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Financial Literacy of Latvian Citizens: Preliminary Survey Results

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Abstract

Enhancing citizens' financial literacy level has been prioritized on the government level in many countries. This led to the implementation of national strategies for financial literacy, which are based on national assessments. The goal of the paper is to reflect survey results aimed to evaluate financial literacy level of Latvian citizens. To achieve the established goal, the authors used the own-developed measurement instrument based on the conceptual model of financial literacy. Data was processed by means of SPSS 20.0. The paper contributes to the body of knowledge in regards to financial literacy issues in the Baltic States. The methodology of the measuring process and analysis of the results could be a helpful tool for other investigators dealing with the related research questions.

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Introduction

Financial literacy has been recognized as crucially important for individuals, businesses and society as a whole. Financially literate consumers can make more informed decisions and demand higher quality services (PISA/OECD, 2012). Financial literacy is one of the major factors affecting the survival rate and growth prospects of start-up companies (Lennox, 2014). Based on the World Bank's 2014 Global Financial Development Report (World Bank, 2013), small and medium-sized enterprises, in particular in emerging markets, face significant financing constraints that negatively productivity growth and innovation potential. In turn, on the point of financial experts, financial education is the most effective tool to promote financial inclusion for households and businesses (ACCA, 2014).

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Increasing concern about the low level of financial literacy among the citizens stimulated many countries to implement National Strategy (NS) for Financial Literacy. Based on OECD/INFE data (OECD/INFE, 2014), 55 countries all over the world (including Latvia and Estonia) are in the process of developing NS, either implementing one or revising an initial strategy. In turn, the process of the development of a National Strategy should be based on measurable objectives, which require assessing the national level of financial literacy.

The goal of the research is to evaluate financial literacy level of Latvian citizens, as well as to determine respondents' self-assessment level. The goal of the current paper is to reflect preliminary survey results with the sample of 257 Latvian citizens. The target sample is 500 respondents.

To achieve the established goal, the authors developed a measurement instrument (questionnaire) with the content based on the own-developed conceptual model of financial literacy. The level of financial awareness of Latvian citizens was evaluated based on the number of correct answers provided by the respondents. Real financial knowledge was compared with self-assessment results. This, in turn, contributes to the determination of the gap between the reality and perceptions.

The paper contributes to the literature in regards to the financial literacy issues in the Baltic States. The described methodology of the measuring process and analysis of the results could be a helpful tool for other investigators dealing with the related research questions. In turn, the authors' developed questionnaire can be used as a conceptual basis for development of the measurement scale for application in other countries, combining the core financial questions with country-specific questions.

1. Concept of financial literacy and measuring issues

One of the most commonly used definitions of financial literacy was proposed by the Organization of Economic Co-operation and Development (Atkinson & Messy, 2011): [Financial literacy is a] „combination of awareness, knowledge, skills, attitude, and behaviours necessary to make sound financial decisions and ultimately achieve individual financial wellbeing”.

The multi-dimensionality of the concept of financial literacy has been recognized by various researchers (Hung, Parker, & Yong, 2009; PISA/OECD, 2012). In turn, different components are being emphasized depending on the research purposes. Among the most frequently mentioned are: (1) numeracy (Widdowson&Hailwood, 2007; Klapper, Lusardi, & Panos, 2012); (2) knowing financial concepts (Beal&Delpachtra, 2003; Servon&Kaestner, 2008); (3) ability to plan for future (Remund, 2010; Robson, 2012), in particular retirement planning (Basu, 2005; Lusardi & Mitchell, 2011); (4) knowing financial products (Kefela, 2011; Habschick, Seidl, & Evers, 2007), for instance, insurance (Emmons, 2005), (5) debt literacy and budgeting (Emmons, 2005; Lusardi & Tufano, 2009); (6) knowing financial markets and instruments (Mandell, 2007).

Measuring financial literacy level requires a clear understanding of the financial literacy concept and application of an appropriate evaluation instrument. The comprehensive analysis of the concept was conducted by the authors, applying AQUAD 6.0 and Hamlet II software (Titko & Lace, 2013; Titko, Ciemleja, & Lace, 2013). The results yielded a conceptual model containing six basic components:

- *Savings-borrowings*. Related questions are: knowing about savings alternatives, ability to evaluate different types of savings accounts, knowing about the procedures of borrowing, debt literacy, and ability to plan ahead.
- *Personal budgeting*. Related questions are: knowledge of principles of personal budgeting, understanding of budget balance, knowing about taxation impact on personal income and etc.
- *Economic issues*. Related questions are: understanding about the economic situation in a country and worldwide, knowing economic and financial terms, economic ratios and etc.
- *Financial concepts*. Understanding of basic financial concepts - for instance, time value of money and relationship between investment risk and return.
- *Financial services*. Knowledge about financial products and services, such as payment cards, insurance, online services and others.
- *Investing*. Knowledge about investment opportunities and understanding of the related risks.

Measuring financial literacy level of citizens, a multi-stage approach is frequently used by the experts. As a starting point basic numeracy of respondents is evaluated. After, respondents are tested in order to evaluate their understanding of economic mechanisms and knowledge of economic concepts. Some researchers define the level of questions' complexity, identifying basic financial questions and complicated financial questions.

The most studies are based on the application of the existing measurement instruments, such as questionnaires from Health and Retirement Study (Hastings & Tejada-Ashton, 2008; Guiso&Jappelli, 2008; Behrman, Mitchell, Soo, & Bravo, 2010; Hastings & Mitchell, 2011; Almenberg&Gerdes, 2012; Fornero&Monticone, 2011) and OECD studies (ANZ/the Social Research Center, 2011; Hung, Parker, & Yong, 2009; Krizek&Hradil, 2012).

However, there are several barriers for using the existing questionnaires to measure financial literacy level in Latvia. In particular, some measurement scales involve questions on financial products and instruments that are not available in the analysed region.

Considering the critical importance of the development of a relevant measurement instrument, the authors designed a questionnaire on a basis of the conceptual model of financial literacy. The special attention was paid to the wording of the included questions. It was proved that sometimes "low scores are due to not understanding the questions being asked, rather than understanding the question but answering it incorrectly" (Capuano & Ramsay, 2011). The measurement scale was discussed with the invited experts from Financial and Capital Market Commission, Latvian Ministry of Education and Science and the Association of Commercial Banks of Latvia. Besides, a pilot study aimed to precise the content of questions was conducted (Ciemleja, Lace, & Titko, 2014a, 2014b). The final version of the questionnaire involves 24 questions on financial matters.

2. Research design and methodology

To achieve research objectives, the authors developed measurement instrument (questionnaire) including two parts: (A) respondent profile (8 questions), and (B) financial tasks (24 questions). Respondent profile section involves questions on respondents' gender, age, residency, educational level and background, household type, social status and income range. The content of the questionnaire (part B) is based on the authors' developed conceptual model of financial literacy and the scale involves the questions related to financial literacy components (Table 1).

Table 1. The structure of the questionnaire.

Number of questions	Core of questions
Q1 – Q4	Savings
Q5 – Q8	Borrowings (liabilities)
Q9 – Q12	Personal budget
Q13 – Q16	Economic issues and financial concepts
Q17 – Q20	Financial services (banking products)
Q21 – Q24	Investments, financial instruments and financial markets

Respondents were offered to select the appropriate answer from the list of alternatives and to evaluate the perceived complexity of financial questions. Multiple-choice answers were assigned to each question, including one correct answer, wrong answers and the answer "don't know". 5-point scale was proposed to evaluate the perceived complexity (1 – very simple, elementary question; 5 – very complicated question).

At the moment, 257 Latvian citizens have participated in the survey (23% are males and 73% are females). The most respondents are in the age of 18-25 years (59%), 16% of respondents are 31-45 years old, 15% of respondents are in the group aged 46-62 years. Minor groups are in the age 26-30 years (5%) and over 62 years (5%).

Most of the respondents are inhabitants of Riga (54%) and other big cities, such as Daugavpils, Liepaja and Ventspils (13%). Sample contains 56% of students and 33% of persons engaged in non-financial sectors. 54% of respondents are students or graduates from economics/finance and related programs.

Data processing allowed determining the less and the most complicated financial questions from the viewpoint of respondents. The level of financial awareness of Latvian citizens was evaluated based on the number of correct

answers provided by the respondents. Real financial knowledge was compared with self-assessment results. This, in turn, contributes to the determination of the gap between the reality and perceptions.

3. Research results

In the first stage of data processing the evaluation of questions by respondents in regards to their complexity was analysed. The most complicated questions from the viewpoint of respondents were Q15 (understanding of financial concepts), Q16 (knowledge on economic issues) and Q24 (understanding of bonds) evaluated in average with 4.04, 3.95 and 3.85, respectively (Fig. 1).

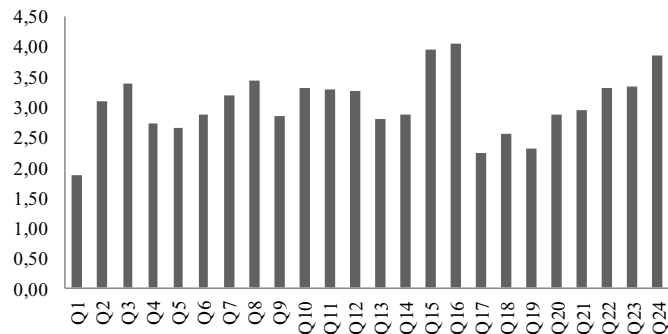


Fig. 1. Perceived complexity of questions: average evaluation within the sample.

The same questions were selected as the most difficult to answer by respondents with economic education or students from economics- and finance-related courses. The respondents were unanimous in their perceived complexity of questions. No significant differences were revealed in evaluation provided by respondents of different age, different level of education, males and females.

The next stage of the analysis yielded the number of correct answers given by the respondents (Fig. 2).

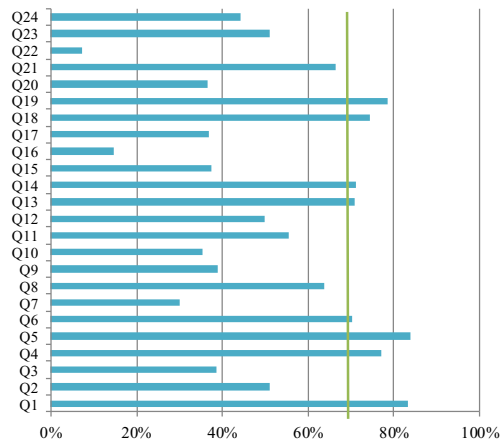


Fig. 2. Number of correct answers on questions.

The worst results (less than 30% of correct answers) were demonstrated by the respondents, answering the questions Q22 (bonds), Q16 (economic issues), Q7 (bank leasing). Despite the high perceived complexity in regards to the question Q24 (bonds), 44% of respondents answered it correctly. The largest number of correct answers was

provided for the questions Q1 (calculations of interest income from a deposit), Q4 (bank insolvency), Q5 (mortgage loan), Q18 (electronic banking services), and Q19 (payment cards). As a whole 13 of 24 questions were answered correctly by 50% and more respondents.

Comparing the level of real knowledge, based on the number of correct questions, with the perceived complexity of the questions, overall conclusion that respondents' self-assessment basically correspond to their financial literacy. For instance, the simplest questions Q1 (interest income from a deposit) and Q19 (payment cards) were answered correctly by 78% and 73% of respondents, respectively. In turn, the most difficult question Q16 (economic issues) received 15% of correct answers, 38% of wrong answers and 47% of "don't know" answers.

Conclusions

The current paper reflects the preliminary results of the authors' conducted survey aimed to evaluate the level of financial literacy of Latvian citizens.

The following conclusions can be made at the moment:

- Latvian citizens acquired a certain type of knowledge during the financial crisis. The questions from the section "borrowings" were answered correctly by most of respondents: Q5 (mortgage loan) – 84%, Q6 (mortgage loan) – 70% and Q8 (borrowings) – 64% of correct answers.
- Students of economic programmes lack of knowledge related to the basic financial questions: Q22 (understanding of bonds) – 7% of correct answers, Q16 (inflation and its consequences) – 20% answered correctly.
- Questions about personal income tax and income disclosure still require additional explanations. The related questions were answered correctly by less than 40% of respondents.

The full data analysis will be done after achieving the targeted sample volume of 500 respondents. Financial literacy score for individual respondents and for a whole sample will be estimated, based on weighting of questions by invited experts. It is necessary to weight questions in order to detect a relevant contribution of each question to the total financial literacy score. A respondent answering correctly all the questions can get maximum 54.2 points. To interpret the respondents' results, financial literacy points will be bound to the 10-points scale used to evaluate studying results.

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