FINANCIAL LITERACY AND PROTECTION OF RIGHTS OF CONSUMERS OF FINANCIAL SERVICES

Assoc. Prof. Vladimir Malyaev, PhD [1]
Assoc. Prof. Andrey Nazarov [2]
[1] National Research University Higher School of Economics, Institute of Business Career, Russia
[2] Institute of Business Career, Russia

ABSTRACT

Financial literacy is a certain level of knowledge and skills in the financial sector, which in conditions of market economy enables the citizen to rationally assess the real situation and make the right life decisions. The problem of increasing the level of financial literacy in recent years and especially after the aggravation of the global financial crisis has become one of the priority tasks for governments in many countries, including the Russian Federation.

The results of the conducted studies indicate that the level of financial literacy of the Russian population is quite low, as most citizens are poorly oriented in the financial environment and few use the products and services offered by financial institutions. Improving the financial literacy in the Russian Federation will accelerate the development of certain financial instruments and segments of the market economy, implementation of national, regional and municipal programs.

The aim of this article is to present the results of the project on the development and implementation of programs to improve financial literacy at the level of municipal formation (City district of Dzerzhinsk, Nizhny Novgorod region, Russia).

Keywords: *financial literacy, financial inclusion, protection of the rights of consumers of financial services*

INTRODUCTION

The financial aspect is currently one of the leading aspects of human life. It is closely connected with all spheres of civil activity.

The problem of increasing the level of financial literacy in recent years and especially after the aggravation of the global financial crisis has become one of the priority tasks for governments in many countries [1], including the Russian Federation. Russia started the implementation of a medium-term national Strategy to improve financial literacy [3]. The program was developed by the Ministry of Finance of the Russian Federation.

OECD/INFE defines financial literacy as "a combination of financial awareness, knowledge, skills, attitude and behaviours necessary to make sound financial decisions and ultimately achieve individual financial wellbeing" [2]. Thus, financial literacy is a certain level of knowledge and skills in the financial sector, which in conditions of market economy enables the citizen to rationally assess the real situation and make the right life decisions.

The results of the conducted studies [4], [5] indicate that the level of financial literacy of the Russian population is quite low, as most citizens are poorly oriented in the financial

environment and few use the products and services offered by financial institutions. The problem of financial literacy becomes especially relevant in the context of further development of market relations in the economy. The strengthening and growth of the Russian economy (especially in the context of international economic and financial sanctions) to a greater extent depends on the ability of the population to effectively use the resources of modern financial and industrial technology.

METHODOLOGY

The development and implementation of programs to improve financial literacy at the level of municipal formation

The aim of this article is to present the results of the project on the development and implementation of programs to improve financial literacy at the level of municipal formation (City district of Dzerzhinsk, Nizhny Novgorod region, Russia).

OECD Recommendations define financial education as “the process by which financial consumers/investors improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice develop the skills and confidence to become more aware of (financial) risks and opportunities to make informed choices, to know where to go for help, and take other effective actions to improve their financial well-being”[6].

First and foremost, financial literacy involves the formation of people's general knowledge base:

- about the needs of a person (different at different stages of his life) and the standard ways of meeting them through the use of financial market instruments while observing financial discipline;
- about the main products and services of the financial market, as well as the risks accompanying their use;
- on how to obtain information about suppliers, products and services of the financial market; On the evaluation of the information received;
- about the causes and consequences of decisions of monetary authorities in the field of monetary-credit regulation;
- on the available opportunities to protect their rights in the financial market.

According to international standards [9], the basic provisions of consumer protection include effective disclosure, protection against misconduct, and appeal mechanisms to effectively resolve errors, claims and disagreements. At the same time, financial literacy presupposes not only obtaining theoretical knowledge, but also developing basic skills in the practical use of financial market instruments.

In accordance with the OECD Recommendations and pursuant to National strategy for financial education, the Center of Patriotic upbringing "Fatherland" (the city of Dzerzhinsk, Nizhny Novgorod region) develops the Project "ABC of Finance". The main objectives of the Project are:

- increasing the financial literacy of the population (especially young people);
- the formation of their prudent financial behaviour;
- learning to make sound financial decisions;
- educating a responsible attitude to personal Finance;

- improving the efficiency in the sphere of protection of the rights of consumers of financial services.

The project target groups - schoolchildren, students of colleges and higher educational institutions, young workers with low and middle income, as well as older people. Why were these populations chosen as a special cluster in the field of financial education:

1. *Secondary school pupils.* In the city increases the proportion of pupils who begin to make financial decisions at an earlier age ("pocket money", the cost of mobile phones and Internet, gifts for friends, etc.). However, in most cases, children who have mastered the technical innovations do not understand where the money comes from and how the money is spent. School age - is the entry point into the world of Finance. Over half of adolescents have savings and a third of the teenagers take money in debt. 800 million rubles per week – the total amount of pocket money children in the largest cities in the Russian Federation. Most popular financial services among 14-17-year-olds are cash, credit cards and e-wallets. The main source of money comes from domestic resources – about 80% indicate that they receive the money from parents to pay for specific needs and for their own expenses. External sources are observed much less often. The older is the student - the higher is the involvement in the use of banking services. [7].

2. *Pupils of orphanages and boarding schools.* Members of this group are in a particularly difficult situation. Most of them have little experience with cash, do not know the elementary basics of Finance and "coming to life" from the custody of the state, very often find themselves in difficult life situations.

3. *Students of colleges and universities.* The members of these groups in the near future will be economically active and face problems of decision-making in the financial area. These groups are more susceptible to developing the necessary attitudes, skills financial planning and rational behaviour.

4. *Young workers with low and middle income.* Members of this group represent the bulk of the city's youth. They are the mass consumers of financial products, including consumer loans banks and cash loans; however, they often are exposed to advertising, make impulsive spending. Members of this group have inadequate knowledge and skills; they are most prone to inappropriate solutions in the field of personal Finance management that painfully affect their living standards.

5. *The people of the older generation*. They hold conservative views; do not know what investment is. They do not have enough information on changes in pension reform, on tax concessions, utility bills. Financial literacy of retirees is so low that, according to a survey, 14% of older people said they did not know how to use ATMs and did not contact the bank. Using financial ignorance, fraudsters annually deceive retirees.

THEORY

Also, the choice of these target groups was determined by the fact that young people are more flexible in learning than adults. International studies [8] show that the best stage of the life cycle in which a person may be given the opportunity to acquire the skills of financial literacy is the stage of education. The basic habits of a person are formed from the age of 7, so the implementation of programs of additional education through schools is most effective. On the other hand, the members of these groups provide a channel of influence on the adult population – their parents.

But it is necessary to note the following: we teach students and school pupils, and more – they come in a family where rational behaviour is not formed. In most cases, the parents themselves do not possess the necessary knowledge and, accordingly, the skills learnt by the child are inadequate to reality. There is a negative effect - the phenomenon of "blind financial literacy". The environment behaves incorrectly: inefficient use of funds, are turning to microloans to expensive, buy unnecessary products... Therefore, to eliminate this problem it is necessary to develop chain programs to improve competencies – for elementary school, middle school, higher education, financial training in the corporate sector.

For the successful implementation of this Project, the authors had to provide direct access to a target audience in the education system and to create a positive attitude of students to the studied phenomena. Therefore, as a method of training was selected "edutainment" - a modern communications approach that combines educational and entertainment elements, including quizzes and role plays, social advertising, educational videos and television shows. The essence of this method of learning is that knowledge must be transmitted in a clear, simple and interesting way. Edutainment involves the use of various channels and ways of presenting information, conducting master classes and business games, the use of case-study. Classes for students are free of charge.

The most acute problems identified in the implementation process of the Project:

- Lack of planning of the family budget. Among those surveyed, many tend to be illiterate financial behaviour in real life, using extremely expensive financial products often not for their intended purpose.
- Lack of understanding of the key financial mechanisms and financial terms (such concepts as: risk - profitability, time value of money, “strength” of compound interest, etc.). There is a significant discrepancy between self-assessments of the level of financial knowledge among respondents and more realistic assessments of knowledge obtained through simple tests with specific financial objectives.
- Lack of awareness on investment opportunities. According to experts, at the beginning of 2019, the number of resident individuals conducting, directly or through collective investment instruments, transactions in the securities market is only about 1% of the economically active population.
- The inability of the population to make informed financial decisions based on an analysis of all available information. Citizens have little understanding of the principles of functioning of financial markets and the possibilities of investing; have a lack of confidence in the institutions of financial markets. Just having knowledge is not enough; we need the skills of actually applying this knowledge in solving practical financial problems.
- Propensity to make impulse purchases. Many respondents do not have the skills to manage personal savings to achieve personal financial well-being. They have problems of excessive debt load, lack of savings on the “rainy day”, inability to take rational actions aimed at protecting their savings.
- The desire to shift the responsibility for financial decisions to the state (paternalism). During the years of Soviet power a stable stereotype of “dependent” behaviour of a part of the population was formed, which all the time awaits help from the state and is confident that the state should solve all their problems.
- Weak knowledge in the field of protection of the rights of consumers of financial services. Increased attention to the protection of the rights of consumers of financial services is caused by the trends towards the commercialization of this sphere, which attracts organizations with a low level of social responsibility to this market. The situation in the sphere of financial services is aggravated by low

incomes of the population. On the one hand, citizens continue to experience persistent distrust of all financial institutions, on the other hand, many citizens, under the influence of advertising, overestimate their capabilities and, as a result, fall into the category of deceived consumers of financial services (depositors, interest holders, etc.).

Ensuring consumer access to financial services (financial inclusion)

The issues should concern not only financial education but also ensure access to financial services (especially in small towns and to people with low income, including people with disabilities), but also problems of protection of rights of consumers of financial services.

International institutions for the development of standards in the financial sector consider financial inclusion a significant factor in raising the standard of living of the population [9]. Financial inclusion is a state of the financial market in which the entire population of the country, as well as small and medium-sized businesses, have the full opportunity to receive a basic set of financial services (to credit, savings, payments, and insurance).

More is needed to ensure access to services not only in Russia, but also in most OECD countries. Government at a Glance 2017 [10] shows that there are persisting inequalities in access, responsiveness and quality of services by population groups. For example, in all OECD countries socio-economically disadvantaged students are almost three times more likely than advantaged students not to attain the baseline level of proficiency in science.

At the same time, the possibility of obtaining financial services is expressed not only in physical access to financial products (the availability of financial services infrastructure), but also in their understandability, quality and utility for consumers.

Thus, increased financial inclusion should be considered in terms of a comprehensive increase in its four components: price, physical, assortment and mental availability.

RESULTS AND DISCUSSION

As a result of the implementation of the Project, we can formulate the following suggestions:

- the introduction of a compulsory subject of study "Financial literacy" in the national education program;
- the formation of civil service for financial (cash) consultation;
- wide coverage (priority – children and young people);
- creation of tools for measuring the level of financial literacy and assessing the effectiveness of various channels for its promotion.

We need a clear goal of the state program of financial literacy, preferably established by law. The governing body must have responsibility. The plans and priorities of the program should be agreed upon with all stakeholders.

Ensuring equal inclusion to financial services for all citizens should include the following issues:

1. Access (accessibility of buildings, navigation, information, arrangement of rooms inside).

2. Interface (ease of receiving various services provided with the use of special equipment, ATMs, terminals, computer equipment, mobile devices, Internet without loss of quality and safety of financial transactions).

3. The implementation of a CRM-system (organization of interaction of staff of financial institutions with "special" clients).

4. Financial literacy (understanding of the nature and risks of financial services, knowledge of financial institutions offer services).

5. The cost (the cost of the service or product should not raise solely because of a disability or illness, or living in remote areas).

When improving the system of access to products and services of the financial market, it is important to simultaneously ensure their relevance and usefulness to consumers. In the financial market, financial products and services that are understandable to consumers should be presented so that a citizen can assess the degree of their positive or negative impact on meeting their needs and quality of life.

Such financial products should enjoy steady demand from the public and small and medium-sized businesses. This task is closely related to financial literacy and involves creating opportunities for consumers of financial services to learn and gain additional knowledge about the financial market.

CONCLUSION

Improving the financial literacy in the Russian Federation will accelerate the development of certain financial instruments and segments of the market economy, implementation of national, regional and municipal programs:

- reduction of trends of payment in cash;
- development of the sector of a cashless financial transaction;
- improving pension reform;
- increase in demand for services of pension and insurance funds;
- increase budget transparency and control over the institutions of the financial sector.

The results of the study during the implementation of the regional Project talk about the need to implement policy to improve financial literacy in the long-term context:

- Growth of living standards and welfare of population increases the need of training in the basics of budgeting, saving and interaction with the financial sector.

- The development of savings and insurance principles in pension security, health, education, and housing suggest that the population has a basic knowledge of financial literacy.
- The increasing complexity of financial products requires the growth of literacy, so that people can recognize and avoid unfair and high-risk products (services) and thus reduced the risk of financial loss.
- Feature in Russia – inflated expectations of state support (state paternalism in the field of social protection) and poor knowledge of the basic principles of market Finance.

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