Financial literacy in the Condition of the Transition Economy

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Abstract: Research conducted by the author was based on a questionnaire survey. The questionnaire contained some questions used by the Ministry of Finance of the Czech Republic in very short version. Furthermore, respondents were questioned on their information sources on managing money.

Research was based on a survey of 496 students of Economic Faculty of the University of South Bohemia in České Budejovice during four semesters. Statistical methods were used for its evaluation.

Financial literacy can be divided into basic financial literacy and special, advanced financial literacy. Basic financial literacy is a set of knowledge and skills, which should be useable by all people, as it allows ordinary and necessary guidance in ensuring basic financial liabilities and assets of each individual within the nation. Advanced financial literacy is a very broad concept. This includes the potential abilities of different age and professional groups at different levels of action, and use of financial services. These include the need to develop skills, responsibility and ethics of those who professionally manage finances of others, or provide them with financial services too. Currently, due to the growing sophistication of trade unions and deregulation of financial markets, many experts have narrowly specialised. Universities and colleges of economics and finance have a great creative potential, as well as methodological, organisational, professional and scientific experience, to be in the process of increasing irreplaceable financial literacy.

Key words: Financial Literacy · Education Youth · Questionnaire

JEL Classification: B21 · E44 · E50, F60 · G02 · G2 · I25

1 Introduction

The author should say, time is changing and the behaviour of people and their professional skills are too. In the Czech Republic there can be seen poor legislation, aggressive advertising and behaviours, low professionalism, and fraud on one side and debts and problems on the other. The decline of morality can be seen anywhere in the world and it was one of the reasons for the financial crisis in 2008, according to Roubini & Mihm (2011).

There are many new products, new rules, new trends (Lucas, Goodman & Fabozzi, 2007), non-professionalism and fraud. To find the right way in this jungle it needs skilled and clever and educated people.

The current financial crisis has highlighted the need for financial education, education focused on practical life skills associated with administration of personal or family budgets, which are a prerequisite for the financial security of citizens and families. Various forms of investment and return on investment require a certain measure of determination and education. The willingness to take risks requires detailed mapping of the product to know before the signing of any agreement ways of calculation and estimation of possible difficulties. This situation creates the need to teach and raise a new generation by more sophisticated and practical methods. It is necessary to give lectures on practical topics, and their connection with practice, and not only on the theory about the function of something. It is necessary to say to students how to avoid problems, and what is necessary where people are who able to help them in some situations, what should be done in case of debts if they are not able to pay instalments when they are unemployed, and to know their rights in such situations, etc.

The situation in recent years in developed and emerging countries and economies is that there is increasing concern about the level of financial literacy of their citizens. This has stemmed in particular from shrinking public and private support systems, shifting demographic profiles, including the ageing of the population, and wide-ranging developments in the financial marketplace. Concern was also heightened by the financial crisis, with the recognition that lack of financial literacy was one of the factors contributing to ill-informed financial decisions and that these decisions could, in turn, have tremendous negative spill-over effects (OECD, 2009). As a result, financial literacy is now globally acknowledged as an important element of economic and financial stability and development (INFE, 2009).

Financial markets have become more complex and individuals are faced with a proliferation of new investment products, many of which are new and often fairly complex. Investment opportunities have expanded beyond national borders, permitting individuals to invest in a broad range of assets and currencies (Kantnerová, 2014).

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But how well equipped are individuals to make financial decisions, and how much individuals know about economics and finance depends on a lot of factors. Renaud (2009) emphasizes that for the first time in the world’s history more people live in urban areas than in rural areas. As a result, the financial system connected with housing becomes a more and more important part of the whole economy. Housing loans will increase, because urban expansion is intensifying (Kantnerová, 2013). This cannot be covered by government expenditures solely. On the other hand, we can notice that the traditional role of a bank as a lending institution is declining.

On the other hand, macroeconomic consequences are reflected mainly in the reduction of financial exclusion and excessive indebtedness as well as in the restriction of efforts aimed at evening out existing disproportions in household incomes (Kantnerová, 2015).

Some researchers have reported in the past that poor financial decisions hurt productivity in work (e.g. Kim & Garman, 2004). surveyed corporate benefit administrators who cited basic personal finance as an important area in which employee knowledge is deficient and recommended financial lessons for them.

Aside from the “crisis effect”, a series of tangible trends underpin the rising global interest in financial literacy as a key life skill. These can be summarised as follows: risks shift, individual responsibility, increased supply and demand of a wide range of financial products and services (PISA, 2012). There are a lot of risks associated with longevity, credits, financial markets, and out-of-pocket healthcare. The number of financial decisions that individuals have to make is increasing as a consequence of changes in the market and the economy. And a new problem is coming in our society - consumers must confront complicated financial decisions at a young age in today’s demanding financial environment, and financial mistakes made early in life can be costly. It is good to arrange steps for the family’s wealth, if the buyer of stocks or bonds can evaluate the risk connected with such deals.

According to Zamrazilová (2011), financial literacy means the basic knowledge of people not only of finance, but in law and economics. People need to use information from any media and what is very important, they need to adopt the main value standard of their money, budget and property – wealth. Czech society, according to the survey of ING bank, has more than 70% of its citizens with only basic or not so good financial knowledge (Allen, 2007). It is third place from the end in the scale of World nations.

Our past system of education was not enough, but it is changing nowadays, slowly, but it starts to work. There is a new Strategy of Ministry of Education, Youth and Sport, support from the central bank and Ministry of Finance and finally work of special department on the Ministry of the Interior starts too (Kantnerová, 2015).

2 Methods

The results of this current study are based on a questionnaire survey. The questionnaire is very simple, because there was no grant or fund. People are sometimes disturbed by so many questions and refuse to answer them. So the first condition was to have the questionnaire short, but covering the major sides of financial literacy.

The list of main questions:
1. Do you know the total balance of your money? How often do you check it?
2. Do you plan your financial needs: incomes, outcomes, budget? Seven optional answers were given here.
3. What is important for you to know if you need credit? The respondents were asked to write down the information they find important in the process of credit approval by the bank.
4. Do you think about (or do you already have) a financial product, which will help you with your retirement (pension)? Three possible answers were outlined.
5. Do you know who can help you if you are not able to pay any installment of your debt?
6. What would you buy on consumer credit, if you decided to select this option? (You are theoretically in the situation of taking credit, you have a need, and you are able to pay in installments).

The calculation was made by the CANOCO program for Windows (TER BRAAK & ŠMILAUER 2002).

3 Research results

The result is the diagram, which we interpret in the following way: if point „A“ in the diagram is close to point „B“, then in the case of the respondent giving the answer „A“ (in the questionnaire), it means probably they signed answer „B“ simultaneously. If point „A“ is on the opposite side of diagram in comparison with the localisation of point „B“, than the respondent gave the answer „A“, but not „B“. 
4 Conclusions

In the current world of economic development an increasing number of countries choose to deal with the financial literacy needs in their populations through the design and implementation of tailored, articulated and coordinated National Strategies for Financial Education. This happens both in advanced and emerging economies across different financial systems and in response to specific national needs and contexts.

This paper is focused on the levels of financial literacy among the young and working Czech population between 20 and 44 years of age. This group of people was specifically chosen because of the importance of knowing the level of financial literacy of this generation, as it is the time of starting life, along with all of its difficulties, and out of which will arise the next generation. The results can be used by the Ministry of Education, Youth and Sports as the basis for the evaluation of the level of financial education of this generation and for the possible adaptation of the Strategy. In our country we are only starting with the implementation of such lessons and do not have enough teachers educated in this field. At basic and high schools, the teachers are mostly trained to teach maths without financial education. Teachers of civic lessons are in the same position of having no financial education. They need new methodology, courses, and lecturers.
To solve the situation of life insurance and the much discussed pension funds, the government has been preparing new rules of law for the last five years. Unfortunately for the public, this was only with the attendance of staff of these funds, but without the public, or clients who called for the improvement (Kalvoda, 2014). The old problem lies in the fees covered, which from miliards of Czech crowns saved in these funds make a nice sum for the funds, but which their clients do not want to pay. Clients ask for clear information about the product, which now is not a duty with the calculation of all fees. They ask about the savings of fraudulent agencies. They ask about the official licences of the agents and their professional training – some of them sell products with only basic knowledge about them. There is not stated any moral and ethical background of these professions. It is the same with all kinds of instance products in the Czech Republic, unfortunately.

The improvement will probably come from the programme of the Ministry of Interior, which wants to prepare the training of staff of communal authorities from small villages to big cities and offer accessible help with finance to people living in these places.

This survey was conducted at the University of South Bohemia in Ceske Budejovice, with the aid of a questionnaire, and was statistically evaluated. The results show that there follows a big area of change in the educational process in the raising of young people.

What is surprising is that the only differences are in the the time of doing a household budget and in the answers of the very young and not so very young students (age difference). What matters more is the education and care at home, and in the family, than at school. Education, gender and even taking a financial course did not have a significant effect on respondents’ behaviour in this survey.

References