

The Financial Literacy Support Strategy of Národná banka Slovenska



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1 Introduction

Financial literacy is an individual's ability to use their knowledge, skills and experience to manage their financial resources (personal finance) in an effective way that ensures their own and their household's lifelong financial well-being. Financial literacy is not static; it is a shifting ability conditioned by factors such as age, family, employment, culture, and place of residence. It describes a process of continuous development that allows each individual to respond effectively to new situations in their personal life and to the ever-changing economic environment.

Národná banka Slovenska (NBS) realises that low financial literacy among the public in Slovakia contributes to the difficulties that consumers get into and may be a reason for their dissatisfaction with a financial service. One of the objectives of NBS's Communication Policy is to help implement educational initiatives aimed at supporting financial literacy development and to ensure an appropriate level of awareness about NBS's activities.

NBS has produced this Financial Literacy Strategy as a means of achieving that objective.

The bank's aims in regard to financial literacy are as follows:

- To raise **public awareness** about the importance of financial literacy – consumers should realise that having a grasp of finances will improve their financial decision-making and increase their financial well-being.
- To make the case that the **better coordination** of financial education activities has synergistic effects – the education will therefore reach a larger swathe of the population.
- To initiate the **systematic measuring of financial literacy** in Slovakia.



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The current state of financial literacy

Students

In 2012, 2015 and 2018, students in Slovakia participated in the measurement of functional literacy under the Programme for International Student Assessment (PISA), which included, among other things, a survey of financial literacy.

The most recently released PISA assessment results are those for 2015. In this assessment, Slovakia recorded a score of 445 points for financial literacy, which was below the average for the OECD countries participating in the assessment. The result was similar to that for Lithuania. Among the participating OECD countries, only Chile scored significantly lower than Slovakia. Compared with the 2012 PISA results, the financial literacy score for Slovak students in 2015 was significantly lower (by 25 points).

The PISA 2015 assessment shows that an alarming 34.7% of our students lack the ability to solve real-life financial issues and problems of a basic nature. The percentage of Slovak students in this risk group is 12.4 percentage points higher than the OECD average, while in 2012 the gap was 7.5 percentage points higher. In other words, the cohort of students most at risk is increasing, which is a serious concern.

The PISA logo consists of the letters 'PISA' in a bold, sans-serif font. Each letter is filled with a different color: 'P' is blue, 'I' is yellow, 'S' is red, and 'A' is green.

PISA is an extensive worldwide study by the Organisation for Economic Co-operation and Development (OECD), which examines educational performance with regard to labour market requirements. PISA focuses on the results of 15-year-old students in what is known as functional literacy, which it tests and compares over time. The assessment is conducted every three years. The results allow each participating country to compare the functionality of its education system with that of the other participating countries, to identify potential shortcomings, and to determine the international competitiveness of its pupils.

For PISA, financial literacy is defined as the knowledge and understanding of financial concepts and risks, and the skills, motivation and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society, and to enable participation in economic life. Of the countries participating in the 2015 PISA assessment, 15 took part in the optional survey of financial literacy, conducted among 15-year-old students in their country. Financial literacy trends in Slovakia have been measured since 2012, when Slovakia first took part in the PISA financial literacy assessment, which uses a scale with a mean of 500 and a standard deviation of 100.

The Ministry of Education, Science, Research and Sport of the Slovak Republic ('the Education Ministry') has decided that Slovakia will not participate in the 2021 PISA survey of financial literacy. In the view of NBS, this decision is a mistake.

Table: Financial literacy results from the PISA 2015 assessment

Financial literacy		PISA 2015 score	PISA 2012 score	Score-point difference: PISA 2015 – PISA 2012
Countries with higher performance than the OECD average	China (Beijing-Shanghai-Jiangsu-Guangdong)	566	-	-
	Belgium	541	541	0
	Canada	533	-	-
	Russia	512	486	26
	Netherlands	509	-	-
	Australia	504	526	-22
Countries with values not statistically different from the OECD average	United States	487	492	-4
	Poland	485	510	-25
Countries with lower performance than the OECD average	Italy	483	466	17
	Spain	469	484	-16
	Lithuania	449	-	-
	Slovakia	445	470	-25
	Chile	432	-	-
	Peru	403	-	-
	Brazil	393	-	-



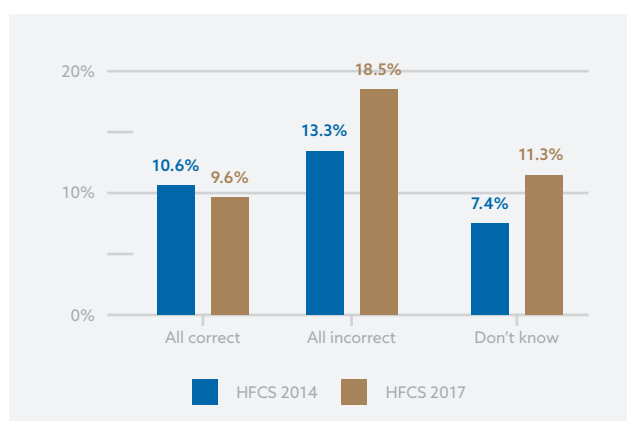


The adult population

Our knowledge of the level of financial literacy among the adult population of Slovakia is quite limited at present. Nevertheless, by looking at data for Slovakia on property executions, household leverage, and the conduct of complainants, we can infer that the level of financial literacy among a significant part of the population is not what it should be. To get a better picture of the state of financial literacy in Slovakia, systematic testing of the adult population is essential. To this end, NBS is supporting and pressing relevant institutions to begin testing adult financial literacy in Slovakia within the near future.

The poor state of financial literacy in Slovakia has also been indicated by related partial surveys such as the *Eurosystem's Household Finance and Consumption Survey*, *Standard & Poor's Financial Literacy Around the World*, and the *Slovak Survey of Investment Behaviour* (Slovenský prieskum investičného správania).

Chart: HFCS - household responses to four questions concerning financial literacy



The Household Finance and Consumption Survey (HFCS)

The partial measurement of adult financial literacy constitutes a module within the HFCS, which in Slovakia is conducted by NBS in cooperation with the Statistical Office of the Slovak Republic (SO SR). The first wave of the HFCS (HFCS1) was carried out in November 2010, the second wave (HFCS2) in 2014, and the third and most recent wave (HFCS3) in April 2017. In the second and third waves, the financial literacy of households was surveyed on the basis of five questions in 2014 and four questions in 2017. These questions served to ascertain the way in which respondents in Slovakia understand basic terms and contexts in the areas of borrowing, saving, and investment. The respondent sample size in Slovakia was similar in each wave: 2,135 households in HFCS2 and 2,179 households in HFCS3.

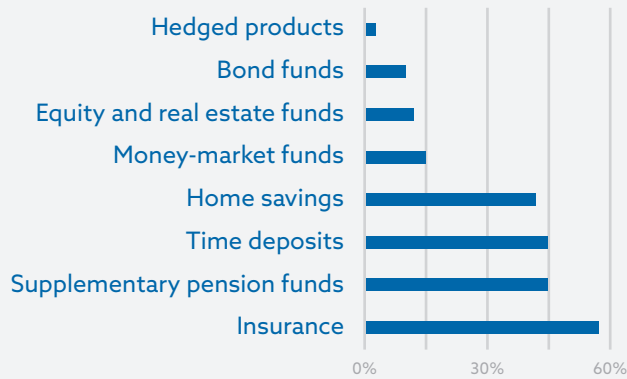
In 2014 the percentage of respondents that correctly answered four simple questions on financial literacy was 11%, but in 2017 it was less than 10%. These results also showed a correlation between financial literacy and education, as the success rate for respondents with tertiary education was almost three times higher than that for respondents with only primary education. The situation is also slightly better among households that have experience with housing loans. Among households that own financial assets such as equities, bonds or investment fund shares/units, the percentage that answered all four questions correctly was as high as 27.1%. The score for responding households with consumer loans or loans from relatives was very balanced.

Source: The Household Finance and Consumption Survey, 2014 and 2017.

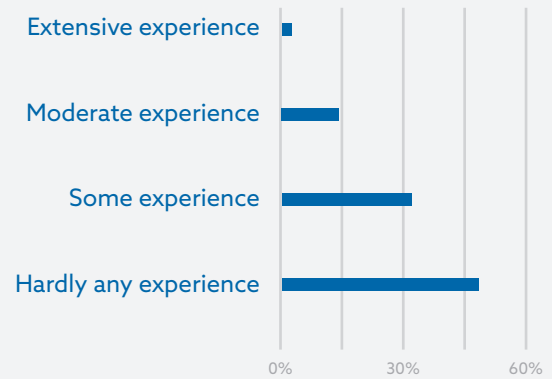
The Slovak Survey of Investment Behaviour (SPIS)

In this survey, conducted in Slovakia in 2009, respondents were questioned on, among other things, their knowledge of financial instruments and their behaviour as financial consumers. One of the survey's key findings is that the level of aversion to financial risk is somewhat higher in Slovakia than in the United States, Germany and Australia. This result reflected respondents' limited experience of financial products and their low level of financial literacy.

SPIS – Experience with financial products



SPIS – Experience with investment (self-assessment)



Source: Slovak Survey of Investment Behaviour (SPIS). There were 2,171 respondents, and the make-up of the sample was similar to that used in foreign surveys such as the Survey of Consumer Finances (SCF) conducted by the US Federal Reserve.

The Financial Literacy Survey conducted by the Slovak Banking Association (SBA) in 2007

The Financial Literacy Index (FLI) stood at 0.56, indicating average knowledge of personal finance issues. The survey found that:

- more than half of the respondents do not choose the most favourable time deposit product out of a choice of two;
- as many as 84% choose the less favourable loan out of a choice of two;
- only 19% understand the term 'annual percentage rate of charge (APRC)'.

Source: SBA. Personal interviews.
4 September – 10 October 2007. Number of respondents: 1,107.

2014 survey by Standard & Poor's

The state of financial literacy in Slovakia was also revealed to some extent by a 2014 study entitled "Financial Literacy Around the world: Insights from the Standard & Poor's Ratings Services Global Financial Literacy Survey". In this survey, Slovakia scored 48%, which was below the EU average (52%) and significantly lower than the euro area average (the worse-performing euro area countries were Greece, Malta, Slovenia, Lithuania, Portugal, Italy and Cyprus).

Source: Standard & Poor's,
Financial Literacy Around the World, 2014.

3

Inadequate financial literacy and its potential consequences

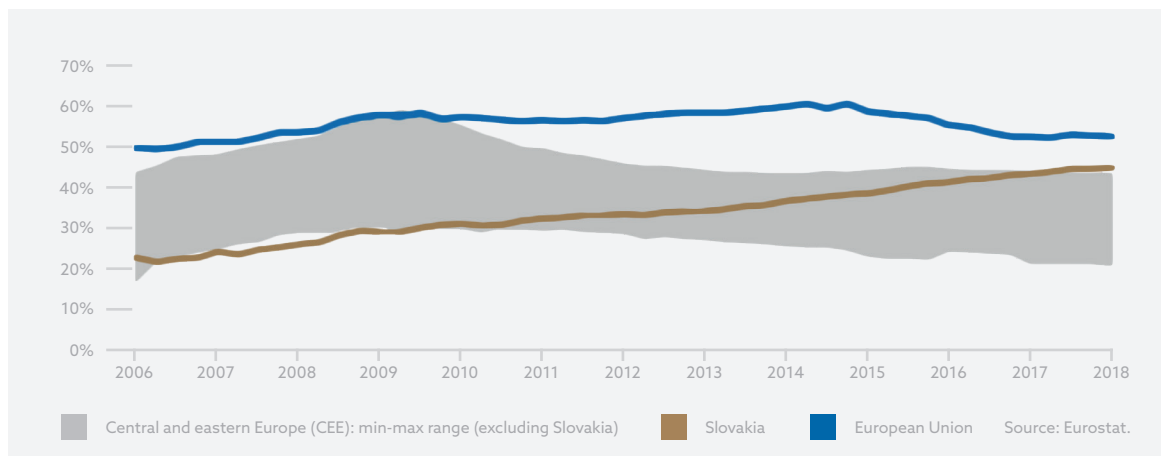
In its Financial Stability Report (FSR) for 2018, published in May 2019, NBS points out the emergence of new trends that indicate areas of potentially increasing risk that affect also final consumers. The areas identified are as follows:

a) Risk of increasing indebtedness

Household borrowing is a natural result of economic development and constitutes rational consumer behaviour. In Slovakia, however, households' uptake of housing loans is on a strongly upward trend. The year-on-year increase in the median amount of housing loans provided per quarter accelerated in 2018 by between 22% and 27%. This increase was far greater than the average growth in total housing loans, which stood at 12% for the year. According to the FSR, such acceleration may imply an increasing concentration of indebtedness across households. A second trend noted in the FSR is the rising average age of borrowers at the maturity of housing loans. The risk here is that the scope for reducing a distressed borrower's loan instalments by extending the term of the loan is becoming increasingly limited. The loans provided often feature other risky characteristics (a borrower with lower income; a higher loan amount; a longer loan term; a single applicant).

At the end of 2018, Slovakia was reporting the highest growth in household indebtedness in central and eastern Europe (see chart), the highest in the euro area, and the second highest in the European Union, after Denmark. Slovakia's household debt-to-GDP ratio remained the highest in central and eastern Europe and its divergence from the EU median fell to an all-time low. Furthermore, the debt-to-GDP ratio of Slovak households now stands at 45%, the mid-point of the range which, according to the IMF (Global Financial Stability Report, October 2017), the ratio has an increasingly negative impact on economic growth. In other words, household borrowing in Slovakia has increased so strongly in recent years that it could result in serious problems.

Chart: The household debt-to-GDP ratio has increased faster in Slovakia than in other EU countries

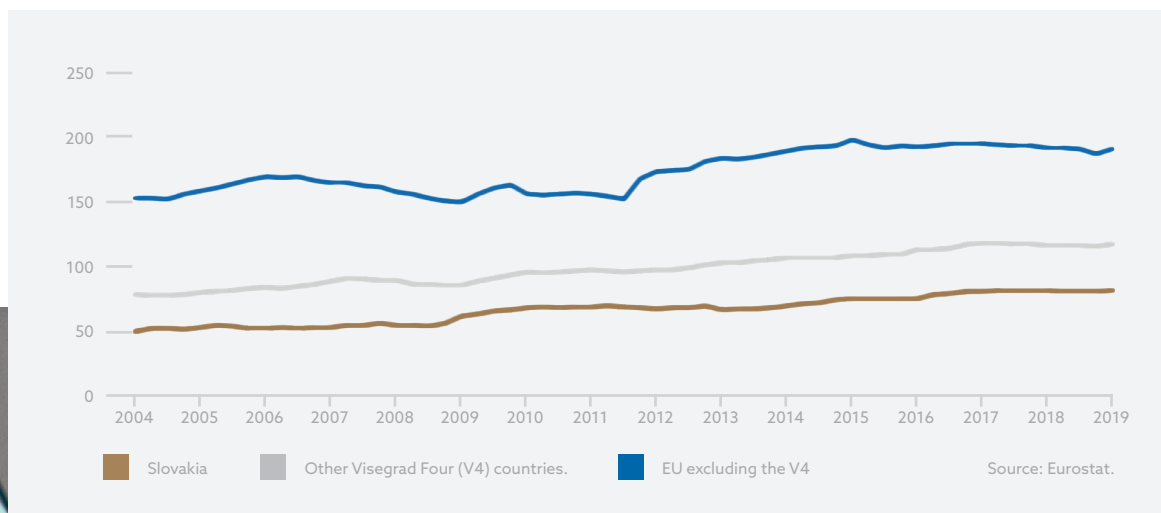


b) Inappropriate structure of savings

In any country, the amount of household savings is an indicator of economic stability. Households can use their savings at times of crisis or when other unexpected events arise. In terms of the amount and structure of their financial assets (savings), Slovak households rank below the EU average. This is unfavourable from a financial stability perspective, given that liquid financial assets may be used for loan repayments in the event of labour market shocks. On the positive side, this amount is not deteriorating amid the increase in lending activity, and, on the whole, its

level appears to be related to some extent to the high home ownership rate. While Slovak households do not have a large amount of financial assets, their wealth is more heavily concentrated in houses and flats. On the other hand, Slovakia has over a long period reported lower levels of household financial assets compared with the other EU countries and also with other CEE countries. This situation is undermining the capacity of indebted Slovak households to withstand potential negative shocks.

Chart: Household financial assets (percentage of GDP)



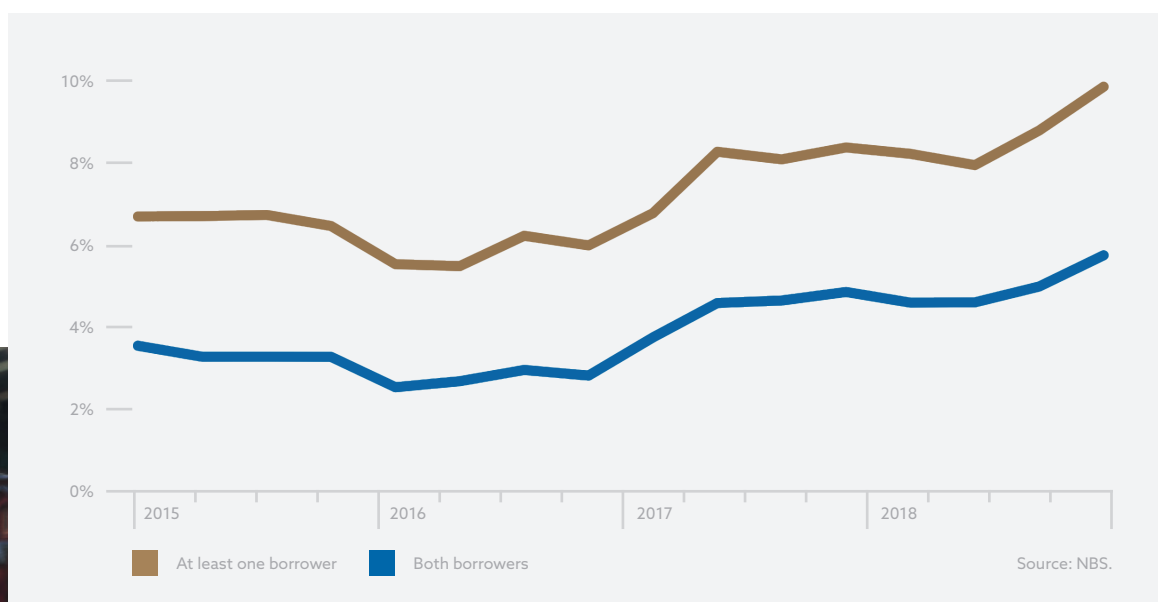
c) Risk related to an ageing population

Demographic trends and people's increasing average longevity will result in significant ageing of Slovakia's population.

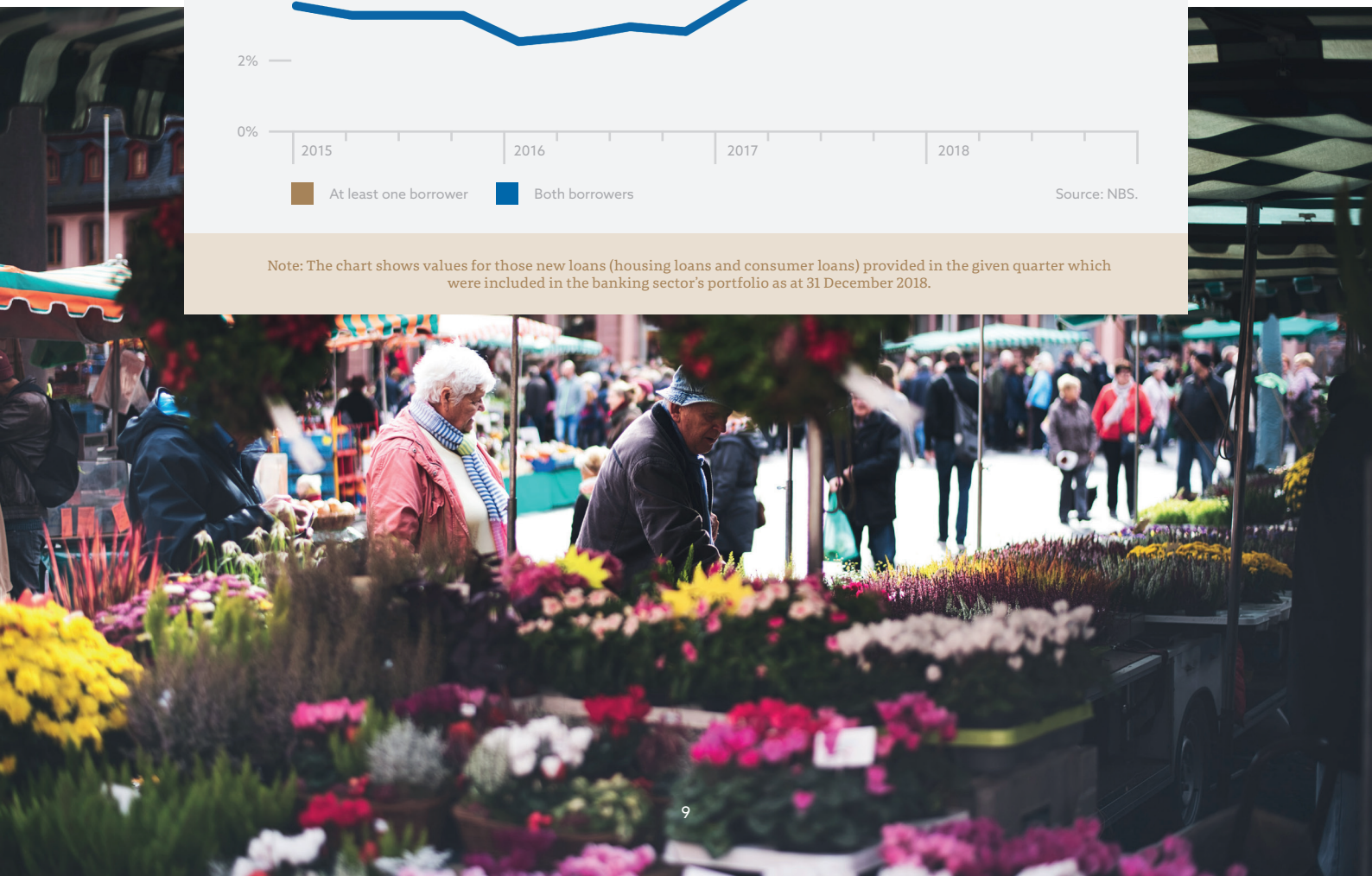
A related development is that Slovak households are not accumulating net financial assets to a sufficient extent. Saved funds should be used to provide security in old age and to prevent a significant decline in the living standard of people reaching pensionable age. Given the fact of population ageing, the accumulation of financial reserves and voluntary pension savings of Slovak households need to be strengthened significantly. A separate

development is the credit burden of older age cohorts; the percentage of indebted households in the oldest age cohort is already far above the EU average. In older age cohorts, indebtedness is naturally caused by consumer loans to a far greater extent than housing loans. In future years, however, housing loans will become the main cause of indebtedness among older households, too, as these debts remain on household and bank balance sheets due to their relatively larger average amount and longer terms.

Chart: Increase in share of loans where one or both of the borrowers will be older than 70 at the loan maturity date



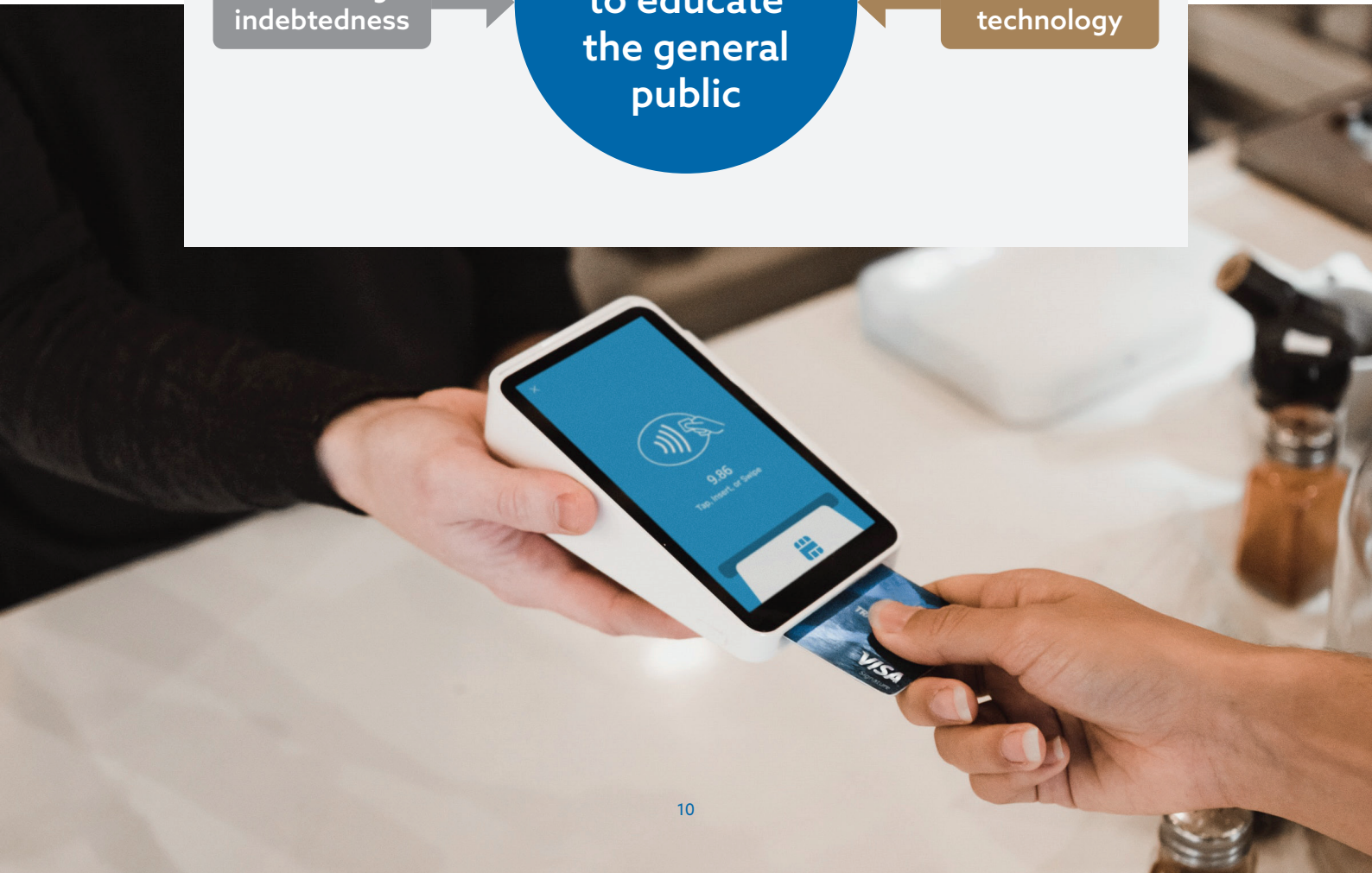
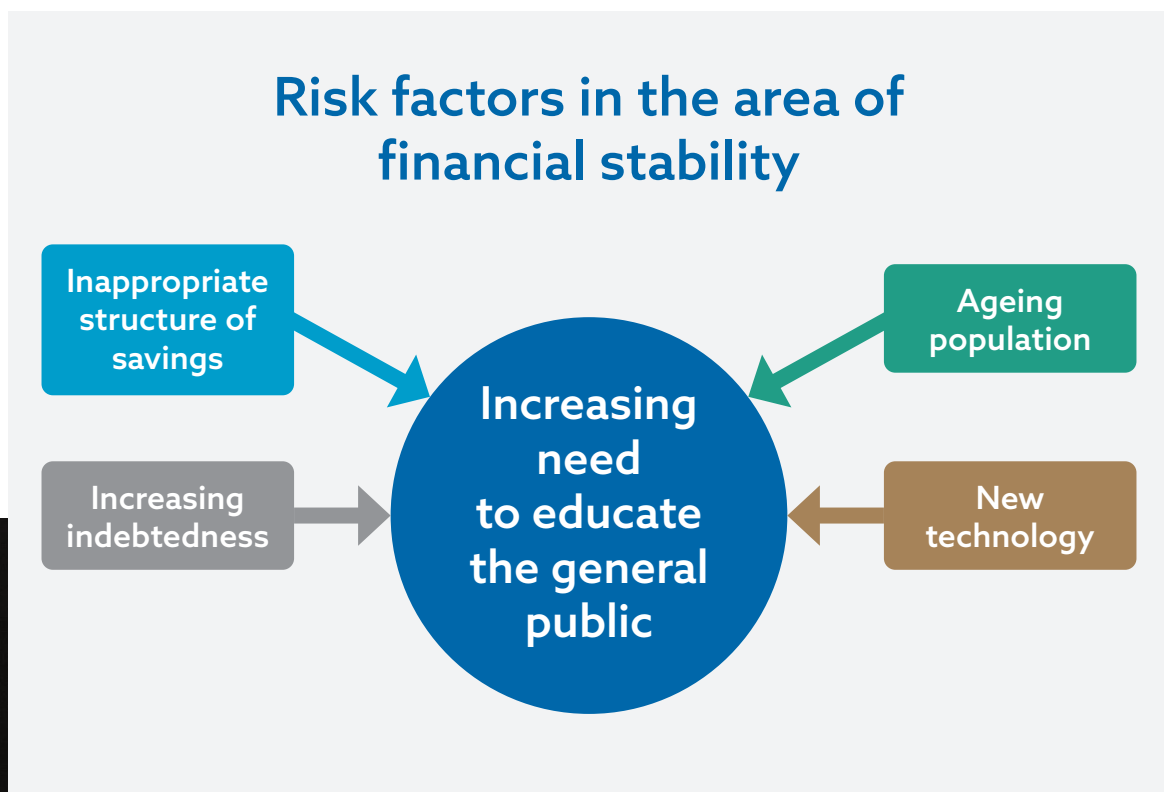
Note: The chart shows values for those new loans (housing loans and consumer loans) provided in the given quarter which were included in the banking sector's portfolio as at 31 December 2018.



d) New technology

Developments in information technology are creating scope for new forms of e-commerce, and in the case of financial technology (fintech) this can be seen in new forms of diverse financial services. Technology is supporting the innovation of new business models, applications, processes and products, while also improving the quality of

existing products and services, increasing their availability and customisation, and reducing the costs related to them. This new environment, however, also entails new risks in that ordinary consumers may not understand new financial services and may be liable to make bad decisions.





4

Current educational activities in the area of personal finance

International activities

The concept of financial literacy as an independent topic of cross-sectoral policy became established during the global economic crisis. In 2008 the OECD set up its International Network on Financial Education (INFE), of which NBS is a member. The main purpose of INFE is to develop financial education and support OECD member states in the production of national strategies for financial literacy. In the same year the OECD launched

the International Gateway on Financial Education (IGFE), a web portal which serves as one of the primary sources and conduits of financial education information and supports INFE's activities. In 2008 the European Commission established an Expert Group on Financial Education as the Commission's advisory and consultative body in this area.

Slovak projects

The main coordinator of financial education activities is the Education Ministry. On its website, at <https://www.minedu.sk/financna-gramotnost/>, there are important documents, methodological information, and links to other sites supporting financial literacy education. NBS works in close cooperation with the Education Ministry in this area, since it sees the promotion of financial literacy as one of the key aspects of its mission to support financial market stability and consumer protection. The aim of both institutions is to educate consumers in order to make them less vulnerable.

In 2008 the Slovak Government approved a Draft Strategy for Education in Financial Matters and Personal Finance Management. On the basis of this document, the Education Ministry produced the National Standard of Financial Literacy (NSFL), the current version of which (1.2) took effect on 1 September 2017. The NSFL focuses on such topics as financial responsibility, safeguarding money, credit and debt, saving and investment, risk management and insurance, and so on.

The Education Ministry produced the NSFL in cooperation with an Inter-Sectoral Expert Group for Financial Literacy, of which NBS is a member.

Teachers will incorporate particular chapters and topics from the NSFL into educational materials according to the needs of pupils and to the educational conditions in their schools. Teachers may at the same time use the NSFL to develop new topics as part of the general and technical curricula

The financial education of consumers or potential consumers is also the focus of various initiatives of the Slovak Banking Association (SBA) and its members, the Slovak Insurance Association, the Association of Securities Dealers, and the Association of Financial Agents and Advisers. Activities are often aimed at final consumers via the non-profit sector, where non-profit organisations and foundations working in the area of financial education join forces (through initiatives such as *Poznaj svoje peniaze* (Know Your Money), *Viac ako peniaze* (More Than Money), *Deň sporenia* (Day of Saving), *FinQ*, *Na budúcnosti záleží* (The Future Matters), *Moja Familia* (My Family), and so on.

In its own survey of financial educational activities, NBS found that:

- institutions involved in financial education have produced a wealth of diverse materials, but that these may sometimes be unclear to the teachers and target readers;
- some existing materials need to be further developed or adapted for educational use;
- teachers are limited in the time they can devote to preparing teaching materials for financial education, or to the teaching itself, and they have few opportunities to attend courses on how to teach financial education, especially so in the regions.

of primary and secondary schools or to develop financial literacy courses as part of financial education, as well as digital educational content and other supporting materials. In order to help teachers, pupils and school-leavers find relevant educational materials in this area, the Education Ministry provides an online portal of digital education content (www.edu-centrum.sk), and the Ministry of Finance of the Slovak Republic ('the Finance Ministry') has a portal dedicated to supporting financial awareness and financial consumer protection (www.fininfo.sk), which is updated on a regular basis.

In addition to the NSFL, many other activities aimed at increasing financial literacy in Slovakia are now being developed by public sector institutions (NBS, the Finance Ministry, and the Education Ministry) as well as by universities, business entities and non-profit organisations.

In Slovakia today, financial education is fragmented, with many minimally aligned initiatives running in parallel. As a result, the final mediator of this knowledge – the teacher at a primary or secondary school – does not have access to an integrated set of final materials, due to a capacity shortage or because the materials in most cases need to be further modified. This effect is particularly apparent in the different levels of financial education.



5

NBS's role in the financial education of the public

Národná banka Slovenska realises that financial literacy develops as an ability conditioned by factors such as age, family, employment, culture, and place of residence. It is a constant process that allows each individual to respond effectively to new situations in their personal life and to the ever-changing economic situation.

NBS priorities

The principal task of NBS is to support price stability and financial stability. These are not abstract concepts but serve to increase the well-being of citizens. But no matter how strict regulation is, it cannot be sufficiently effective without financial education, since citizens, as users of financial services, are also part of economic relations. NBS therefore sees supporting financial literacy as one of its tasks. A more financially informed population means a more stable economic and financial system. Making better and correct economic decisions will increase the financial well-being of consumers and their families.

NBS is not engaged in educational policy, but rather seeks to contribute, as a natural partner, to financial education in Slovakia and to the best possible integration and coordination of public and private activities aimed at supporting such

education. Given that the framework of a financial literacy strategy has been established and improved in Slovakia over the past ten years and more and that many diverse and incomplete financial education materials have been developed, the objective of NBS is to develop activities that coordinate the public and private sectors in the task of unifying financial literacy strategy and disseminating it to all corners of Slovakia. This can be achieved only by combining the efforts of entities from the public sector, private sector, academia, and non-profit organisations.

Another priority has to be activities focused on the relatively large proportion of adults in Slovakia who did not receive financial education at school and have very little knowledge of financial matters.

NBS's mission includes the following tasks:

- **To increase public awareness about the importance of financial literacy.**
Consumers should realise that having a grasp of finances will improve their financial decision-making and increase their financial well-being.
- **To make the case that better coordination of financial education activities has synergetic effects.**
Many people today are engaged in the provision of financial education. The coordination of their activities will result in financial education being implemented as efficiently as possible and therefore reaching a larger swathe of the population.
- **To initiate the systematic measuring of financial literacy in Slovakia.**
Measuring financial literacy allows us to identify the main shortcomings in financial education, to identify the groups most at risk, and to target educational programmes more efficiently. Unless the results of such education are measured, we cannot assess its efficiency and effectiveness. The current measuring of financial literacy in Slovakia, especially of the adult population, is insufficient in terms of both its scope and its potential for international comparison.

Strategic focus

Regarding financial literacy, Národná Banka Slovenska is focusing its activities on two areas in particular:

a) Institutional (formal) education targeted at primary and secondary school pupils

NBS's main goals are to continue participating in the implementation of educational initiatives aimed at supporting financial literacy development, in order to develop good financial habits and to explain the issue of financial education. Given what is known about the current state of financial education activities and given NBS's role, NBS sees the greatest scope and need to be in the education and support of teachers (trainers). NBS also seeks to use its natural authority and to coordinate public and private sector educational activities more closely. This will make it possible to increase the synergetic effects of these activities and subsequently to fill gaps in the system – to strengthen activities wherever they are inadequate.

The starting point in this regard will be the thorough mapping of entities involved in financial education, of the existing financial education materials, and of the scope of the activities of each entity involved in financial education activities. NBS notes the presence of several entities and the broad range of activities in Slovakia's financial education market. It wants to communicate actively with financial education providers and to sup-

port and coordinate their activities. NBS's objective is to create an environment (an online portal, for example), where the main activities of individual entities will be published, thus helping to widen the availability of education and training, including online and in the regions. The purpose of mapping the scope of the activities of specific entities from different sectors is to extend the opportunities for cooperation between entities and to enable the proactive planning of activities, such as financial literacy days in particular regions. Thus, the effectiveness and availability of existing financial education activities may be significantly improved.

b) Subsequent (informal) education – targeted at the adult population

Historically in Slovakia, most people have not received targeted financial education at school. At the same time, financial markets are constantly changing and evolving, and there are risky developments that may cause considerable harm to financial consumers. Hence financial education must also respond to changing conditions and financial market products.

NBS's aim in this area is to conduct educational campaigns that inform adults about practical and current issues concerning personal finance, about related risks facing adults, and about what informed consumer behaviour in specific situations is like.

NBS has identified strategic groups in regard to financial literacy in Slovakia and seeks to address them:

Strategic group	Risk	Activities
Children and students	<ul style="list-style-type: none"> insufficient basic knowledge about personal finance insufficient experience of financial products 	<ul style="list-style-type: none"> education of teachers coordination of educational projects workshops for schools Financial Consumer Days
Active population	<ul style="list-style-type: none"> excessive borrowing low amount of savings demographic trends new technology 	<ul style="list-style-type: none"> educational campaigns electronic materials promotion of education NBS Open Day
Older people and pensioners	<ul style="list-style-type: none"> insufficient experience of financial products low amount of savings new technology demographic trends 	<ul style="list-style-type: none"> education campaigns information leaflets workshops
Especially vulnerable groups*	<ul style="list-style-type: none"> excessive borrowing low amount of savings new technology 	<ul style="list-style-type: none"> educational campaigns informational leaflets coordination of educational projects

*For example, minorities, migrants, disabled people, and long-term unemployed people.

Key financial literacy issues and particular strategic groups of the population:

	Children and students	Active population	Older people and pensioners	Especially vulnerable groups*
Sensible management of household budget	●		●	●
Responsible borrowing		●	●	●
Lower financial vulnerability (saving/investment)	●	●		●
Suitable financial product selection		●	●	●
Pension	●	●		
Cashless payments and cash; recognising counterfeits	●	●	●	●
Personal financial data protection and fraud	●	●	●	●

● focus ● main focus

* For example, minorities, migrants, disabled people, and long-term unemployed people.

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