

THE DEVELOPMENT OF A FINANCIAL LITERACY SYSTEM IN RUSSIA

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Abstract: The article touches upon the issues of financial literacy development in Russia. The author considers financial literacy as a set of procedures that build up the system of financial literacy institution development including financial inclusion, an increase in financial literacy and a strengthening of the protection of consumers' rights in regard to financial services. The author presents research findings that indicate a poor financial literacy level in Russia. The key conclusion reflects the goal of the paper: the development of the financial literacy system depends on the demand for innovative financial services and the measures taken by the government to develop the financial literacy system.

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Introduction

Financial issues directly affect all areas of modern life, and financial literacy has become an essential life skill.

The financial markets become increasingly comprehensive due to the development of an economy's financial sector. The globalization of financial markets generates new forms and types of transactions and services that have no equals in the world. Thus, more and more new products requiring appropriate financial knowledge are offered to financial markets' consumers (individuals).

Citizens from across the globe, living in different economic, financial and social conditions need to take greater responsibility for their own future financial well-being and security.

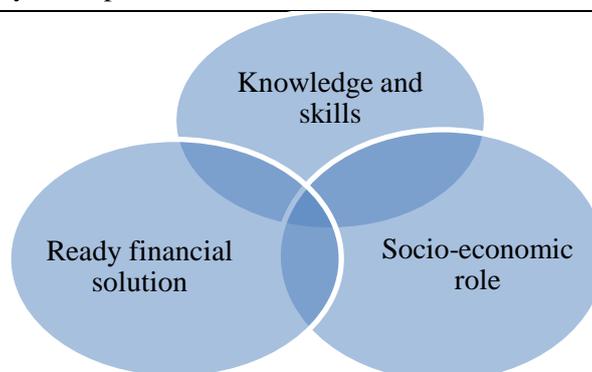
Financially illiterate people could face difficulties as well as have problems associated with the mere ignorance of financial literacy fundamentals. Therefore, the strengthening of consumer rights, actual knowledge and competence in the basics of financial literacy become inherent for the modern development of the country's financial market. This article is aimed at studying the relationship between the financial literacy development, government measures and the demand for the innovative financial services as well.

Theoretical Basis of the Study

Financial literacy includes knowledge, skills, competencies and attitudes in the financial field as well as features of individual development, determining the ability and willingness of a citizen to perform effectively numerous socio-economic roles (householder, investor, borrower, taxpayer, etc.).

On another hand, financial literacy is represented as a combination of awareness, knowledge, skills, attitudes and behavior needed to take well-grounded financial decisions and ultimately, to achieve individual financial well-being (figure 1).

Figure 1: Financial literacy concept

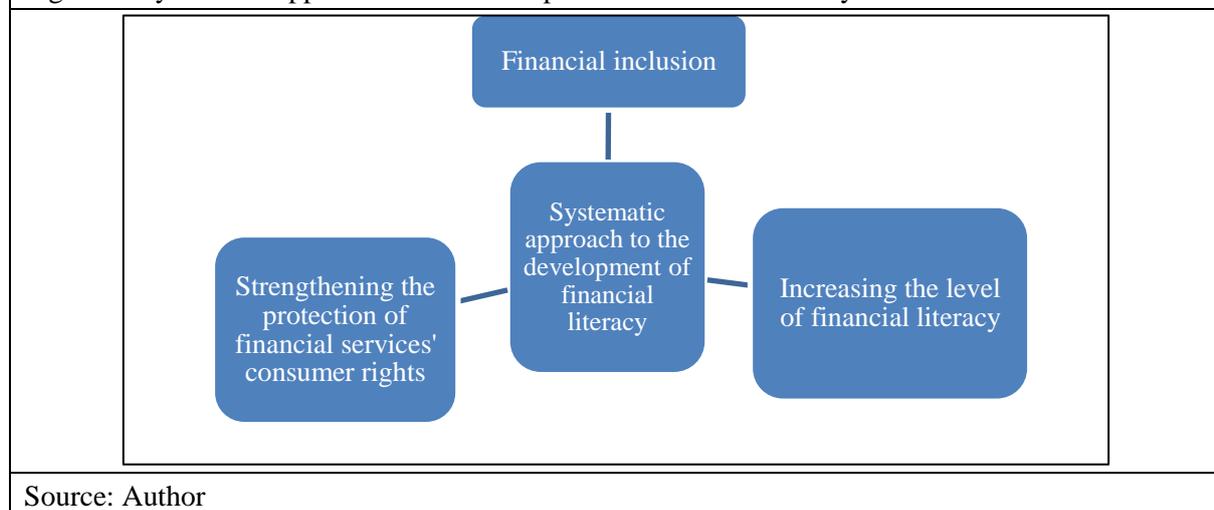


Source: Author

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Financial downturns tend to increase the demand for financial education programs and the need to develop a more systematic approach to the development of a financial literacy system. Such an approach should be aimed at increasing the availability of financial services, increasing financial literacy and strengthening the protection of the citizens' rights as consumers of financial services.

Figure 2: Systematic approach to the development of financial literacy



Source: Author

Data and Methodology

Demirg-Kunt et al. (2011) argue that access restriction to financial services is one of the key reasons of income inequality and poor economic growth in numerous countries. The authors explain the relationship between the promotion of economic growth and the broad access to financial services. Moreover, they formulate the basic principles of effective policies to increase the availability of financial services.

On the issues regarding the relationship between financial accessibility, financial stability and economic growth, the review by the Central Bank of Russia concludes that the key indicator of financial accessibility is the financial infrastructure (ATMs, branches, non-banking institutions, financial services points, agent banking) and numerous remote financial service channels (CBR, 2018). The innovative nature of the financial infrastructure of banks requires a certain level of financial literacy. Modern trends of banking include the cooperation of banks with e-payment systems, promoting the development of electronic businesses and increasing the investment and business activity of both population and real economy companies (Samorodova, 2015). Banks introduce new technologies to improve the quality of operations leading to e-service. Such an interaction is largely determined by expectations of consumers (Shishkina and Shitov, 2017) that have varying levels of financial literacy and determine the demand for financial services.

Notably, the Bank of Russia acts as a regulator of the financial market, protecting the rights and legitimate interests of all market shareholders.

In January 2017, the Bank of Russia joined the International Financial Consumer Protection Organization (FinCoNet). FinCoNet's members are the supervisory authorities of 22 countries with the most developed consumer protection system of financial services. The members are the founders of advanced approaches and practices in the financial field (Angola, Australia, Brazil, Canada, China, France, Germany and others) (CBR, 2017).

FinCoNet was established in 2013 and replaced the informal association of supervisory bodies that existed since 2003, contributing to the development of a system for protecting the consumer rights of financial services of the G20 countries.

The key objective of the organization is promoting the development of effective supervisory policies and improving the system for protecting the rights of consumers of financial services (CBR, 2017).

Financial supermarkets will emerge in Russia by 2020, consolidating products of different banks, insurance companies and other organizations. People would be able to remotely receive financial services and products they need (CBR, 2017).

Increasing the level of financial literacy of the population has become the one of the most important areas of activity for governments, financial institutions and public organizations around the world. In all countries, the problem of basic financial literacy education has become urgent. Numerous initiatives to increase financial literacy are introduced in many developed and developing countries. To date, governments have realized that the long-term nature of financial education strategies and their integrated cross-sectoral nature predetermine the need to develop the framework for their effective presentation and implementation. In this regard, some countries have begun creating coordinated and localized national strategies to increase the financial literacy of their populations (Rudakova and Lukianov, 2018).

The goal of creating a national strategy is to increase the effectiveness of financial education through its coordination at the national level and the application of targeted measures.

Thus, the results of assessing the level of financial literacy in Russian teenagers inspire confidence, but the ones of the older generation are not too prosperous. As it appears from the Global Financial Literacy Survey conducted by Standard & Poor's, the smallest share of the financially literate population varies from 13% in Yemen to 71% in Denmark, Norway and Sweden. The study revealed that the share of the financial literate population is higher in countries with a high level of social and economic development (Scandinavian countries, Germany, Great Britain, USA, Canada, Australia) and is close to zero in developing economies (Yemen, Afghanistan, Albania). In Russia, the share of the financially literate population accounted for only 38% of the whole population. This is more than 1.5 times lower than the level in many developed countries, where the share of the financially literate of the population accounted for usually between 45% to 70%. Russia was ranked 55th in terms of literacy of the adult population, which is lower than Mongolia and Zimbabwe (Rudakova and Lukianov, 2018). In Russia, for the period of 2008 – 2016, the National Agency for Financial Research, the All-Russian Center for the Study of Public Opinion, and the Public Opinion Foundation conducted numerous regular studies for indicators of financial literacy. The findings confirmed that the level of financial literacy of Russians is not high enough (Tsvetova and Erofeeva, 2017).

We believe that the demand for innovative financial services is bred from the moment of developing financial literacy competencies. Therefore, educational institutions should develop these competencies in the framework of the educational process.

Such education is essential from the elementary school level where the foundations of financial literacy of the future generation will be laid.

Introduction of financial education into school curricula has shown its effectiveness in European countries, in the USA, Canada, etc. In the USA, mass media are actively used to create information programs for the target audience to increase the financial literacy of specific population groups. The objective is to increase the level of financial knowledge and its applicability when choosing specific products and services (Konstantinov, 2017).

Thus, the Federal state educational standard of secondary (complete) general education (grades 10-11) (approved 17.05.2012 by the order of the Ministry of Education and Science of Russia, No. 413), establishes the requirements regarding financial literacy for the units included in the list of directions for the development of pedagogical materials, as well as the results of pedagogical activity at both basic and advanced levels: Mathematics (algebra and pre-calculus, geometry), and Social Studies.

At present, the Ministry of Finance of the Russian Federation along with the World Bank is aimed at implementing the project "Promotion to raising the level of financial literacy of the population and the development of financial education in the Russian Federation" (Minfin, 2011).

The Project is aimed at increasing the financial literacy of Russian citizens, creating reasonable financial behavior among Russian citizens, taking grounded decisions, responsible attitude to personal finances and increasing the efficiency in protecting the rights of consumers of financial services. The project should meet the challenges to raise the level of financial literacy in Russia. (Figure 3).

Figure 3: Key objectives of the Project “Promotion to raising the level of financial literacy of the population and the development of financial education in the Russian Federation”

1	<ul style="list-style-type: none"> • Development and implementation of the medium-term National Strategy for Increasing the Financial Literacy of the Population considering the financial literacy assessments and the effects of manageable programs
2	<ul style="list-style-type: none"> • Establishing sustainable institutional frameworks for implementing financial literacy programs both at federal and regional levels with the participation of executive authorities, educational institutions, non-governmental organizations and financial sector;
3	<ul style="list-style-type: none"> • Supporting a wide range of "bottom-up" initiatives aimed at increasing financial literacy, developing financial education and enhancing the protection of the rights of financial services' consumers on a competitive basis;
4	<ul style="list-style-type: none"> • Ensuring the strengthening of government and non-government sectors' capacity in the field of consumer protection in financial services, including staff development, improvement of disclosure and accessible presentation of information by financial market participants and interaction with private sector organizations;
5	<ul style="list-style-type: none"> • Perform a comprehensive assessment and establish constant monitoring of financial literacy standing and financial behavior of the population.
6	<ul style="list-style-type: none"> • Creating the staff potential in the field of realization of financial literacy programs at both federal and regional levels;
7	<ul style="list-style-type: none"> • Development, testing and circulating of the educational programs and tools to increase financial literacy via institutions and channels of both formal and non-formal education for schoolchildren, students and adults;
8	<ul style="list-style-type: none"> • Creating the system of effective and accessible information resources in the field of financial literacy and consumer protection of financial services, conducting a large-scale information campaign; developing, testing, and circulating of information materials on the protection of the rights of financial services' consumers.

Source: Minfin, 2011

Since 2015, an All-Russian Week of Financial Literacy for the Russian population is being held, which includes a set of informational and educational activities taking place in all regions of Russia. Participants of the events survey the key financial concepts and principles of financially competent behavior as well as discover financial risks, highlight the protection of their rights, and discuss the issues of the competent adoption of one’s first financial decisions with the experts (Evstafyeva et al., 2016).

The preparation of financial advisers for individuals (households) should be the final element in the Project.

Results and Discussion

Financial education provides greater access to financial services through increasing consumer awareness of the financial services offered and increasing their confidence about their use. Financial education is also effective in terms of providing consumers with the opportunity to compare products, advertising long-term savings, wise retirement planning, and also in terms of the more prudent use of credit. Expanding the innovative financial infrastructure as the main indicator of financial accessibility, consumers of financial services will contribute to the increasing demand for banking services. Thus, financial education gives a boost to the development of financial systems and markets

and encourages more transparent competition among financial service providers. In much of the world, financial education is also seen as the first line of defense and consumer protection of financial service, supplement appropriate regulatory measures.

Educational institutions should utilize a practice-oriented approach, since lessons with active teaching methods promote better adoption and formation of skills to competently operate in the real financial sector.

Conclusion

Development of financial services and the introduction of innovative banking services require the deepening of financial knowledge of consumers of financial services. The higher the level of financial literacy, the greater the demand for innovative financial services in Russia.

Development of financial knowledge should be accompanied by government measures that should be aimed at strengthening the protection of consumer rights of financial services and increasing the level of financial literacy as well. Financial education coupled with an effective consumer protection system will help reducing risks through providing an opportunity for citizens to effectively use financial products and services, make the right decisions, and participate fruitfully in financial and economic activities. Moreover, greater access to financial services will fuel economic growth. To improve the effectiveness of financial education, the measures taken by the government should be of a long-term, comprehensive and cross-sectoral nature.

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