A sample of external control was adopted (Pre - and Post- test without exposure to Monitorata®) in order to verify the actual net impact of the placebo effect of “double interview“ scheduled in both stages

The objectives of the survey were:

- measuring the impact of Monitorata® on the improvement of knowledge of consumers. Respondents were asked to answer equivalent (in terms of difficulty) questionnaires in the different stages of the survey; thus the “learning effect” could be measured;
- understanding whether exposition to the tool improves borrowing decisions of the consumers; this “behaviour effect” could be measured comparing the amount of money that respondents wished to borrow before and after using Monitorata®.

Using a common questionnaire, data from different tests (Pre-, Post- and follow up-) were used to evaluate some kind of changes in the answers provided by the consumers in different moments and to check their significance.



Data from Pre-Test highlight the initial level of knowledge of consumers, providing a financial literacy measure of the sample; the Pre-Test Vs Post-Test analysis allowed to define the impact of Monitorata®; the Post-Test vs. Follow up-Test analysis enabled to investigate the “fading away effect” of knowledge. If a significant difference between data from the Post-test and the Follow up-test had emerged, a limited interval between the usage of the tool and the moment of the financial choice would have to be recommended, while a marginal difference between Post-test and Follow up-test data would have supported the hypothesis that financial education can be provided even if consumers will not use immediately the curricula content.

The results

The results are indeed interesting in two ways. First of all, people had an improvement in their knowledge. Using this kind of tool makes people more competent in terms of what they know about loans and borrowing money.

The other thing highlighted here is that people change their behaviour. To measure that we had to use a proxy of behaviour as our samples did not really borrow money. Therefore we asked those participating how much money would they borrow. The question was asked before and after the test used to assess financial literacy. The result is that after having been forced to think about this choice people reduce the amount they are planning to borrow; this is true for all the sample (everybody is made more aware of the importance of borrowing money) but results are clearly and significantly more relevant for the part of the sample that had actually used Monitorata®.

Conclusions

Coming to some conclusions: we all agree on the fact that financial literacy is generally quite low and in any case inadequate to the needs of

our society; this is why financial education curricula should be provided in order to enhance consumer knowledge and skills.

Monitorata® proved useful in order to improve the financial knowledge of adults and also it could modify the consumer financial behaviours toward a more responsible approach to borrowing. Also, it strengthened consumers' self-confidence about credit, enhanced their interest in financial topics and made them more conscious about their financial situation.

This finding does not contradict the importance of financial education for young people nor the necessity of wide reaching and comprehensive financial education programs in schools. Indeed, it means that different strategies have to be adopted to adapt to differences in target recipients (age, education, etc.) or topics (money management, credit, investment, etc.). Actually, this confirms that also when we talk about financial education a “one size fits all” approach is not appropriate.

The Pre- Post- test assessment methodology can be extended to other financial education curricula/tools in order to highlight the best practices of the market. It could be useful in order (1) to enhance the assessment of financial education and (2) to highlight the pro and cons of different curricula.

Another possible conclusion is that because it has proved successful in general terms in Italy, Monitorata® could be replicated in other countries; why not in Albania?

Thank you for your attention.

* Umberto Filotto, Professor at University of Rome “Tor Vergata”

DELIVERING AND ENHANCING FINANCIAL LITERACY THROUGH THE EDUCATIONAL PROJECTS OF THE NATIONAL BANK OF POLAND

Dariusz Rostkowski*

WHY DO CENTRAL BANKS SUPPORT ECONOMIC EDUCATION?

In all countries undergoing economic transformation and necessary social reforms, we know that the provision of financial literacy is extremely important. By introducing a wide range of economic topics into educational programs, we hope not only to benefit the individuals, but also to improve the economic efficiency of our society over the long term.

The central banks in recent years have grown to understand that economic education is valuable for the smooth running of the financial system, central banks included.

Many people do not understand even the most fundamental concepts about what central banks do, so even basic knowledge will assist them as businesspeople, consumers and tax-payers.

The four main aims of the education policy of central banks are: enhance effectiveness of monetary policy; improve the functioning of financial markets; support sustainable economic policies; and build their reputation and promote acceptance for their policies.

I am not aware of the statistics relating to individual European countries, but in the case of Poland, 93 % of citizens would like to better manage their money. In another survey, 13 % rate themselves as having a very poor understanding of how the economy works; 26 % rate it as poor, 40 % rate it as average, 16 % rate it as good, but only 1 % rate it as very good. It is that there is a huge potential for improvement.

Although consumers have greater opportunities to exert their own influence over their financial matters, the huge number of options facing them can paradoxically leave them confused and intimidated. Our role is also to reduce the number of people who are financially excluded (22 % of Poles don't have a bank account) and to eliminate their bad financial habits (example: no concept of shopping around means not looking for the best deals).

BENEFITS OF FINANCIAL EDUCATION

There are different ways in which financial education can benefit all of our society. We would highlight:

- Benefits to individuals: confidence in financial decisions, improved access to financial services, improved retirement income, reduced risk of over-indebtedness and growth of small and medium-sized enterprises.
- The most important benefits for the financial industry and the markets: an increase in the demand for financial products, reduction of information asymmetries and more market transparency, competitiveness and efficiency.
- Benefits for regulators: Financially literate consumers might help ease supervisory activity and allow for lower levels of regulatory intervention.
- Benefits for governments: Economic stability, greater private saving rates, development and more successful pension reforms.

HOW DO WE DELIVER ECONOMIC EDUCATION?

Our key strategies for delivering economic education to every area of society are: cascade training, university studies, conferences, seminars, workshops, mass-media and internet, expositions, publications and competitions. Let me concentrate on one of them, named cascade training. This method is very efficient and relatively cheap. Essentially, we “train the trainers” and then send them to the local communities, where they can then disseminate the information in a way that is easily understood by participants.

EDUCATIONAL PROJECTS

Our educational projects are divided into four main categories:

- Primary and secondary schools;
- Academia - We collaborate with economics departments in Polish universities, contributing materials to the syllabus. We also provide scholarships for promising students who are unable to support themselves financially during their studies;
- Professional & organizational groups. We co-finance post-graduate studies in monetary policy addressed to journalists to give them a deeper understanding of current financial topics. We also co-finance post-graduate studies concerning the main issues of the European Economic and Monetary Union addressed to civil servants at both local and state level and selected social groups, meaning not only religious groups, but also the financially excluded.

An example of our initiative aimed at better educating high school students in the matters of economics is the project “My Finances”. The Foundation of Youth Entrepreneurship is the responsible entity for it. The project is addressed to teachers of The Basics of Entrepreneurship and upper-secondary school students in Poland. Teachers take part in workshops that prepare them to conduct classes during and after school hours. Subject modules of the project are:

- World of finance;
- Grow to love banks;
- My investment;
- Investing in the future; and
- Safe finances

Since 2004, around 2,600 teachers have been trained and around 825,000 students have participated in this program.

The Bridge Scholarship realized in cooperation with the Educational Enterprise Foundation is an example of our scholarship program. It is dedicated to economically disadvantaged families from the poorer regions of the country. Scholarship programs enable young people to start economic studies. Our scholarships are granted to able young people from low-income families. In year 2010 we granted 275 scholarships.

We co-finance post-graduate studies in Mechanisms of the Euro Area Functioning. They are dedicated to civil servants, graduates of economic studies, teachers of economics, bank employees. This project was heavily over-subscribed with the number of applicants being even 6 times greater than the available spaces. One of the reasons is cost – which is 300 Polish zloty (app. 70 euro) for participants, i.e., a little part of the real cost estimated at 10.000 Polish zloty (app. 2.500 euro). The program for these studies was prepared by experts from the NBP Euro Area Integration Bureau in the Economic Institute. The project is carried out by 17 higher education schools in Poland. In the second edition, around 1.000 students passed the exams for these studies.

“Criminal law aspects of banking and financial activities” is the title of a project dedicated to prosecutors and judges to prepare them to conduct cases related to banking and financial criminal offences. It was carried out by training courses targeting this special group (over 150 participants) and supplements to the business press.

In Polish society, religious leaders still command a strong influence over the communities, not only about religious matters, but also about

issues of social relevance. That is why we decided to cooperate with the religious leaders from different faiths and communities (not only Catholics that dominate in our society, but also the Orthodox Church, Protestants, Jews and Muslims). A training cycle “The Gospel and Economics” aimed at enhancing the knowledge of economics among representatives of various religious communities, priests included, so that they can champion a rational approach to the phenomena of economic life. The project “The Gospel and Economics” has so far targeted over 1,000 people from 15 Roman Catholic dioceses. The training cycle “The Gospel and Economics” is scheduled to address also the congregation of the Polish Autocephalous Orthodox Church. In 2009, the NBP offered support in the training “Safe investment and consultancy to indebted persons” organised by the Consistory of the Evangelical-Augsburg Church in Poland for persons managing church finances. The NBP supported the project for issuing a book “Economics in Judaism”, published by the Chai Foundation. A transcript of the interview with the leader of the Chabad Lubavitch Hasidic community in Poland is a source of information on various economic issues in the context of Judaism. Thanks to financial support by the NBP, the National Centre for the Culture of Tartars in Poland has set up a Training in economics and management for the leaders of Muslim organizations gathering Polish Tartars.

Our next project “Plan your future” focused on encouraging rural inhabitants to think more carefully about effective financial planning and budgeting of their daily expenses. We trained 100 people from local organizations and they, in turn, trained over 3000 participants using our special guidebooks.

Our educational programs in media are the most essential and effective means of reaching the widest possible audience. The reasons are: wide reach of the project – getting to thousands of readers/listeners/viewers, the possibility of reaching selected groups: young people, the financially excluded, pensioners, etc., relatively low cost of reaching an individual recipient, possibility of using materials (reprints, educational films, etc.) many times.

Our core media projects are broken down into 4 main channels: press, television, radio and other media (e.g. the Internet). The range of

influence of selected educational projects is wide. The media that we actively cooperate with represent virtually every area on the demographic spectrum of the country. Examples of the circulation figures:

- Fakt (daily newspaper) – readership of one issue – max. around 2,1 million readers;
- Rzeczpospolita (daily newspaper) – readership of one issue – max. around 1,3 million readers;
- Gazeta Wyborcza (daily newspaper) – readership of one supplement – max. around 1,7 million readers;
- Polskie Radio Program 1 (Polish Radio Channel 1): listening figures in the morning – 1,4 million people, in the afternoon – 742 000 people;
- TVN television station: Our Cash program was seen by 6 million people in total.

Working with the Fakt daily newspaper, we successfully mounted an educational program to make a very large section of society aware of an issue which affects them more than others. Readers of this daily newspaper may typically not have an in-depth understanding of financial products and services, and it is therefore easier for them to either purchase an unsuitable product or perhaps not fully understand the rules of participation within the financial system. The campaign titled “A wise client – how to avoid the loan trap” in a cycle of 5 one-column publications, used real-life examples of situations for the average reader, with the appropriate level of language. The aim of the project was to make Fakt readers aware that uncontrolled loans and credit may lead to getting entangled with banks and other institutions. We provided advice on how to seek assistance and how to negotiate with the bank, etc.

Our project with the opinion-forming daily newspaper (Gazeta Wyborcza) was an attempt to demystify many of the processes which people may think are too complex to properly understand. In fact, an economy is very much like a household expenses account. The project drew parallels between housekeeping and larger economic models, using parameters such as prudence, risk and saving. There were 5 main subjects discussed: state budget and household budget compilation

process, budget reform, how to become indebted in a rational way – avoiding credit traps, how to get out of debt, and inflation.

One of the key areas we focused on in the project “Non-cash transactions” (the publication of 9 supplements in the opinion-forming daily newspaper *Dziennik Gazeta Prawna*) was increasing the awareness and knowledge of non-cash transactions, not only credit cards, but also direct-debit schemes and promoting internet banking as a useful and secure option for managing our finances. The following are some examples of subjects which were covered: what is a non-cash transaction; how much does cash cost; cards on banks’ offer; how to cope with the financially-excluded; plans for raising the share of non-cash transactions in the economy; mobile phone instead of a card; online banking; and non-cash payments across the world.

Polish weekly *Gość Niedzielny* is mainly read by active members of the Catholic community and distributed through the local parishes. They are generally a very socially active people, and we felt it was important to equip them with an understanding of the basics of finances. We introduced to them such subjects as: what do you need a bank for; the stock exchange; online banking; credit; payment cards; taxes and social insurance; and deposits.

The monthly magazine *Warsaw Voice* is published mainly in English. It is read by a lot of foreign businesspeople active in Poland. We wanted to open discussion on the issues of Poland’s relative financial success (in comparison to other EU members at the time) from the perspective of the Polish central bank.

Even in a very popular serial titled “First love”, we can find the possibility to raise issues such as online transfers, and household budgeting! The viewers had an opportunity to watch scenes with educational topics in four episodes of the series. We concentrated on such topics as: direct debit, online transfers, household budget planning and saving.

Specialist programs on the specialist television channel “TV Business”, co-financed by NBP, were directly aimed at people involved in economy and business, looking at how macroeconomic issues connect with the everyday reality of Polish business. In a project “Market mechanisms”, in 12 twelve-thirteen minute episodes, we discussed market mechanisms

and mechanisms driving the economy, for example: economic education, macroeconomics, privatization, payment cards, foreign exchange market, state budget, investing, and public companies.

In our project: “Economy for everyone”, which was carried out with the 1st Program of Polish Radio, there were released 233 programs, each being 3 minutes long - in the morning hours; and 233 programs, each being 10 minutes long - in the afternoon hours, on various subjects connected with current economic and economy-related problems. It targeted the widest possible audience. We tried to connect economic problems with the lives of everyday people, for example food and petrol prices, interest rates and other topics important to their home budgeting.

Our next initiative “Financial safety on the internet” was for a portal aimed at economists, lawyers and accountants concerning the secure use of the Internet to conduct financial business. We concentrated on the development of an Internet service devoted to the principles of safe use of financial services on the Internet.

Our project “How to avoid a credit trap” was one of our most popular and successful multimedia campaigns. It allowed members of the public to communicate their real-life financial problems, and to receive advice from experts. The campaign covered Internet, TV and paper press. It was aimed to provide practical assistance to borrowers who have problems with meeting their credit obligations and “credit prevention” – informing bank clients what they should pay attention to before they take out a loan. Anonymous questionnaires presenting one’s own loan problems can be filled in on the website of Wirtualna Polska, the main Polish information portal.

The National Bank of Poland is trying to reach the public across the widest possible spectrum. We truly believe that our programs will have a positive influence on Polish society over the coming years. As our late former governor said: “Expenditures on Economic Education are not expenses but investments”.

Thank you for your attention!

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WHY FINANCIAL EDUCATION SHOULD START AT SCHOOL: THE ITALIAN EXPERIENCE

Maurizio Trifilidis*

FOREWORD

The supervisory function of the Bank of Italy, aimed at ensuring financial stability and compliance with transparency regulations, is an important component of the Italian consumer protection system. A consumer protection system includes competition, transparency and conduct of business regulation, the Alternative Dispute Resolution and, last but not least, financial education.

Regulations on transparency and business conduct are essential to ensure a correct relationship between customers and intermediaries. This relationship is often marked by information asymmetries.

Alternative Dispute Resolution helps the disagreeing parties to come to an agreement short of litigation and offers practical solutions tailored to parties' interests and needs.

However, as noted by Mario Draghi, Governor of the Bank of Italy, "No formal guarantee can be effective if the persons concerned do not have appropriate instruments for making evaluations. If savers are to be able to find their way among so many different and complex

financial products, they will need to have an adequate and up-to-date financial culture.”¹.

In fact, it has been recognized that the lack of financial literacy was one of the factors contributing to ill-informed financial decisions and that these had negative spill-over effects during the financial crisis². As a result, financial literacy is now globally recognized as an important element of economic and financial stability and development³.

Financial education does not involve simply conveying information but also making individuals acquire skills and adopt financially appropriate behaviours. In other words, the ultimate purpose of financial education is not to teach what compound interest or credit cards are, but to make individuals capable of using financial instruments in an appropriate way. Or rather, financial education is a circular process where information, skills and behaviours feed off each other.

Studies in economic psychology, also referred to as behavioural economics, started in the late 19th century; since then, it has become increasingly clear that individuals do not act as rational agents: they recall information selectively, make little use of statistical analysis, have unstable preferences, have cognitive and emotional limitations, are vulnerable to social pressures⁴. These circumstances have testable implications on decision-making and choice; they should be taken into

¹ See M. Draghi, “Growth and stability of the economy and financial markets”, Speech by the Governor of the Bank of Italy at the AIAF - ASSIOM - ATIC FOREX, Turin, 3 February 2007.

² As noted at the third meeting of the OECD’s International Network on Financial Education (INFE), held in May 2009: “The widening financial crisis is not stemming from a single cause. It was rather prompted by a combination of risky and improper behaviours and decisions of various stakeholders. Among those, financial institutions, experts and sometimes regulators unquestionably carry most of the responsibility. But the lack of understanding of households on financial issues and, in particular, on credit and investment, has also a major role. As a result, individuals have accepted (sometimes unknowingly) to support more financial risk than what they could afford”.

³ As the OECD put it in its 2005 report on Improving Financial Literacy “Financial education provides policymakers with another tool for promoting economic growth, confidence, and stability”.

⁴ In their bestseller Thaler and Sunstein state that rational agents, Econs, are a fiction and differentiate them from Humans, who are fallible and make systematic errors. See R.H. Thaler and C.R. Sunstein “Nudge: Improving Decisions About Health, Wealth, and Happiness”, 2009.

account when programs are aimed at changing people's behaviour.

Knowledge, behaviour and attitudes are the three pillars of any sound program. However, it is fundamental to prevent financial education from increasing confidence without increasing skills. As a matter of fact over-confident consumers risk making sub-optimal decisions. Over-reliance on information alone must be prevented. It is necessary to provide clear and accessible information as well as the cognitive instruments required to correctly process information and make the appropriate decisions.

Financially illiterate people tend to procrastinate financial decisions, often make decisions inconsistent with their actual needs and in many cases experience anxiety. For this reason, it is important to make individuals aware of their need for financial education and help them become familiar with financial issues.

It is also very important to develop people's awareness of the influence exercised on their decisions and behaviours by emotions and cognitive factors. Human mental operations are anchored on deep and primitive emotional mechanisms and are never totally free of such influence. Besides, people are all subject to both cognitive and emotional limitations of perception, memory and judgment of data. They resort to mental shortcuts in an attempt to deal with complexity that may be beyond competence. Awareness of the reasons why we need to acquire sound financial knowledge is a key to achieve sound financial decisions.

MAKING A SUCCESSFUL FINANCIAL EDUCATION PROGRAM

Financial well-being behaviours are lifelike only if we have financially educated people. For this goal, focused programs are a fundamental tool.

However, making people familiar with complex concepts is not a point-and-click task. It demands financial knowledge as well as teaching skills and the ability to identify learning needs and how to meet them.

Actually, making successful financial education programs is a difficult

task. First of all, a program is effective when delivered to the widest possible portion of the population; the number of individuals to which it is addressed is a component for a successful initiative. Then, it is important to have training on an on-going basis: receiving one financial education programme in a lifetime is not effective because knowledge and capabilities can be forgotten or lost with time. Finally, quality programs need to be tailored to the specific needs of their recipients; in particular they must address the diverse needs of different population groups.

How can we meet these requirements? One way is to deliver financial education programs at school. Education is a universal right ⁵, and schools can be an optimal channel to reach all those who, as adults, will have to face financial decisions. There are several other reasons why schools should be involved as much as possible in financial education.

First of all, investing in financial education in schools meets social equity requirements. Studies have shown that children's level of financial literacy is strictly dependent on the education and income levels of their families. Including financial topics in compulsory education programs makes it possible to reach all population groups, including the most disadvantaged ones and allow young people to compete on an equal footing. In the longer term, financial education at school facilitates access to financial products.

Furthermore, young generations need financial education more than previous ones did. Several research studies have shown that young people today increasingly make financial decisions without having the necessary competence and parents are often unable to provide them with appropriate advice. Effective financial education programmes can empower children to make wise financial decisions, facilitate their understanding of economic issues, prepare them for the labour market and encourage them to save.

Delivering financial education at school means addressing financial education programs to individuals in a particular phase of their life when they are most receptive. Besides it can be very convenient from an

⁵ See Universal Declaration of Human Rights (UDHR), December 1948, Article 26: "Everyone has the right to education. . . . Elementary education shall be compulsory. . . ."

organizational and logistical point of view. Last but not least, the costs are lower than what can be expected when other channels are used.

The education of children on financial issues has become extremely important as they will bear more financial risks and be faced with more complex and sophisticated financial products than their parents. Besides, children and the young have access to and are offered financial products at earlier ages; they have pocket money, cell phones, bank accounts etc. Yet, many recent surveys conducted worldwide show worrying low levels of financial literacy and skills among young people.

If we recognize that financial education is a fundamental right and that it is necessary to make people aware of the opportunities of individual progress and social development offered by the acquisition of basic economic and financial knowledge, school appears as the most appropriate place for financial education programs. To have financially educated citizens, it is necessary to educate youth.

The importance of financial education at school is stressed by the OECD and European Commission recommendations and shown by the advanced experience of some countries. Children should start receiving financial education since primary school. Investments should be made to train teachers and provide interactive and attractive educational material.

Financial education at school can start virtuous circles, as what students learn at school can easily spill over to their families. Having a family member with some financial awareness can help households in their financial decisions. Educating young people means investing in tomorrow's parents, who will be able to give their children good financial advice and an appropriate environment where they can discuss and perfect what they have learned at school.

Then, if students can acquire this familiarity during the entire course of their school life, as adults, they will be prepared to deal with financial matters.

However, there are many reasons that make it difficult to provide financial education at school. A survey carried out by the OECD in 2009/10 in 39 member Countries in 2009 showed that 21 of them

had already launched financial education programmes. The survey also pointed out that there are many barriers to the delivery of financial education at school, such as teachers' low level of subject knowledge and expertise; overcrowded curricula; absence of an assessment policy in place for this subject; fragmentation of training and staff turnover; insufficient priority placed on financial education by national Governments; reliance on the school or individual teachers to decide whether or not the subject is taught; lack of funding.

A NEW PROJECT TO ADDRESS THE LACK OF BASIC FINANCIAL KNOWLEDGE

In Italy, as well as worldwide, financial education has increasingly received attention over the last few years, as testified by the number of dedicated programs launched so far. The Bank of Italy has been among the first institutions to draw the Country's attention to the importance of financial education and has launched several initiatives. One of these is an experimental project designed to increase financial literacy among students.

Recognising the importance of improving youth's financial knowledge since primary school, in 2007 the Ministry of Education, University and Research (MIUR) and the Bank of Italy signed a memorandum of understanding for an experimental project to incorporate financial education into school curricula. The Memorandum is a real innovation in the relations between the two institutions and paves the way for making financial education an integral part of the various subjects taught at school.

The MIUR and the Bank of Italy play different roles: the MIUR contributes teaching skills and ensures nationwide delivery; the Bank of Italy contributes expertise in banking and financial market mechanisms. The Memorandum provides the organisational and governance arrangements to facilitate cooperation and take the best advantage of possible synergies and the absence of conflict of interest. The Memorandum also provides for the establishment of a Joint Committee responsible for defining the scope, purpose and strategy of the project and a Technical Committee responsible for technical and operational support.

The project involves students at all grade levels and includes three steps: first, experts from the Bank of Italy provide teachers with specific training and educational material; second, teachers deliver financial education in the context of the curricular subjects in a series of dedicated lessons; finally, the program effectiveness is measured through questionnaires administered to students before and after classroom teaching.

Training concerns money and payment instruments other than cash, in accordance with international best practices and the recommendation to focus financial education programs on topical financial issues closely related to the specific needs of their target groups. Money, payment cards, prices, prices' role in markets and their influence on personal budget planning are issues young people are often unfamiliar with but have to test themselves against in their daily lives. Price stability is also part of the training and is particularly fit for being discussed with an interdisciplinary approach. Actually, the issues selected for the financial education programme have many connections with several curricular subjects. This facilitates the inclusion of financial education in the curricular subjects on a permanent basis without having to introduce an additional stand-alone subject. The new editions might be extended to cover further topics such as the basic principles of banking and ethical banking.

The Bank of Italy has developed some educational material for teachers, who also attend training sessions at the local branches of the Bank of Italy. The educational material for students is developed by teachers, who have the expertise to ensure effective teaching with a multidisciplinary approach and to adjust the training to the age and education level of students.

Students' training is delivered in a series of lessons organised as teachers deem most appropriate. The schedules and modalities of training are discussed and approved by the individual school management within the general planning of activities of the individual schools. Principals appoint the teachers responsible for the financial education programme regardless of the subject they teach and based on the possibility to deliver the educational programme through the various curricular subjects and with workshop methods.

Finally, to assess the programme effectiveness, students are administered multiple-choice tests before and after the classroom teaching. A group of experts from the Bank of Italy and the National Institute for the evaluation of the education and training system (Invalsi) developed specific questionnaires for each school level, with different levels of complexity, length and time available. Then, the effectiveness of the teaching is evaluated measuring the increase in performances from the pre to the post-testing session.

Measuring the effectiveness of the educational programme through questionnaires is appropriate to the Italian school system for at least three reasons: students of all school levels are used to be regularly assessed by means of multiple-choice tests; questionnaires are a very convenient instrument to collect information from a large number of individuals; the idea of being tested at the end of the program encourages students' interest.

The experimental phase of the project was launched in the early months of 2008 with the aim of: a) developing a training programme to be adjusted to the different school levels; b) identifying connections with curricular subjects (maths, history, citizenship, etc.); c) identifying training needs and organisational arrangements for the following editions; d) assessing students' progress.

The school year 2008-2009 saw the pilot edition of the project that involved 32 classes in the provinces of Padua, Rome and Bari for a total of 650 students in the last and second to last grades of each school level. The 2009-2010 edition involved 485 classes nationwide accounting for 171 primary school classes, 172 junior high school classes and 115 high school classes for a total of 9,000 students. The 2010-2011 edition saw a further increase in the number of classes involved: 774 classes for more than 15,000 students of all school levels. The progressive widening of participation is due to the enthusiastic response of schools; as a matter of fact many schools that had participated in the previous editions were eager to have more classes involved than those initially planned. This is evidence of the growing awareness among students and teachers of the need for financial education.

Table 1

	Primary Schools	Junior High Schools	High Schools	Total
Classes				
2008/09	13	9	10	32
2008/10	171	172	115	458
2010/11	228	219	327	774
Students				
2008/09	239	182	210	631
2008/10	3.224	3.526	2.151	8.901
2010/11	4.316	4.644	6.240	15.200

As for the 2010/11 edition testing sessions, all students were administered questions on money and payment system; questions on “Stability price” were intended only for students involved in that specific module. Due to time constraints, only some classes were able to have both the pre-teaching and the after-teaching testing session. In particular over 11,000 students, accounting for 603 classes, took both. For this sub-sample and with regard to “Money and Payment Instruments” question set, the table shows results as percentages of correct answers.

Table 2

	Pre-test	Post-test	Gain scores
Primary School	51,9	71,2	19,3
1 st participation	48,0	69,5	21,6
2 nd participation	58,2	73,9	15,7
Junior High School	55,4	65,3	10,0
1 st participation	53,3	65,6	12,3
2 nd participation	60,4	64,6	4,3
High School	52,3	64,2	11,9
1 st participation	50,4	64,4	14,0
2 nd participation	59,7	63,6	3,9

The first thing to point out relates to the pre testing session. In particular, students who had been involved in the “Money and Payment Instruments” module during the school year 2009/10, performed better than the others at all school levels in the pre-teaching testing session, although the questionnaires were different from those used for the previous edition. This result highlights that some of the information acquired in the 2009/2010 training had been maintained even after one year, and it supports the effectiveness of the Miur-Bank of Italy financial education project.

The gain scores between pre- and post-testing sessions show that at every school level the training increased the financial knowledge level of students. In particular, Primary school students showed the lowest percentage of correct answers (51,9%) in the pre testing session and the highest gain scores after the classroom teaching (19,3%). Significant improvements between the first and the second testing sessions were also recorded in junior high (+10,0%) and high schools (+11,9%). This leads us to believe that educational programs improve financial literacy regardless of the age of their beneficiaries. In fact, given the different degree of difficulty of the tests administered, it would be improper to provide synthetic statistics aggregating data related to different school levels or to interpret the different gain scores as a higher improvement in knowledge among children than among teenagers.

The results of the tests are in line with the previous editions and this leads us to believe that the MIUR – Bank of Italy educational programs improve financial literacy regardless of the age of their beneficiaries.

CONCLUSION

As noted by Mr. Visco, “While not a panacea, investing in financial education is an important means to perform our institutional duties: protecting savings, ensuring stability and promoting competition”⁶.

* Maurizio Trifilidis, Head of the Financial Education Unit, Bank of Italy

⁶ See I. Visco “Financial education in the aftermath of the financial crisis”, Special Address to the OECD-Bank of Italy Symposium on Financial Literacy, “Improving financial education efficiency”, Rome, 9 June 2010.

HELPING PEOPLE TAKE CONTROL OF THEIR FINANCES: UK EXPERIENCE¹

Steve Stillwell*

I would like to start by thanking the Bank of Albania for inviting me to this conference.

It's a very important occasion for three reasons. The first reason is that I am really pleased that I can share a small part in this very important work that is developing out here in Albania but also in this part of Europe. Secondly, I came to Albania to Tirana for the first time and hopefully it will not be my last visit. Thirdly, looking out of my bedroom window this morning, it was so nice to see the sunshine and now it's warm outside and when I'm going back to London tomorrow I'm going to have to put up with 6 or probably 9 months of grey weather, lot of cloud, lot of wind, lot of rain. So I am glad to have an extra three days in the sunshine. So thank you! It's really, really great.

What I want to do is to talk a little bit about the work we have been doing in the UK, nearly almost for 9 years from now in terms of developing the financial literacy of the UK population.

Only this year there was a survey conducted with 53 countries across the globe. It was about asking populations about the hopes for the

¹ A transcript of the presentation held at the Bank of Albania 9th International Conference on "Building our future through financial literacy", Tirana, September 15th, 2011.

future and the UK came the 51st out of 53. Only in France and Iceland the population had less hopes for the future than the UK did. That is a big problem because in order to manage your money effectively, you have to be motivated to do it. And therefore, the work we have been doing in the UK is very much around how we can not only provide the information and the familiarity that we just heard about, but also how we can make sure the people consider what they want to achieve with their money. So that motivating part is actually very important in the work that we tend to do in the UK.

To begin with, just a little bit about who we are, who the Money Advise Service is. We are relatively new. We were launched in April of this year through an Act of Parliament. So we were set up by the Government but actually we are independent of the Government. We are funded entirely from the levy of the financial services industry in the UK. So we are actually part of that regulative framework we have in the UK. We are not a regulator. The Money Advise Service does not regulate products. That's done by other organisations, currently the financial service authority. But we are part of the broader financial regulatory framework. We offer a national service across the whole UK, that's both in terms of the whole aid range but also in terms of working in England, Wales, Scotland and Northern Ireland, because in UK currently we have a situation where increasingly the four parts of United Kingdom are beginning to have much more independence and we do cover the whole UK.

The other thing is what advice we give. I should say that I am not talking about productive advice. We do not give advice about what particular bank, what particular product from bank you need to go to, but what we do is giving general money advice, in other words, things like: now it's the time you ought to think about saving more; now it's the time you ought to start thinking about taking out a pension. That's the sort of advice we give. We are independent; therefore, we do not give that kind of advice. We are a free national service, offering money advice to anyone and everyone. The advice is unbiased because we are not selling anything.

Our vision statement is:

We enhance people's lives because they take control of their money as a matter of course.

- We know that if people feel in control of their finances, they feel better off, have a greater sense of wellbeing and are happier;
- Make it the norm for people to manage money well;
- Demonstrable impact on people's behaviour and society as a result.

I think that's interesting, as mentioned earlier this morning. The wellbeing is directly related to people's ability to manage their money. And if you can do that, then it does mean that you have a better aspiration and a better thought in terms of your future life. The particular one of those statements I want to focus on is the middle one, about making it the norm for people to talk about money and to manage their money effectively. In the UK we have a little problem: the people just do not talk about money. They're almost ashamed to. I can give you a simple example: a few years ago we started to develop a program in the workplace. This is where we offered free 45-minute seminars in any workplace just to give the people in that workplace some basic understanding.

What is their call for action in terms of thinking about the management of money? When we first started the program, we found it very difficult to get people to come along, even though it was done during the lunch time, break, even when it was done with the backing of their employer. We found it very difficult to get people to come along. And the reason was they felt ashamed. They felt that if they were going to a session which was about talking about money, it might imply to their colleagues that they had a money problem. And they didn't want that. So we do have a huge task to do in the UK getting people to talk and think about money just as they do about other parts of life. What we have been doing in the past period since 2003, it's been a bit like prospecting for oil. And if you think about prospecting for oil before you start drilling for it, you have to do a lot of background work. You have to survey the terrain. You have to do some test drillings. You have to work how to get the oil from the well to the terminal. And really what we have done in UK in the period between 2003 to 2011, when this work was led by the FSA was really prospecting.

We tried out a number of things. We tried out to work in schools; we tried out to work in the workplace; we tried out to work with leaflets,

covering every corner of the landscape. A great deal of work was done. We carried out a national survey. We tested ideas, piloted activities and we learned a great deal. And it's absolutely important to say that we had to go through that process. We had to go through that prospective process. One of the key things that came out from all that work was that there was generally a high level of ignorance on financial matters. People liked our initiatives but there was no robust evidence that they brought about any widespread change in behaviour. If you go back to a comment made earlier, in UK people know that a state pension is not really going to be enough for a good life for you when to retire. But that doesn't mean people feel actively about how to improve the situation.

So what we want to do at the Money Advice Service is to focus a lot more on how through advice we can actually help people change their behaviours and actually help people begin to think about what they have to do. If you offer people money advice free, then most of those people will do something as a result of that advice. So the work through education is absolutely advisable because that's the way the familiarity comes.

What we want to focus on the next stage of the work is about how you can in a sense translate the familiarity, the knowledge about financial services, financial products into actual action. And the way we're going to do that in Money Advice Service is really through three main ways:

- Mainly through website (www.moneyadvice.org.uk), through which we do provide a range of information for consumers;
- Some through our free telephone advice line;
- Others with individual face-to-face sessions with our team of 100 money advisers covering the UK. This is where people can actually get a face-to-face advice about exploring the financial issues and the financial situation they are in. We know that the most successful one takes place in the community. So in doing that, it is not the case of asking people to come to us; we have trained advisers to go out into the community. They go to the local government offices. Wherever people go, our adviser would go too, because it has to be part of the community. People won't come to us; we have to go to them.

- Through an online health check launched in June of this year. It provides the opportunity for people just to stand back and think about where they are in terms of their current financial position. This health check is similar as to if you go to doctors and have a check up in terms of blood pressure, a hart beat and so on. In a moment I'm going to show you a very short video which gives you a sample of how that works. [...video....]

The first thing to note is that we purposely have not asked people to put in financial data. In other words: "How much they earn? How much they've got in a bank account? How much they've got from savings? We have done that for two reasons: First of all we found out in UK, in our research, people are very worried about putting financial data into what they might see as a public domain, even though they know we are independent. It isn't public; it is very private but they are very sensitive to put financial data into somewhere they are not quite sure where that is going to.

Secondly, we know that very often people will stop health check and then you find out you have to go away and get your bank data or have to go to get a bank statement you are actually in. So we purposely have not asked for data.

Several questions that we ask are really things like: How much do you rely on borrowing? How much savings have you got? Do you have a will? In other words, if you die, is there any way in which your state can be properly sorted out? So the questions we ask in a health check are very much in that sort of line rather than asking for data. And the second thing is: it does take only ten minutes. I mean, if you have the opportunity to go to our website, it's there. So if you like, you may go yourselves.

The other thing we are trying to do in that health check is that we are working with the whole range of partners to get that on the other peoples' websites. For example, we are working with a large number of companies to make them put our health check on their staff internet sites. For example, Mark & Spencer, which is a very big employer, a very big retailer in the UK, has our health check on their staff internet site. So we are trying to not only work through us, but also to work through some key messengers. And the final point I want to make is really underlying a lot of work

we want to do in the UK about getting behaviour changed. And the approach we're taking in the UK is using an approach called *Mindspace*, which was initially developed by Professor Prundolon at London School of Economics. In essence, it suggests that there are a number of small things that people could do. They should have knowledge, which helps them to change their behaviour.

For example, we have been doing some work in the UK with the army because they want us to help them to develop a program for new recruits. These are 17, 18, 19 year-olds, who join the army and for the first time they have quite a good salary. Besides the salary, the housing is funded for them; the food is funded for them; the uniform is funded for them. So they actually have quite a large amount of income to spend. I mean, the army is being very concerned about where their income has been spent. What we often found was that when the young recruits were allowed half a weekend away from their barracks, they would spend on a very expensive weekend, which very often involved a lot of food, a lot of alcohol. And that was not particularly good in terms of health of the young people.

So we worked to start to see how we can begin to change the behaviour amongst the young people. When we interviewed those young people, they said very clearly the people they wanted to have messages about planning their money from were not people like me, not a man like a man in a suit, not a bank manager. They wanted to hear from people who are up next in the rank ladder in the line of the army, so the corporals, because these were the people that young recruits would aspire to in maybe five or six years time. So if the messenger were the corporals, they would listen to him. Whereas, if the messenger was someone coming in a suit and sitting down and giving a lecture, they might listen politely but actually whether they would do an action about was doubtful.

So what we are trying to do in the UK is to embed the Mindspace underlying the principle in terms of the work we are doing in the UK, in terms of helping people manage the money effectively. But I think, I'll turn back to what I said at the beginning. It's about making people be sure they have high aspirations in the way they go about managing their money.

Thank you very much!

* Steve Stillwell, Senior Manager, Money Advise Service, UK

FINANCIAL LITERACY IN THE CZECH REPUBLIC¹

Helena Kolmanova*

*Honourable Governor Fullani,
Honourable representatives of other central banks,
Ladies and gentlemen,*

First of all, allow me to thank you very much for inviting a representative of the Czech National Bank to this very important and interesting conference. I would like to show the Czech experience in the area of financial education and financial literacy.

The first point is how the financial education started in the Czech Republic. There was mentioned in the previous speeches here that the recent financial crises showed the lack of financial literacy among the population and also confirmed the necessity of its increase. Fortunately, the Czech Republic had already identified the necessity of financial literacy before the crisis. Around 2005, communications, recommendations of various international institutions and of the European Commission and other European Institutions helped us identify the necessity of financial education. It was reflected in the Resolution of the Czech Government, which was adopted in December 2005 and which committed the Ministry of Finance and the Ministry

¹ A transcript of the presentation held at the Bank of Albania 9th International Conference on “Building our future through financial literacy”, Tirana, September 15th, 2011.

of Education to prepare the system for developing financial literacy in the primary and secondary schools.

The Resolution was followed by the establishment of a Working Group on Financial Education in August 2006. This group, next to the fulfilment of the Government Resolution, made also other steps in the area of financial education.

Starting this financial education earlier had also a positive impact on avoidance of major problems we saw in the US mortgage market and further on in some European countries. So we can say that the crisis was not hard or nearly did not impact the financial market and the banking sector in the Czech Republic.

In 2007, financial literacy standards were established and approved by the respective Czech authorities. Also in 2007, we conducted the first survey on the topics of financial literacy among the Czech population. This survey had to show first of all the attitude of the Czech population, of adults, towards financial education. They saw the need for financial education. They also felt that they hadn't got enough information and knowledge during their studies at schools and which kinds of methods of financial education they would welcome in the future.

I suppose that my colleague from the Ministry of Finance will talk more about the results of this survey in the afternoon session. Based on the results, the first programs of financial education for adults and also for students were prepared and realized by various institutions and organizations.

The financial literacy standards were not only approved but also implemented into the curricula of secondary schools, meaning for 15 to 18-year old pupils, which would become obligatory by 2009. Also, based on the finding that financial literacy is necessary, from the very beginning, we decided to implement the financial literacy standards into the primary school curricula, which would be obligatory by 2013. Some schools have already started the education of these standards or at least the part on financial literacy. Based on survey results, the development of financial education programs for students and adults

showed the necessity and requirements for financial education among respondents.

The other step or task fulfilled by the Working Group on Financial Education was the preparation of the National Strategy for Financial Education, which was approved by the Czech Government in May 2010. We saw the National Strategy as a necessary prerequisite for the development of financial education programs in the whole Republic.

The last but not the least step or task of this Working Group was the participation in the OECD pilot project of financial literacy measurement in the second half of 2010. Again, you will be informed about its results in the afternoon session.

Now I would like to talk briefly about the approved National Strategy for Financial Education. First of all, the National Strategy defines the financial literacy as follows:

“Financial literacy is a set of knowledge, skills, and values of a citizen necessary for ensuring his/her own financial security and the financial security of his/her family within the present society, and for his/her active involvement in the market of financial products and services. A financially literate citizen is acquainted with the issues of money and prices, and is able to manage his/her personal and/or family budget responsibly, including the management of financial assets and liabilities in consideration of changing life situations”.

What I want to say is that we see the Financial Literacy not just as a set of knowledge, but also as attitudes and skills and behaviour of the population or citizens in their financial affairs, because it is not enough to know what the financial stability, the debit and credit cards or the inflation rate is. It is also necessary to behave appropriately in accordance with your knowledge when deciding about your financial affairs, when planning your future in finance, because it is not just about what we are doing now; it is also planning for the whole life situation. That is why we have this very long and detailed definition of financial literacy.

The content of the National Strategy is not just a description or a list

of programs of the financial education. It also states the priorities of financial education and the principles of financial education programs.

We see the following priorities of financial education for the future:

- Active and responsible participation in the financial market;
- Prevention of excessive indebtedness;
- Old-age security.

The first has to do with teaching the population how to be active and responsible in the financial market, how to behave in the financial market, how to accept the financial products, how to plan their future in the financial affairs.

The second is to prevent excessive indebtedness, as we see the increase of indebtedness of the Czech population not only in the middle and upper classes, in mortgages for instance, but unfortunately also in low-income classes, low-income people with consumer loans, the repayment of which is sometimes a big burden for them, also because of increased rates, which are higher for consumer loans than for mortgages, for instance.

The third is to teach people to prepare themselves for retirement, to create the old-age security, to press them to understand that they could not expect to live and keep the same living standard only on the state pension. It means that there must be also some savings and thinking about the retirement already when a man or a woman is 30-35 years old. This is the goal of our new pension reform.

We stated and approved the following principles of financial education in the National Strategy for Financial Education:

- Generality
- Expertise
- Targeting

Generality means that we don't support the programs which should present and sell some specific products, products of a specific financial institution. We always insist that in case it is not a real financial education program for the population, it must be avoided. There is always a conflict of interest about how deep or how far the financial institutions and private financial institutions should be involved into the financial education program. To avoid this conflict of interest, we should avoid the presentation of the advertisement of that product.

Expertise means that the financial education programs must be prepared and created by persons who are educated in financial affairs, who understand the financial products, who understand the financial markets and who are also able to teach, to educate. So there are mixes of knowledge and mixes of skills.

Targeting means that we must know which group of the population is targeted, which group of the population is approached by this specific financial education program to adopt the program, to adopt the presentation and also to adopt the channels which are used to present or teach the financial education program.

We also defined two pillars of financial education:

- FE of students as a part of initial education in schools;
- FE of adults as a part of further education organized by universities and private sector.

The first pillar is very important from the expertise point of view, but it is also easier in terms of delivering this program because you have the students in schools, you have a group where you can present it. The Czech National Bank started its activities in this first pillar. In 2008, a textbook for financial literacy teachers in secondary schools was sent free of charge to all schools. Also, in 2011, a textbook of financial literacy for pupils was sent free of charge to selected 290 primary schools. So-far, we have organized seminars for financial literacy teachers with more than 1000 participants.

The second pillar is not only a question of expertise but also a

question of how to deliver it and which channels to use. I must say that the Czech National Bank has been active in the second pillar as well. What we discovered as possible channels are, of course, the media. We prepared a series of articles on financial literacy in various media. We signed a Memorandum on cooperation and preparation of financial education programs with a TV channel and we hope it will target a large group of population. We cooperated with universities. We prepared for the so-called “The third-age university” a series of lectures for seniors. So-far more than 500 participants have attended these lectures. We discovered that this cooperation is very useful, as the seniors are a very sensitive group of the population, who could be misled by various intermediaries and so buy financial products which are not appropriate for them.

What we discovered in terms of these channels, articles, the media, lectures, is also the fact that we can base our lectures on real concrete examples. The Czech National Bank is also the supervisor of consumer protection in the financial market, which means that we’ve got complaints; we’ve got real cases, real stories and if we base the education, the lectures on real stories, it would be more interesting for participants to remember more.

Also, we use tests to see how successful our lectures are and until now we have had very good results.

The last but not the least about financial literacy for adults is a special website on financial literacy. It is different from the Official Website of the Czech National Bank and it is called “CNB for everybody”. Unfortunately, I must admit that until now it has not been translated into English.

I would like to go back briefly to the last part of the National Strategy, i.e., financing, just to share it with you. Financial education programs which fulfil the agreed principles can be subsidized by the ministries or government from other budget items. So the Czech Republic does not have an extra budget for the implementation or fulfilment of the National Strategy of Financial Education. We used the budgets of the administrative bodies, ministries as well as the Czech National Bank for the fulfilment of tasks. We have, of course, also participants from

non-profit organizations, professional associations who put on their own budget, produce and present programs on financial education. We have set up an Action Plan for 2010 – 2015, which is a very necessary part of the Financial Education Strategy and which defines precisely the tasks, schedules and responsibilities of all participants. Of course, we will check the fulfilment of these tasks and the adequacy of the National Strategy. We can also discuss changing it in order to reflect the changes in the financial market.

Thank you for your attention!

* Helena Kolmanova, Executive Director, Consumer Protection Department, Czech National Bank

SESSION II

FINANCIAL LITERACY IN
ALBANIA

RAISING LABOR SKILLS IN ALBANIA¹

Erjon Luçi*

Thank you Mr. Governor!

I'm sorry for the absence of our manager, but I'm quite glad being back here, which is being among my old colleagues to go through a quite important topic.

I am one of those that was a bit skeptical about this topic until I made a quick research for this session and I'm going to try to approach the problem from a broader new perspective, to narrow down to a proposal the World Bank has just pushed in Russia about the Financial Literacy, just to put the whole thing under some new perspective. Also, this thing may have been discussed in the morning session but I'm sure, since we are talking about Albania, it's good to put it a little more in practical terms without losing the generality. I will go very quickly through the first presentation, just to respect the invitation we received for presenting the new growth agenda, upon which we attach the education. But this is a big thing remotely related to what we are discussing today and I'm sure some of you have already seen this presentation last year. So I'm going to go very quickly through it, if I can.

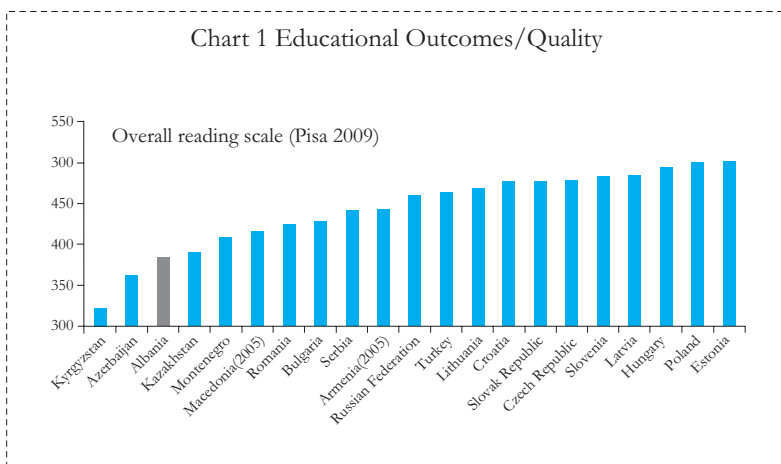
¹ A transcript of the presentation held at the Bank of Albania 9th International Conference on "Building our future through financial literacy", Tirana, September 15th, 2011.

The key idea is just to put a general view where the education system in Albania stands. According to our reports and surveys, it has become a bit impediment for the development of Albania until the next production chain. It is important for maintaining the sustainable growth rate in the future, especially under the restrained situation at the moment. So what we are looking at is going through some demand and supply assessment of education. Just to make it very clear from the start, when we talk about education and innovation needs, we mean the needs to get to the next stages of production chain.

Here are basically things that could be related to the financial literacy we are discussing today, which is acquisition of technology mostly, domestic creation of relevant new knowledge within the economy, and dissemination and effective use of this new technology.

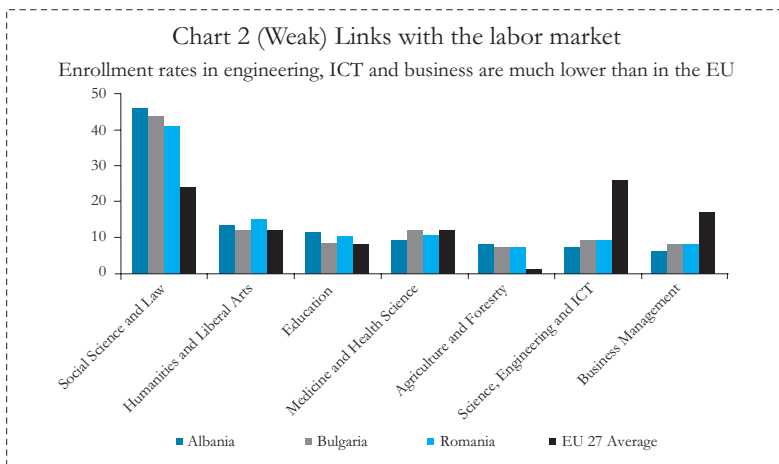
So it's not just reinventing the wheel and this is also very important in the discussion for the financial intermediation. I am going extremely quickly through all these slides, since I want to show you the other presentations. In terms of spending, Albania spends less on education as a proportion of GDP than other countries in the region (not counting for private spending).

In terms of quality according to Pisa results, Albania is lagging behind. It is not so much about quantity, which is improving, but it's about quality.



You can see from the slide that Albania has gone from the last ranking it used to be and has jumped and it was one of the top ten reformers. That has been a progress, although it is still lagging behind. So a lot remains to be done in terms of education. One of the problems is with the teaching methods, which are very passive and this may also be related to financial literacy. This thing may be thought to be beyond the academia discussions. The other thing is the choice and the (weak) links with the labor market in terms of students who are going to respective branches.

It's quite skewed toward social sciences and you know very well the market is looking for other skills, especially engineering and sciences more than social sciences. This may be a bit difficult to interpret on these bases, but it shows some mismatch between the other markets and what the education system is targeting.



There is an exercise that I explained last time I presented these stuff, which shows that the under 35 sample of graduates or sub-sample of graduates have experienced a lower wage increase than the above 35 of the same sort of cohort, which may show (just to be careful with the evidence) that the quality is probably declining. This is not a sign that things are definitely going down, but switching to brain gain, it shows there is a little bit trade-off between the fast expansion, especially of private universities.

Now to sum it up, before I go and get closer to today's topic, this is an information signal and coordination as well as a sensitive issue. The topic of today may go on with the other information part of the education system and a little bit on the coordination issues.

SECOND PRESENTATION: "FINANCE FOR ALL: POLICIES AND PITFALLS IN EXPANDING ACCESS"

Just to switch to another topic, which I found by chance focusing very well from the start to today's topic. Then I realized that it is also very important for today's gathering. A study by the World Bank and OECD and DFID states that financial literacy should be developed hand in hand with improving access to financial markets and services (WB, OECD, 2008).

I want to put the financial access into some perspective in terms of key message that has come out of the "Finance for all?" study that the World Bank did in 2008. And that is also a very good reference for getting this initiative right. What that says is that, even though the empirical evidence shows that the financial access definitely contributes to growth and lowering of poverty and inequality, the links are not as straightforward as we may think they are, and that has been proven by both micro and macro evidence, by empirical evidence.

I will try to go very quickly without boring you with details that you could also follow in this quite interesting publication. It is very pretty straightforward saying that the financial access can increase growth and fight the poverty. Theory suggests that:

- greater financial access could raise income inequality in the short term.
- At the same time, giving people a wider set of growth opportunities through increased access to finance should eliminate inequities caused by barriers to such access.

There are some doubts that in the short run this may create more inequality. The story around this is very simple. If, for instance, a farmer is living in subsistence conditions, to switch to a more productive activity, he needs some financial access. Giving him this financial access

helps him to move up the ladder of this production chain, which could also help him to improve the income. This is the theoretical story that you may link financial access with general development and poverty in particular. But, the evidence does not really show this link as strong as the theoretical argument goes, also because this financial access and the success of different low-income groups depends on many other things. And there is a long range of things that can make certain activities and certain entrepreneurs successful.

Net welfare benefits of increased access are found to be substantial, which was evident in a study of the Thai economy. I'm talking most of the time about microcredit and there are some good examples like those of Thai economy. But you know, the biggest impact comes through higher wages, which lead to lower inequality in the long run and this is a quite interesting finding.

The success stories of microfinance are well documented but the benefits of microfinance may reflect selection bias—and the empirical evidence is mixed. A field experiment using random selection criteria highlights the benefits of microcredit but more research is needed in this area. If you control the selection bias, the net effect diminishes quite a lot. So in this area, financial access which is microfinance is almost the same sort of word. More research is needed to see if this link is as straightforward as sometimes it claims to be. So the key message I want you to take from this presentation is that the channel is mostly through the development of overall financial intermediation: it's from the financial deepening to growth and then from growth to poverty, which is also the case for Albania made in some publications, some reports of the World Bank.

There are some examples which show the links between the financial liberalization and deepening with growth. So a natural experiment from Indian regulations shows the impact of improved access—as does one from the U.S. experience with liberalization. These are old references in terms of when it happened; they are not linked with the recent financial market turmoil. Let's forget that for a moment.

So a key message is that although there is evidence that financial access and intermediation improve the country's wealth in terms of reducing

poverty and inequality, the nature of the transmission mechanisms is unclear.

I want to extend the argument from here to switch to today's topic, that it's not just a financial credit and financial access to credit that is important for the poor. There are also some other instruments. A key instrument is what today's discussion is about, the financial literacy. It is, for instance, like the microinsurance, about which I, for example, was a bit ignorant of until I started reading a bit about it, which could help a lot on certain activities, especially for Albania. For instance, in terms of rainfall insurance (India case, for example), everybody knows the floods in Shkodra that are now occurring quite frequently. The World Bank is trying to introduce some elements of insurance, but it's at a very aggregate level. However, in terms of microinsurance, that might be a quite interesting instrument to promote and discuss whether it may work or not. Rainfall insurance is only one of the microinsurance products, which are still in their infancy, so it is too early to draw definite conclusions.

Life and health insurance policies have also proven that they can expand the reach of microcredit companies, if they couple some of their products with life and health insurance policies, which could help with achieving some of the main development goals in education and health by combining a little bit some of these new instruments with the microcredit. In terms of microsaving, I will jump directly to what the key feature for the Albanian economy is, i.e., remittances, which make a huge component of consumption in Albania. The Bank of Albania has done an outstanding job about remittances in the past years. It has been shown that these formal channels (and that has been the case in Albania until some times ago and to some extent it is even now) are quite costly, but the cost of transferring money is quite high.

Now, again just to put this in perspective, we are going from financial access to credit to access to payments services, a sort of financial access. It is just to show that the range of products that can be offered in terms of financial access is much wider than just simplifying it to one word, credit. This is one of those products that the Bank of Albania will probably note in the definition of financial literacy. There has been done quite a lot to reduce a bit the cost of corridors between Italy, Albania and Greece.

The other thing is that technology can also expand the customer base and can affect customers directly. It allows for other products, which we may very quickly see in the next presentation, which is a very recent presentation for Russia. Before switching to it, I have just one quick point on microfinance and microfinance institutions that may need a little bit more of your support. Microfinance institutions increase access to financial services but many of them are dependent on subsidies, raising questions about their sustainability. They are often unable to meet the needs of the excluded non-poor. The obvious solution—linking the microcredit sector with the banking sector—has therefore become an increasingly popular solution. But I am of the view that there should be some deadlines; it is an initiative that may have a dead end, as you know that some of the international financial institutions stopped financing them. So these initiatives are not yet fully sustainable, which may show that they need a little bit more of push, but push it is not endless.

I am closing the presentation by saying that the narrow focus on the link between the finance, growth and poverty is very useful in tackling some of the problems of finance, including the financial literacy that we're discussing today.

THIRD PRESENTATION: “RUSSIA FINANCIAL EDUCATION AND FINANCIAL LITERACY PROJECT”²

We can switch to the third presentation, which is not mine. I received it this morning from a colleague of ours, Mr. Ivan Shulga. It is a quite good outline of the activities that Russia is doing in cooperation with the World Bank exactly about today's topic, which could be an idea that the Bank of Albania can follow up either with us or with other institutions in the future. I'm just going to skip through this very quickly, just to show a few things that I'm sure have already been mentioned. Even the video that we just saw has already covered a quite substantial part of this.

In terms of objectives, I think you probably went through them this morning and it is pretty straightforward to improve the literacy

² Russia FEFL Project Team

of citizens in that particular country. Combining this with consumer protection is another side of financial literacy. The target groups, as we also saw in the video, are pretty straightforward, which is schools and college students. Also, as the previous presentation showed, the potential low and middle-income groups may be potential users of financial services. The activities that the Bank of Albania may be looking forward are: institutional framework, capacity building and direct FL intervention in the financial literacy, for instance, education programs. I heard that the Bank of Albania has already published its new book on the Personal Finances, so I am sure you know that the Bank of Albania has moved quite ahead in many of these products.

There are other interesting products, which may go beyond what the Bank of Albania does and here is probably needed our support, like ensuring adequate post-retirement income and as a matter of fact hopefully, we will push a little bit the pension reform discussion in the forthcoming months by also improving the understanding among people, even though it's a quite difficult task as you have seen in the discussion of these days. Again, there are plenty of other steps that the Bank of Albania could consider to make or structure on the ongoing steps along these lines. From this slide you can also see the Bank of Albania has moved quite ahead than Russia, so in one way Albania is probably an example for Russia, but again there might be a few things that are worth considering: summer and winter schools, for example. You may also find some useful stuff in this presentation, which I've already shared with the IT guy. I am closing it here because as I said this is just a presentation that is for the Russian experience, but it's more or less basically what a full-fledged financial literacy project could look like.

Thank you very much!

* Erjon Luçi, Representative of the World Bank Office in Albania

FINANCIAL EDUCATION AND FINANCIAL LITERACY IN ALBANIA: THE STATE OF PLAY

Gaetano Chionsini *

I. INTRODUCTION

In 2010, the EU funded a Twinning Project between the Bank of Albania (hereinafter BoA) and the national banks of Italy (BdI) and France (BdF). The overall objective of the project is to assist the BoA in the fulfilment of the Copenhagen economic criterion by contributing to the development of operational instruments supporting the effective implementation of monetary policy as well as the existence of a safe, financially sound and well-developed banking system in Albania. Within this framework, the project is aimed at preparing the BoA for a smooth rapprochement to the European System of Central Banks (ESCB) and helping ensure an approximation of the Bank's legal and regulatory framework to the EU *acquis communautaire* as well as of its practices to the standards prevailing in the ESCB.

The Twinning is developed in two phases. The first three months of activity (Component 1 – December 2010 / February 2011) were aimed at preparing a Development Plan which presented a thorough review of the regulatory and operational framework of the BoA in the various areas covered by the twinning, and a detailed list of corrective steps to fill the identified gaps during the lifespan of the twinning. Based on the identification of various development needs, the Development Plan provided, for each module of the Twinning Project, a comprehensive Action Plan to build concrete achievements by the end of the implementation phase (May 2012).

The twinning is divided into 6 modules referring to the following areas of activities: Supervision and financial stability; Financial literacy; Statistics; Payment systems; Interbank money market; Coordination of EU integration process. With regard to the financial literacy module Banca d'Italia offered to provide support, as it has increasingly devoted efforts to financial education since 2007 and, as a result of the recent financial turmoil, has reinforced the commitment to improving the financial literacy of the population¹.

On the basis of the activities carried out since the beginning of the project, this paper provides a broad picture of the state of play of financial education and financial literacy in Albania.

II. FINANCIAL EDUCATION: WHY AND HOW

During the last decades individuals and households have been made more directly responsible for major financial choices whose effects can considerably influence their present and future spending power. The increased complexity of financial products and rapid technological changes have made it more difficult for customers to make optimal choices. Financial education² may benefit individual citizens and the system as a whole; it promotes a more competitive market of financial

¹ Among other things, Banca d'Italia: every two years carries out research on Italian household savings and in that context a survey is conducted of Italian families' financial literacy; is taking part in a OECD initiative, the INFE subgroup of experts on measurement of financial literacy; has developed a financial education section within its institutional website, with the aim of making financial matters understandable to the general public and developing the capability of ordinary people to make risk-aware decisions; in 2007 signed a Memorandum of Understanding with the Ministry of Public Education to provide children with the economic, financial and monetary education appropriate to their age on which to capitalize in the future.

² For the purposes of this document, financial education is defined as the process by which the financial consumers/investors increase their financial literacy levels. Financial education programmes are therefore aimed at improving consumers' understanding of financial products and concepts and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of the financial risks and opportunities, to make informed choices, to know where to go for help and to take other effective actions to improve their financial wellbeing. This is a broad definition of financial education, which is based on information, instruction and advice aimed at raising the levels of knowledge, understanding and confidence of the individuals in order to generate more awareness. Therefore financial education is not simply the provision of financial information.

products and services; it empowers customers vis-à-vis the financial industry.

The importance of good financial education has been acknowledged at a global and EU level. At the November 2010 Seoul Summit, the G20 leaders called on the OECD, the Financial Stability Board and other relevant international organisations, to explore options for advancing financial consumer protection through informed choices that include education. At the EU level, the issue of financial education was raised in the ECOFIN Council conclusions of 8 May 2007, in which the Council invited Member States “to significantly step up their efforts to raise households’ awareness on the latter’s need to obtain proper information and education, in combination with the financial industry’s own responsibilities and initiatives as appropriate, so as to increase households’ preparation whilst maintaining adequate investor protection”.

Delivering financial education is not an easy task. It is a complex process, which needs human and financial resources. In the best practices developed at international level, the “production” of financial education goes through these four strategic steps:

1. Defining a national strategy: it is necessary in order to efficiently set the objectives of an educational programme and to take on board as many stakeholders as possible.
2. Assessing the level of financial literacy: setting the objectives of an effective financial education programme requires identification of the areas where the population’s financial capability is low and identification of the extent to which financial education programmes and/or consumer protection measures should be put in place.
3. Implementing the programs: programmes have to provide people with the correct tools to make the necessary choices, and be delivered in an environment and at a time that best suit the recipients.
4. Measuring the costs and benefits: monitoring and evaluating the success of individual initiatives and the strategy as a whole (by re-running the baseline survey) will, over time, help us determine whether we have achieved significant behavioural change.

III. THE ALBANIAN CONTEXT

Financial education can play a crucial role for the development of Albanian financial system. According to the Financial System Stability Assessment³ carried out by the IMF in 2005, the Albanian financial system is still in the early stages of development; cash transactions dominate exchanges; the Bank of Albania should encourage retail demand for government securities; policy continuity is needed to build public confidence in the financial sector. To achieve confidence is not an easy task and it requires the customers of the financial industry to understand the available information and be aware of the risks that are inherent in any financial investment. Furthermore, financial education initiatives are a significant way to address the problem of financial exclusion: those who have received some form of education in financial matters are far more likely to be engaged with the mainstream financial industry, and do not need to rely on higher-cost and higher-risk fringe providers or loan sharks. Financial education can encourage citizens, even those on low incomes, to plan and save some part of their incomes; it can help develop the skills to form the financiers of tomorrow .

Consequently, the Bank of Albania has been considering financial education activities to be a priority since 2006. Within the Twinning framework, Bank of Italy experts, jointly with the Bank of Albania, have carried out an assessment of the Albanian financial education initiatives with the aim of identifying the needs in developing financial education programmes in line with the best international practices (OECD and UE). The key elements of the financial education initiatives launched by the BoA are:

- Target: the BoA educational activities are mainly addressed to teachers and students of primary schools and high schools, professors and students of Albanian and international universities, journalists of print and electronic media and social workers.
- Objectives: the priority objectives of the BoA include: raising the awareness on the role of the BoA as a central bank and improving the economic and financial knowledge of the target

³ <http://imf.org/external/pubs/ft/scr/2005/cr05274.pdf>

groups. Face to face informative and educational activities, simple questionnaires, evaluation forms distributed after the activities and the Albanian historical background all provided the basis for defining the objectives.

- Tools: the BoA publishes a reasonable amount of information material, such as reports, bulletins and press statements, as well as educational publications. The BoA is also responsible for administering its web page, which is considered as a very important interactive communication tool. Furthermore, the BoA has recently taken different initiatives towards its target groups by designing and implementing open lectures, training programmes for journalists as well as economic and financial education programmes for teachers and students.
- Budget: about 600 thousand euros for the years 2006-2011
- Partners: the Albanian Ministry of Education and Science, on the basis of a Memorandum of Understanding.

The main strong points of the Albanian financial education programmes are:

- Being developed by the central bank, the BoA's financial education materials are perceived by the citizens as an impartial source of information and advice.
- The BoA's financial education programmes start at school and this is consistent with the best practices developed at international level which state that people should be educated about financial matters as early as possible in their lives.
- The BoA makes use of a large variety of means to ensure that a wide audience may be reached. In particular, the BoA has developed a section of its Internet website, guides, brochures, leaflets, ... - in order to achieve wide coverage and exposure.

By December 2010, the main drawbacks are:

- Financial education programmes are not part of a wider national financial education strategy. While the BoA is tackling the financial education issue as an important element in the wider context of its responsibilities, the other public authorities (e.g. the FSA or the competition authority) as well as other private

stakeholders, even if they could be interested in promoting and delivering financial education initiatives, have not been involved in financial education programmes launched by the BoA.

- At national level, a survey aimed at measuring the level of financial literacy of the population, by December 2010, had not been carried out yet. Therefore, there was no robust evidence on the areas where financial capability in the population is low and an identification of the extent to which these should be addressed by financial education measures.
- The Bank of Albania has not performed yet any evaluation process aimed at assessing if and how the financial education programmes are meeting their objectives and what impact they are having. These types of surveys would be of great significance in order to assess the programmes' effectiveness, to identify possible areas for improvement and to check that the initiatives make good use of resources.

IV. THE TWINNING PROPOSED ACTIVITIES

In view of these drawbacks, the Bank of Italy in concert with the BoA, set a pathway in order to take a leap forward in delivering FE. This pathway encompasses the following actions, which are still under way:

- Assistance in raising awareness and status of personal financial education in Albania. The main goal of this activity is to raise the status and profile of personal financial education in Albania. The initiatives scheduled within this activity are aimed at bringing policymakers, the academia, educators and the banking sector together to discuss the important role financial education can play in ensuring the prosperity of Albanian citizens, improving their retirement arrangements and facilitating the development and stability of the financial market. Initiatives like the BoA's conference "Building our future through financial literacy" could be an opportunity for Albanian stakeholders to consider ways to develop cooperative mechanisms and research oriented programs.
- Carrying out a survey to measure the level of financial literacy of the Albanian citizens. The ultimate goal of this activity is to

provide BoA with assistance in: a) developing the methodological framework (scope, sampling, questionnaires, etc.) for a survey focussed on individual financial literacy; b) analysing the findings; c) drawing conclusions and identifying actions.

- Development of a methodology aimed at measuring the effectiveness of financial education programmes at school. The evaluation of a financial education programme should be aimed at assessing if, and how, the financial education programme is adding value, whether it is meeting its objectives, and what impact it is having. The final goal of this activity is to consider whether the financial education is leading to a change that would not have occurred otherwise. Evaluation may occur during the programme, so that the results can be fed into the ongoing development of the programme, or it may occur afterwards, to identify important lessons from a programme that can be applied elsewhere.

So far, all the scheduled activities were carried out according to the Action Plan and both the BoA and the BoI have demonstrated a strong willingness to cooperate, in order to keep momentum and to achieve the objectives.

V. A FOCUS ON THE ALBANIAN SURVEY ON FINANCIAL LITERACY LEVELS

Since the beginning of the project the BoA has considered the survey on financial literacy as a priority among the Twinning outcomes of the financial education module. As a matter of fact, the BoA stressed the determination to carry out the survey during the first months of the project as it was aware that this exercise would allow it to identify potential needs and gaps in relation to specific aspects of financial literacy and would provide information about which groups of people are most in need of support. The results of the first financial literacy survey would be taken as a baseline and used to set benchmarks for financial education initiatives. Subsequent waves of the survey were to be used to identify changes that occur during the interim period.

Therefore both the BdI and the BoA agreed on developing a

methodology for a national survey to measure the financial literacy level of the Albanian adult population. This methodology had to be in line with the guidelines provided by the OECD INFE Financial Literacy measurement Sub-group (see box).

THE OECD FRAMEWORK

In 2008 the OECD created the International Network on Financial Education (INFE) in order to promote and facilitate international co-operation between policy makers and other stakeholders on financial education issues worldwide; so far, more than 160 institutions from 81 countries have joined the OECD INFE.

The same year, the INFE created the “Expert Subgroup on the Measurement of Financial Literacy and Inclusion”, aimed at developing a methodology for measuring and generating comparable indicators on the levels of financial literacy of consumers across various high- and middle-income countries.

In 2009 the Subgroup carried out an in-depth review and analysis of existing financial literacy surveys undertaken world-wide. This review allowed for the elaboration of detailed Guidelines on the design of financial literacy surveys, and the development of a core set of good practice questions to be incorporated within national surveys. Basically, the INFE Subgroup developed a groundbreaking international measurement instrument to create a financial literacy score that can be compared across countries, and time. This comprehensive instrument is based on: a short questionnaire (core questions) covering various aspects of financial literacy; questions applicable across countries and personal circumstances; additional questions to address country level issues; guidance on methods and implementation.

The core questionnaire developed by the INFE Subgroup focuses on all aspects that are associated with the overall concept of financial literacy which is “a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.”

The questions also cover a range of contexts, including accessing financial services, meeting immediate financial requirements and planning for the future.

In 2010 the INFE member countries were invited to pilot this questionnaire according to the methodology developed by the INFE Subgroup. The data collection for this pilot process began in the second half of 2010 and was completed by early 2011. 12 countries (Armenia; Czech Republic; Estonia; Germany; Hungary; Ireland; Malaysia; Norway; Peru; Poland; South Africa and the United Kingdom) originally volunteered to test the questionnaire. In July 2011 the Bank of Albania applied to become an INFE member and, with the guidance of the BdI, joined the OECD pilot exercise.

V.1. THE ALBANIAN SURVEY: SOME METHODOLOGICAL ASPECTS

The Albanian survey was carried out by the BoA with the assistance of the BdI and the Institute of Statistics (INSTAT). The questionnaire was made up of the 30 core questions defined by the INFE - Measurement Subgroup and both BoI, BoA and INSTAT worked together on translation to ensure consistency with the Albanian context. The INSTAT was responsible for arranging the sample⁴ and for undertaking face-to-face interviews; the survey targeted households, it covered 1,000 individuals, aged 18 and over, whose allocation was proportional to the number of residents in the Prefecture /Urban_Rural area (see table); a direct weighting method was used, referring to demographic data of

⁴ For the random selection of individuals, a three-step random selection method was applied. Step one was the selection of the PSUs (Primary Select Unit): the basis of PSU selection was the Frame PSU by REPOBA 2001. Step two was the selection of families within the PSUs: five families per PSU were selected for interviews; for each PSU, three reserve families were selected (pre-selected); the selection method was the Simple Random Sampling with Replacement. Step three was the selection of the respondent: the survey on population's opinion about the financial system targeted individuals aged 18 and more; for randomly selecting a respondent, the interviewer chose the person with the date of birth closest to the date of interview, provided that the person were at least 18 years old.

the population aged 18 and above, providing adequate representation at the national/urban_rural level.

Table 1 sample distributiona

ID_ Prefecture	Prefecture	ID_ District	District	Urban	Rural	Total
1	Berati	1	Berati	20	25	45
2	Dibra	5	Dibra	5	20	25
3	Durrësi	6	Durrësi	60	35	95
4	Elbasani	7	Elbasani	40	50	90
5	Fieri	8	Fieri	30	50	80
5	Fieri	21	Lushnja	15	30	45
6	Gjirokastra	10	Gjirokastra	20	5	25
7	Korça	14	Korça	25	35	60
7	Korça	28	Pogradec	10	15	25
8	Kukesi	17	Kukesi	5	15	20
9	Lezha	19	Lezha	5	25	30
10	Shkodra	32	Shkodra	35	35	70
11	Tirana	12	Kavaja	15	15	30
11	Tirana	34	Tirana	150	130	280
12	Vlora	30	Saranda	10	10	20
12	Vlora	36	Vlora	45	15	60
			Total	490	510	1000

The survey data collection began in May 2011; in August the BoA and the BdI prepared the data and made them consistent with the OECD requirements; in September the BoA forwarded the Albanian data to the OECD for their inclusion in the first international measurement exercise.

V.2. THE ALBANIAN SURVEY: THE QUESTIONS

The Albanian survey questions were aimed at capturing knowledge, behaviour and attitudes, as well as socio-demographic indicators, such as age, gender and education.

With regard to knowledge levels the survey asked a range of questions in relation to concepts such as the ability to do divisions, the comprehension of the relations between risk and return, price stability and the benefits of diversification, simple and compound

interest. The ability to apply numeracy skills in financial situations and the knowledge of key financial concepts are seen as core requirements in order to consider a person to be financially literate.

Table 2 Knowledge questions asked in the Albanian survey

	Question wording	Response Options
Division	Imagine that five brothers are given a gift of 100. If the brothers have to share the money equally, how much does each one get?	Open, numeric
		Multiple choice :
Time-value of money	Now imagine that the brothers have to wait for one year to get their share of the 100. In one year's time will they be able to buy:	a. More with their share of the money than they could today; b. The same amount; c. Or, less than they could buy today.
Calculation of interest plus principle	Suppose you put 100 into a savings account with a guaranteed interest rate of 2% per year. You don't make any further payments into this account and you don't withdraw any money. How much would be in the account at the end of the first year, once the interest payment is made?	Open, numeric
		Multiple choice:
Compound interest	and how much would be in the account at the end of five years? Would it be:	a) More than 110 b) Exactly 110 c) Less than 110 d) Or is it impossible to tell from the information given
		Multiple choice:
Risk and return	An investment with a high return is likely to be high risk	True False Don't know
		Multiple choice:
Definition of inflation	High inflation means that the cost of living is increasing rapidly	True False Don't know
		Multiple choice:
Diversification	It is usually possible to reduce the risk of investing in the stock market by buying a wide range of stocks and shares (Yes)	True False Don't know

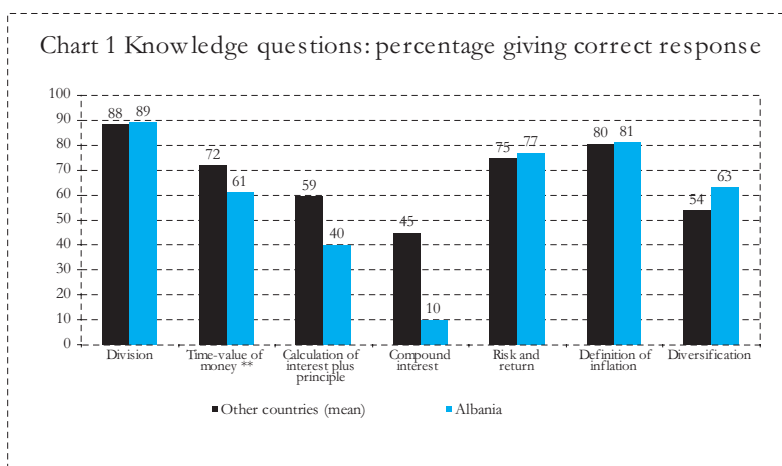
In the questionnaire there were behaviour questions and attitude statements. Both use a 5 point scale and respondents are asked to put themselves in a range between 1 to 5, it means from “I always do it” and “I never do it” or in a range between “I completely agree” or “I completely disagree” with the statement. The goal was to capture the differences between the effective answers and those of a “theoretically” financially literate person. But what are the expected behaviours of a financially literate person? The view of the INFE Experts is that a financially literate person will always have an idea of the amount of money she/he can afford to spend on a purchase; she/he will have organisational skills, in order to meet commitments and thus prevent problems such as reduced services or fines for non-payment; she/he will be able to keep an eye on financial affairs, to address mistakes or fraudulent activity; she/he will set long-term financial goals and will consider longer-term financial needs related to accruing money for specific expenses, such as education fees or a wedding; she/he will attempt to make an informed decision, by shopping around or using independent advice and will have strategies to smooth income flows and a tendency to avoid using credit for essentials such as food and utilities. As for the attitudes, if people have a rather negative attitude towards saving for their future, it is argued that they will be less inclined to undertake such behaviour. Similarly, if they prefer to prioritise short term wants, then they are unlikely to provide themselves with emergency savings.

Tab. 3. Sample questions / statements

Behavioural questions	
√	Before I buy something I carefully consider whether I can afford it
√	I pay my bills on time
√	I keep a close personal watch on my financial affairs
√	I set long term financial goals and strive to achieve them
√	Responsible and has a household budget
√	Actively saving or buying investments in the past 12 months
√	Approach to choosing products
√	Borrowing to make ends meet
Attitude statements	
√	I find it more satisfying to spend money than to save it for the long term
√	I tend to live for today and let tomorrow take care of itself
√	Money is there to be spent

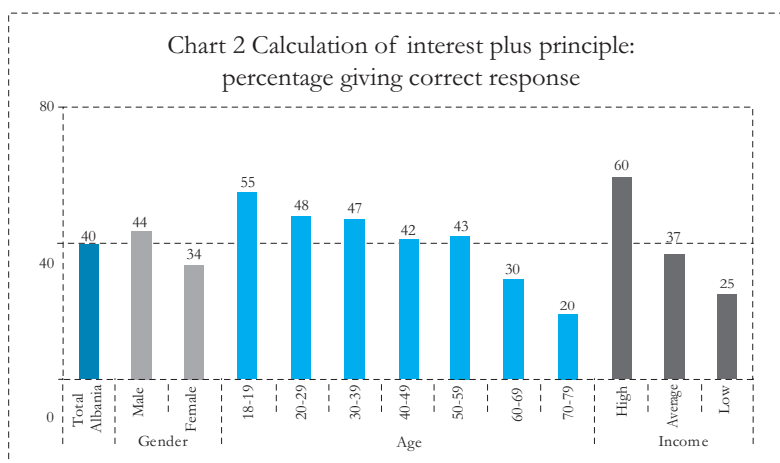
V.3. THE ALBANIAN SURVEY: SOME PRELIMINARY FINDINGS

With regard to knowledge levels, the question level analysis shows that in Albania the literacy level is not very different from that of the other countries. For some questions, for instance those related to the ability to do divisions, the comprehension of the relations between risk and return, price stability and the benefits of diversification, the differences between Albania and other countries are not statistically significant. However, for other questions, i.e. those related to the calculation of an interest rate, the differences are more relevant. For instance, while on average in the other countries the number of people able to understand the notion of compound interest is 45 per cent, in Albania this percentage is about 10 per cent.

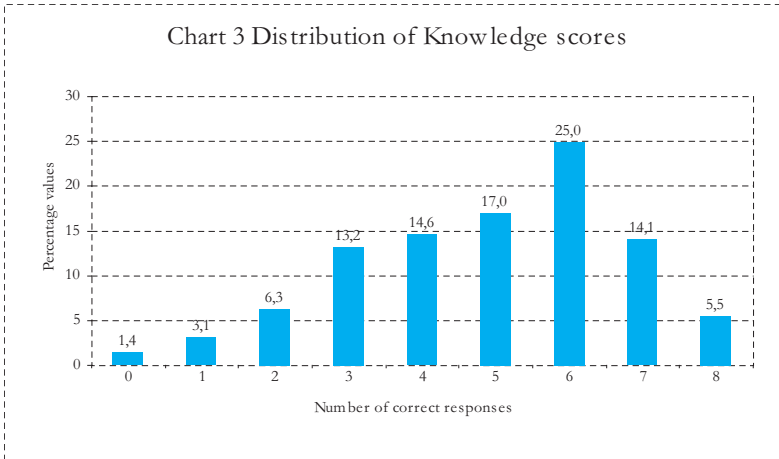


These findings are most likely due to historical reasons. As those of the other countries, Albanian citizens can use mental arithmetic to undertake a simple division but it is harder for them to give a correct response to saving related questions simply because saving and financial products were allowed in Albania only recently, after it started the transition from central planning to market economy in 1991. The Albanians' unfamiliarity with the financial market was among the main causes of the diffusion of the pyramid schemes' liabilities in which about two-thirds of the population invested before the

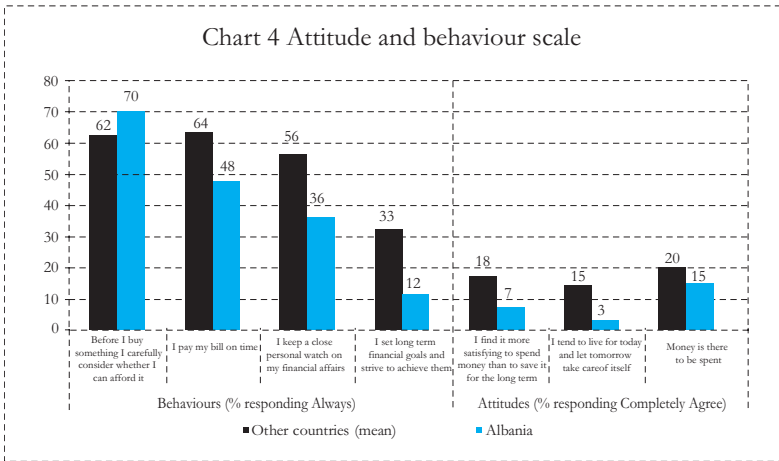
1997 crisis; however, after the collapse of financial pyramid schemes, Albanian people have learnt about basic financial concepts such as the relationship between risk and return the benefits of diversification. In graph 2 we can see the distribution of one of the knowledge questions according to gender, age and income. It is evident that the weakest population group – female, elderly persons and people featured by lower levels of income - are more exposed to risks related to low financial literacy.

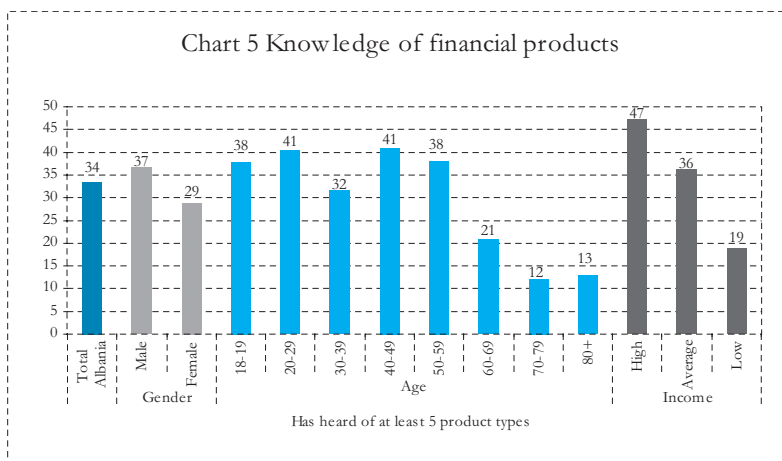


Reporting the results of individual questions is useful in the case of financial knowledge, because each question is designed to reflect an important aspect of financial literacy. However, additional value can be gained by considering the extent to which people answered several questions correctly, thus creating a knowledge score. The simplest way of creating a knowledge score is to count the number of correct answers given by each respondent. Graph 3 shows the distribution of the knowledge score, it means a score calculated as the number of correct answers provided by each individual, and we can see that relatively few people (5 per cent) in Albania managed to gain full marks; the modal (the most frequently achieved) score was 6.



With regard to the behavioural questions we can see that Albanian people typically (70 percent) do consider whether they can afford potential purchases and pay their bills on time (48 per cent) but they do not set long term financial goals (only 12 percent). The behaviour questions seem to suggest that Albanian people are more likely to be managing their money day to day than planning for longer term security; however, this finding does not seem to be confirmed by the attitude statements, according to which few people indicated that they had a very strong preference for short term gratification: only 7 percent of respondents completely agreed that they find spending more satisfying and about 15 percent of respondents agreed that money is there to be spent. More analysis is needed to explain this apparent contradiction between attitude and behaviour.





This final graph is about the knowledge levels concerning financial products in Albania. We can see that about 1 out of 3 of Albanian people knows at least 5 different financial products and, as for the other knowledge questions, the weakest groups of people are less aware of the opportunities available.

VI. CONCLUSIONS

Financial education has become an important issue worldwide for many reasons: the development of financial markets and demographic, economic and political changes. It may well play a crucial role for the development of the Albanian financial system.

Enhancing financial literacy in Albania is among the goals of an EU funded Twinning Project between the Bank of Albania and the Bank of Italy. Within this Twinning an assessment of the BoA's financial education initiatives has been carried out and a national survey on financial literacy levels has been launched in Albania.

This paper recalls the initiatives proposed within the Twinning and it presents some preliminary findings of the survey, which can establish a baseline measure of financial capability in Albania and which can be an important contribution in setting the priorities of a National Strategy for Financial Capability in Albania.

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FINANCIAL LITERACY MEASUREMENT IN THE CZECH REPUBLIC¹

Mr. Dusan Hradil*

*Thank you Governor Fullani!
Ladies and gentlemen,*

First of all, let me thank you and the organizer for inviting me at this wonderful event. I'm happy to see how many people are interested in financial education. In general, at many conferences the afternoon sessions are not that popular, at least half of the people disappear after lunch but this is not in our case and I am happy to see that.

As already announced in the morning session by my colleague from the Czech National Bank, I will present some results from the measurement of financial literacy in the Czech Republic. I will talk a bit about the Initial Czech Survey (2007) - is there any demand for FE?. Then I will move to Financial Literacy Survey (2010) – project parameters and survey method and main findings.

INITIAL CZECH SURVEY

We started in 2007 with a public opinion poll. Why? Because we said: “Ok, let's start with some financial education activities; let's present a

¹ A transcript of the presentation held at the Bank of Albania 9th International Conference “Building our Future through Financial Literacy”, Tirana, September 15th, 2011

financial education strategy, but how can we convince the politicians”. It was year 2007. It was the time before the crisis, so the financial literacy issue was not that popular in the Czech Republic and not among politicians, among the people who are responsible for the budget.

So we started with the opinion poll to show that there is a real demand and we prepared a final report with some hundred pages. But let’s make the story short. The evidence was there. The outcomes were as follows:

- 32 % evaluated their level of financial literacy as below-averaged;
- 20 % stated that their knowledge is a barrier in (better) using financial products;
- 80 % did not get basic financial education at school;
- 67 % would appreciate basic financial terminology being implemented in the curricula;
- education on budget, investment and credit is broadly supported, 2/5 respondents would appreciate specialized courses;
- only 25 % of the public do regular budgeting;
- only 19 % compare consumer credits using APRC, 34% look only at the interest rate.

So most people said: “We haven’t learned enough at school and we think that financial literacy should be a part of high school curricula”. More than half of the respondents told us: “Let’s make financial literacy a component of elementary school curricula. Even kids of 10 years age should be taught about financial literacy, definitely”.

We saw that there was an insufficient level of financial literacy because many of the knowledge questions were answered in the wrong way and we saw that there is a need and demand for financial education. That is why we continued the activities. In 2010, we already had the National Strategy, a very nice timetable of activities, telling us that there should be a measurement, a baseline survey. Why? Because we need a baseline. We need to know where we are coming from, to measure the achievements throughout the time and to see what other activities will bring positive outcomes in the future.

FINANCIAL LITERACY MEASUREMENT - 2010 PROJECT

Let's talk about the project in general. It was a joint project of the Ministry of Finance (National FE coordinator) and the Czech National Bank (the financial market Supervisor). It was a part of the National Strategy for Financial Education Action Plan. The core was, as already mentioned, the OECD core questionnaire and the methodology delivered by the OECD. But from the very beginning, we said: "Let's make something much bigger. Let's measure the whole financial literacy and let's follow the Czech financial literacy standard for an adult". There are four parts of the standard defining a financial literate, a capable person in terms of personal finance.

We started with creating a special ad-hoc working group because we knew that the experts at the Ministry and at the Czech National Bank are not enough to prepare such a big measurement, such a comprehensive one. So we set up a working group with people from companies or from NGOs, who deliver financial literacy projects to adults.

Our survey was a 6-phase project taking twelve months to prepare, to conduct and to come with the results. We talked with our colleagues from the Czech Statistical Office, etc., and then we created a national questionnaire (Jan - April 2010); we integrated OECD core questions (May - June 2010); then we started for the pilot (May - June 2010); then data collection (Sept 2010); then data evaluation (Oct 2010); and finally presentation of the findings (Dec 2010).

The Pilot. Why did we do a Pilot? We had the OECD core questionnaire but needed to clarify some questions, for example, if we ask: "How much money do you have?", are we talking about you as an individual or as a household? Or if we ask the respondents: "What's in your pocket? Is that a debit card or a credit card?" That's a very good question but many of the respondents simply don't know what a debit card and a credit card is. Probably, we should start by asking: "Do you know what's the difference between a credit and a debit card? If yes, please try to explain." After that we can ask them the question what do they have in their pocket because only then we know that if the individual

answers correctly, he would say “I have a credit card”, because he knows what a credit card is.

After this pilot carried out through 30 interviews we did a quantitative analysis, a time analysis and 2 focus groups with 10 respondents each (both public and interviewers) talking about the questionnaire. With regard to the results we made some minor changes in the questionnaire and proceeded to the main survey.

MAIN SURVEY

It included

- CAPI, trained interviewers;
- representative sample of the Czech population, 18+;
- 1005 full interviews during 3 weeks;
- respondents were not rewarded;
- 80 questions (OECD core questions represented 25% of the survey).

The questionnaire baseline was the Czech Financial Literacy Standard for Adults. The questionnaire itself was a combination of national and OECD Core questions and consisted of 6 problem areas – 6 segments of the questionnaire:

1. Home finance – planning and budgeting
2. Making Reserves
3. Financial products – purchase process
4. Behaviour
5. Knowledge
6. Contracts and complains

It took on average 45 minutes to ask all the questions. We focused not only on knowledge but also on attitudes, skills and behaviour, as already mentioned by my colleague from the Czech National Bank. Then we could evaluate the results – the reality versus the standard.

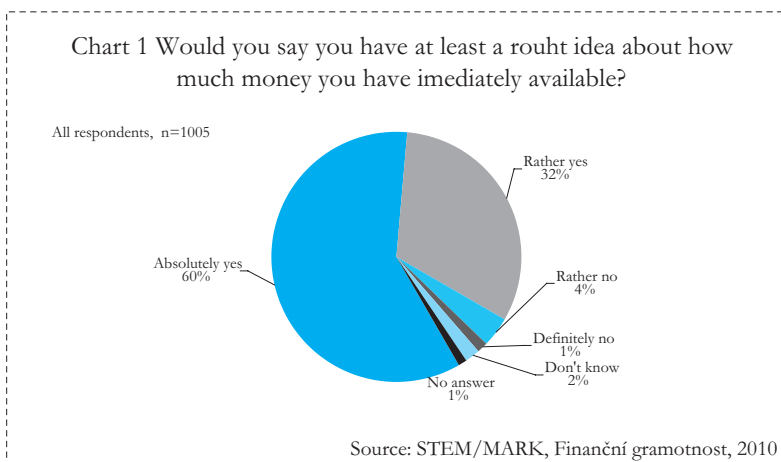
When evaluating and explaining the results, we took a problem area and asked ourselves: “According to home finance, who’s a capable, a

financially literate citizen?” The answer were statements which were verified by the measurement outcomes.

A financial literate citizen (the definition):

- has at least a rough idea of how much money he/she currently has (available - in pocket, on bank account...);
- makes a budget and monitors whether he/she meets the budget;
- plans his/her spending for at least one month ahead;
- is ready (= has a plan) for the situation of loosing his/her main income.

Let me show some examples. The questionnaire question was:

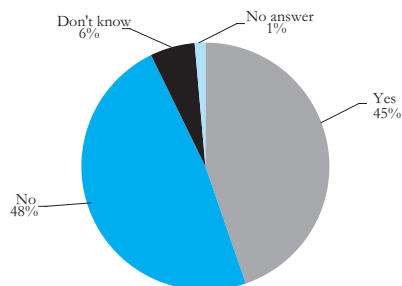


The result was very good. 92 % of all respondents have at least a rough idea of how much money they have available.

Then we asked the same question with regard to the whole household instead of individual and the number dropped from 92% to some 70%. But still the majority knew how much the household has available in terms of financial resources.

Then, we asked:

Chart 2 Does your household make a budget?



All respondents, n=1005

Source: STEM/MARK, Finanční gramotnost, 2010

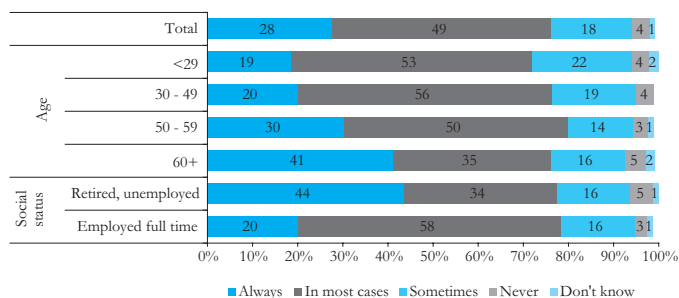
The result was that 45% of all make a budget but only 37% on a regular basis.

In general, we think that a financial literate citizen is someone who knows how to make a budget. But budgeting in terms of making a budget is not only about the knowledge - it is about the real behaviour. And from this point of view the result for budgeting among the Czechs is less than 50%, so we are really not satisfied.

We asked those respondents who declared they make a budget:

Chart 3 Do you monitor whether your incomes and expenses match your budget?

Respondents making budget, n=451

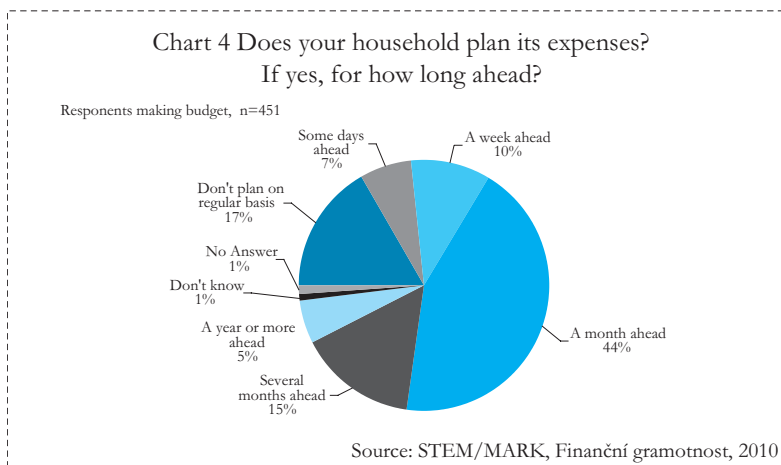


Source: STEM/MARK, Finanční gramotnost, 2010

It is very important to know how to make a budget and then to evaluate it. Otherwise, a budget would be for nothing. And you can see from the chart that 77% of the people who make a budget do monitor whether their incomes and expenses match their budget.

Turning back to the chart, you can see the difference according to the age or social status. It's interesting to see that people who are full-time employed, in other words people who have enough money, said that only in 20% of the cases they always check the budget, while the retired or unemployed people, say those who do not have that much money, check their budget in almost half of the cases (44%). In terms of age, we know that the youngsters do not care much about their money, but the elder people, who are already retired, do check the budget.

Another question was about household planning for the future:

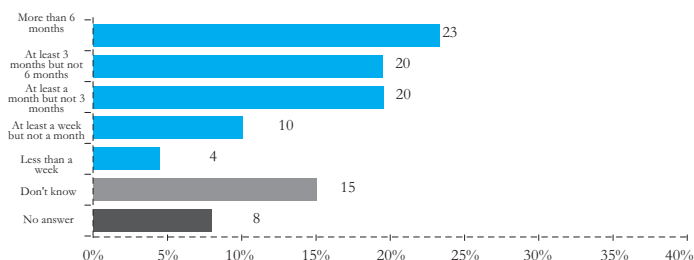


64% of the budgeters plan at least one month ahead. From my point of view, a better, a more literate, a more capable behaviour would be planning for at least 3 or 6 months ahead. However, we could take the one-month period as the minimum. Planning less than one month ahead is not a financially capable behaviour because it doesn't cover the time you need to survive with your wage.

The following questions was an OECD one:

Chart 5 For how long would you be able to cover your regular expenses when loosing your income?

All respondents, n=1005



Source: STEM/MARK, Finanční gramotnost, září 2010

So, how long would you survive with the reserves, with the money you have left aside?

77% of all know how long they will make end meets. On the other hand, it means that 1/4th of the citizens have absolutely no idea of how long they will survive without their regular income, and that's a problem. Everybody should know and should at least have a plan. 43% of all have reserves for 3 months, 63% for at least 1 month. But we all know that if one losses his regular income there is a very low chance to find a new job within one month. So a good reserve would be for at least 3 months, for 6 months even better.

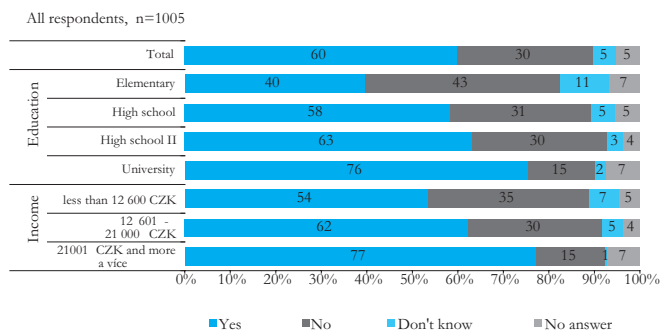
That's all for the first section. The second part of the questionnaire was dedicated to reserves. Our definition of a financial literate citizen would cover someone who among others:

- creates reserves – for example by leaving a part of his/her salary aside;
- where these reserves can be general for any unexpected payment or for a concrete purpose (retirement);
- has already thought about how to make end meets in retirement.

The question was:

Coming to the results, around 60% put a part of their income aside.

Chart 6 Does your household put a part of its income aside as a reserve?

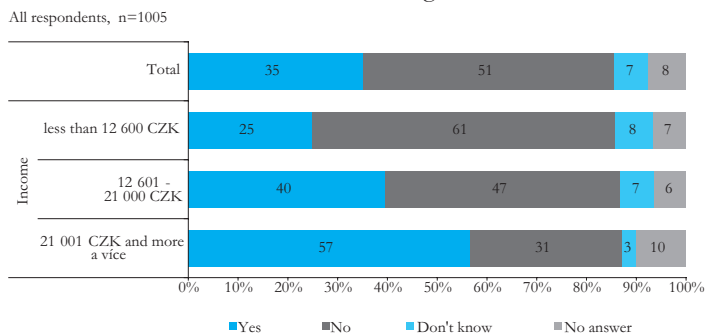


Source: STEM/MARK, Finanční gramotnost, 2010

In terms of income factor, it was quite surprising that even people earning less than 12 000 Czech koruna (around 500 Euros) a month, in other words people with the lowest income, put in half of the cases a part of their income aside as a reserve, which is a very good result from my point of view. People who earn more than the average income would do the same in 76% of the cases.

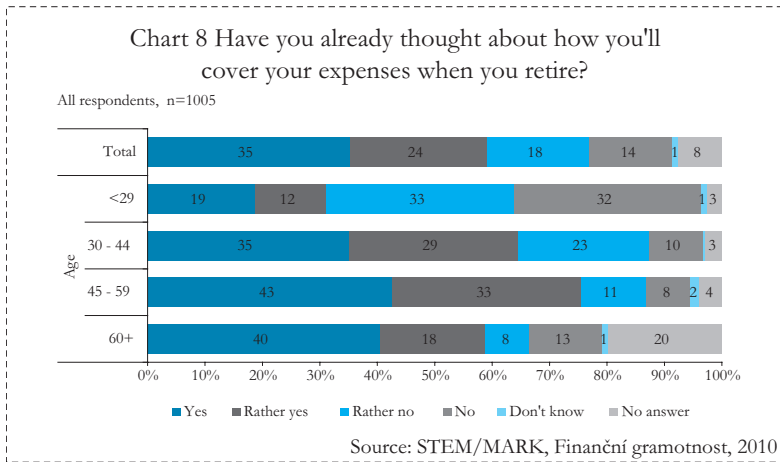
According to education, you can see that people with a university degree know that making reserves is something good and do so. There is a correlation between both education and income. Higher education would mean higher income and as I said, higher income means more reserves.

Chart 7 Does your household make reserves for the situation of losing income?



Source: STEM/MARK, Finanční gramotnost, 2010

Another question was:



The outcomes are now a bit different. 35% of all make reserves for the situation of losing their income and 60 % of all for retirement. It should be 100%, but at least it's the majority, so we are partly satisfied.

The next question is related to thinking about retirement. Only 59% of all the respondents have already done so. And you can see that youngsters in general and people who have low income don't think much about retirement.

The third part of the questionnaire was about financial products. Again, a financial literate citizen could be described as someone who:

- does shopping around - compares more offers and more resources of information when purchasing;
- knows basic financial products – example: debit vs. credit card;
- is aware of the risks associated with certain financial products – example: payment cards;
- knows what to do when a payment card is lost or stolen;
- knows which criteria to use when purchasing financial products – example: consumer credit.

And the results were as follows.

About shopping around (OECD question): 33% - 50% of the experienced people declared that when purchasing a financial product they were looking for offers and chose between more than one offer, that means offers from several banks or insurance companies or at least several products.

Over 90 % of the experienced didn't rely on one source of information. So people use more resources when deciding about purchasing a financial product.

Another question on the knowledge about products: "Do you know what is the difference between a debit and a credit card?"

- Over 70% of all have ever heard of a debit and/or credit card;
- 62% of them think they know the difference.

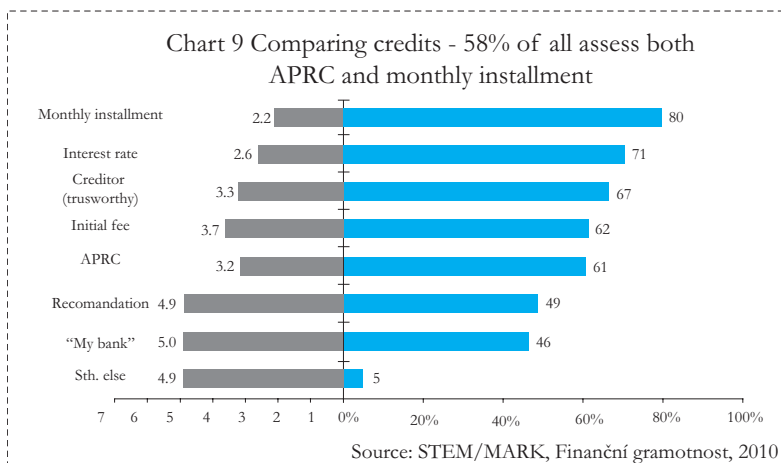
Then we asked those who think they know the difference: "What's the difference?" We evaluated spontaneous answers and the outcome was that only 57% of them really know. That's only 25% of all respondents in the survey and only 47% of credit card holders!

The wrong answers were for example: "A credit card is a card with which you can save money", or "a credit card is the only card you can pay with in a shop. A debit card is something which you can use only abroad" etc.

Regarding the risks associated with a payment card, we asked whether the respondents are aware of the risks and what they would do if their payment card was stolen. The result was good:

- 87% of all are aware of (misuse when lost/stolen);
- 85% of all would react correctly (inform the bank).

Comparing credits was the last question of financial products section. You (people in the conference room) all use the APRC, which is an important element of the Consumer Credit Directive, don't you? Well, the chart shows that only 58% of all the respondents do so - assess both APRC and monthly instalment, which is affecting the budget; 80% of all would assess monthly instalment only; 71% interest rate only; 61% APRC only.



BEHAVIOUR:

A financial literate citizen:

- pays his/her bills on time;
- monitors his/her financial situation;
- assesses whether he/she can afford it before buying it;
- is aware of the fact that low risk + high return + max liquidity is not possible;
- has a plan (solution) for rainy days;
- informs his/her creditors when he/she cannot pay an instalment.

Paying on time (OECD question). The outcomes were:

- 65% of all said: "we always pay our bills on time";
- 20% said: "In most cases".

Monitoring one's financial situation (OECD question): 51% of all consider monitoring their financial situation before purchasing something. Assessing whether he/she can afford something before buying (OECD question) and not afterwards: only 54% of all said: "I always assess whether I can afford something before I buy it."

Behaviour for rainy days. Only half of the population has a plan for a situation "I need to buy something I didn't plan, for example, my broken machine".

Delays in payments. 64% of all would behave in the right way, which is “If I can’t pay my instalment, I should inform the creditor”.

But there are people who would say “Well, I’ll try to hide somewhere, don’t tell anybody and wait till the creditor comes to me”.

In the “rainy days in the past” question (OECD question), we asked people who experienced being in trouble and who were facing the situation of rainy days in the past. When they had to pay something unplanned, half of them reduced the living costs, in other words, tried to do something within the budget - lower their expenditures”.

KNOWLEDGE

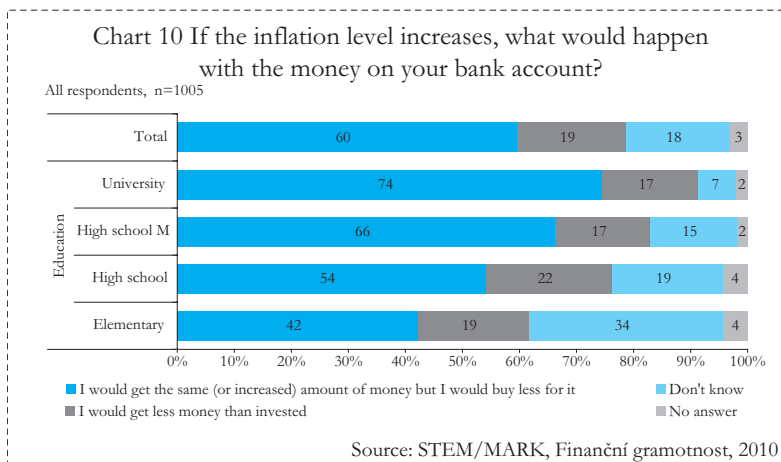
A financial literate citizen:

- knows that bank deposits are covered by DGS;
- understands what inflation means for practical life;
- has a correct idea of the inflation level;
- knows what APRC means;
- knows what p.a. and p.m. mean.

There are certain questions about knowledge, most of them delivered by the OECD. We asked for example: “What is the APRC?”, “What is the Deposit Guarantee Scheme (DSG)?”, “Do you know, whether there is anything like deposit guarantee scheme for banking savings?”

The outcomes were:

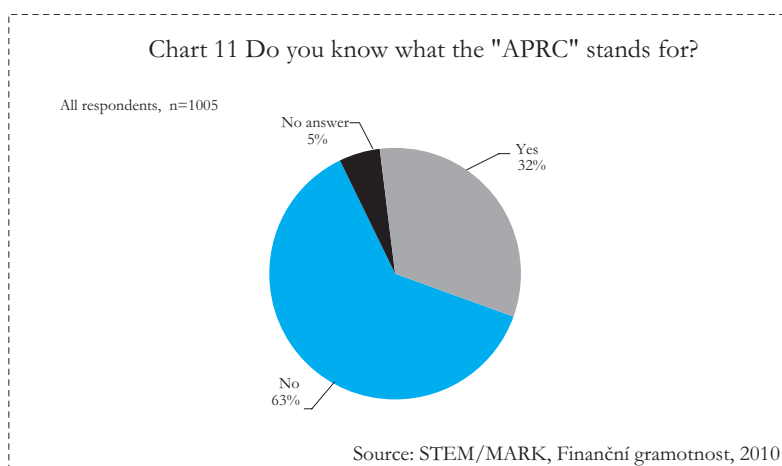
- DGS: 81% of all know that bank deposits are covered by DGS;
- Inflation: 60% of all know what inflation means in practical life;
- Inflation: 28% of all guess the correct interval.



There was a question about the impact of inflation.

You can see from the chart that in total, 60% answered correctly. The correct answer is the first left segment of the bar. But some 20% of the respondents believe that inflation really “eats” a part of their money. If they deposit 100, with 10% inflation, they believe to take back only 90.

APRC knowledge was even worse. Only one-third of the population believes to know what’s the average percentage rate of costs. And we all know it’s a compulsory part of any consumer credit offer.



The question about APRC was as follows: The outcomes were:

- 32% of all think they know what APRC means;
- but only 17% of all really know.

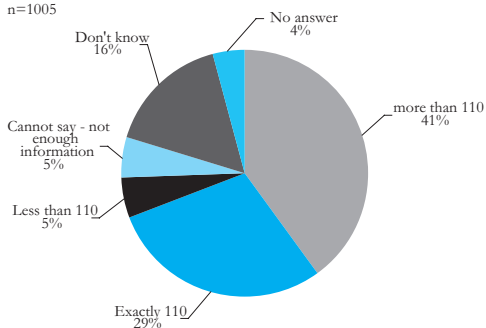
Interest rates: We asked about the difference between *per annum* (p.a.) and *per month* (p.m.). And the outcomes were:

- Only 16% of all know what p.a. and p.m. means;
- Only 41% of all are familiar with the compounding.

We also asked: What will happen with the 100 CZK deposit on a savings account with a 2% interest rate for 5 years? And the answers were as shown in the chart:

Chart 12 A 100 CZK deposit on a savings account with 2% p.a. - how much would you get in 5 years time?

All respondents, n=1005



Source: STEM/MARK, Finanční gramotnost, 2010

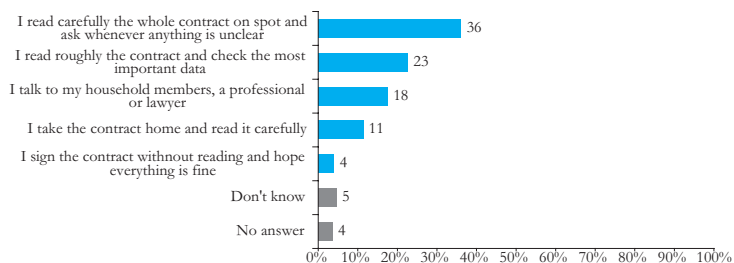
CONTRACTS AND COMPLAINTS.

A financial literate citizen:

- reads the contract before signing;
- knows where to complain;
- is aware that contracts may contain an “arbitration clause”.

Chart 13 Which of the following describes your behavior when you are given a contract for a financial service to be signed?

All respondents, n=1005



Source: STEM/MARK, Finanční gramotnost, 2010

We were interested whether people, when given a contract to be signed, read it on spot or just sign it without reading. So we asked:

Only 36% of the respondents answered that they read everything carefully on spot before signing it and if something is unclear they ask, whereas 4% of the respondents just sign without reading everything.

These were very briefly the main results of our survey. I would like to thank you for your attention with one short quotation: “Citizens are not and will never be financial experts in financial matters. But what we need is to give them tools to make them able to decide, to take responsibility of their decisions because it’s their signature on the contract and it’s their responsibility for the signature. So let’s educate them. Let’s give them consumer rights. Let’s give them information and then ask them to take responsibility for what they do. But do not expect them to be experts in personal finance”.

Thank you and enjoy the rest of the day!

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