

Financial Awareness and Consumer Rights: an Overview of Assessments and Policy Implications. Lessons from Transitional Economies.

Irina Kunovskaya, Ph.D., University of Georgia¹ Brenda Cude, Ph.D., University of Georgia²

Many former Soviet countries are currently working to develop or have already established comprehensive national financial literacy strategies. The current study suggests that an important challenge for financial literacy education and policy makers is to take into consideration specific characteristics of the financial market and individual financial behavior in a context of transitional countries.

The first objective of this study focuses on broadening the concept of financial literacy and measurement according to the country-specific political and economic circumstances. The second objective is to examine the current levels of financial literacy throughout Russia, and comparing them to scores in another transitional economy (Azerbaijan) and to scores in other countries. The third objective is to highlight the special circumstances to consider when designing national strategies or major initiatives on financial literacy education in the context of transitional economies. The data for this study came from a Nationwide Financial Literacy Survey (NFLS) conducted in 2008 in Russia. The NFLS sample was adults age 18 and older across 40 Russian regions. The 2008 NFLS measured financial literacy in a manner consistent with the approach previously developed in the literature. The first set of six questions captures people's capacity to handle the basic financial literacy concepts of numeracy, compound interest, inflation, time value of money, and percentages. A second set of questions measures more advanced financial knowledge about protection of consumer rights in financial markets and the Russian system for insuring savings and investments. Two variables were created as summary measures of financial literacy. Overall, just fewer than one-half (46.4%) of the respondents answered all six basic financial literacy questions correctly. They did even worse on the set of the four advanced financial literacy questions. According to cross-country comparisons Russian and Azerbaijan respondents demonstrated a much lower level of basic financial knowledge than American, Dutch, and Indonesian consumers for all questions where comparison was possible to make.

A rising interest in financial literacy education and consumer protection issues has been seen recently in most of the transitional economies. The main reasons are the low levels of consumers' financial capability, the relatively high level of financial exclusion (including voluntary exclusion) in these countries, and a recognition that finance is an important element for innovation and growth. While the more advanced transition economies of Central and Eastern Europe have progressed well in rebuilding their financial systems and access to financial services, most of the former Soviet Union countries, including Russia, lag behind. The transition to a market economy and numerous financial shocks permanently changed the way people perceived financial markets. Hyperinflation, collapse of financial sector institutions, fraudulent bankruptcies and pyramid schemes led to the massive loss of monetary savings in the beginning of transition and to the emergence of distrust toward all financial intermediaries. These events continue to affect households' financial behaviors two decades later. During Soviet times market instruments were not commonly used and people were a "cash-only" generation because most of their earned income was in cash. In emerged market economies pension system reforms and quick development of retail financial products shifted responsibility and risk for financial decisions from the state to individuals.

Overall, the results of the study highlighted the extremely low awareness that Russians have about their consumer rights in financial markets, and the knowledge they have about basic financial concepts. The study suggests a clear approach for the development of financial literacy education in Russia and other countries emerging from economic transition. This approach should have adequate country-specific solutions and be consistent with international best practices and achievements. Financial literacy education should provide financial security for consumers, which has increasing importance in countries that have recently transitioned to a market-based economy.

Endnotes

¹ Extension Program Evaluator, College of Family and Consumer Sciences, UGA, Athens, GA 30602-4356, ph: 706. 542. 8884, fax: 706. 542. 1799 irkunovs@uga.edu

² Professor, Housing and Consumer Economics, UGA, Athens, bcude@uga.edu