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Financial literacy in Poland: theoretical framework, research and policy

Abstract. In the face of developing financial markets, the low level of financial knowledge of the society becomes an increasingly important issue. In making everyday financial decisions a consumer is exposed to increasing risk due to their own ignorance. The aim of the article is to present certain aspects of financial literacy in Poland and an indication of the need to increase the access and quality of financial education in the country. The article is a review of primary and secondary research of financial literacy in Poland. The presented evidence suggests that the state of financial knowledge of Poles has admittedly improved slightly but still remains at a low level. The research period of analyzed materials is from 2009 to 2016.

Keywords: financial literacy, financial knowledge, financial capability

Introduction

Lack of understanding of economic issues, financial products and services, interdependencies in the world of finance and banking, financial mechanisms, and financial management tools (and many others) affect the deepening social problems such as social and financial exclusion, excessive debt, etc. Acquired financial knowledge applied in everyday life determines more informed decisions on

the goods and services market, as well as causes fuller participation in society. Increasing financial knowledge results in the banking inclusion and use of more sophisticated banking services. For the purposes of this study the following hypothesis has been set: Financial knowledge of Poles is admittedly slightly improved but still remains at a low level. This hypothesis was verified with the use of secondary research conducted in the world and in Poland.

The aim of the article is to present certain aspects of financial literacy in Poland and an indication of the need to increase access and quality of financial education. The first part of the article is devoted to the theoretical framework of financial literacy, including Polish literature. The second part evaluates financial literacy level of Poles based on primary and secondary research. Next, the examples of activities in the field of financial education undertaken in Poland are discussed, and the need to develop the National Strategy for Financial Education in the context of the existing solutions in the world, is pointed out.

1. A Theoretical Framework for Financial Literacy

According to the Organization for Economic Cooperation and Development (OECD) and the International System of Financial Education (International Network on Financial Education – InFE), financial literacy is recognized as a combination of awareness, knowledge, skills, attitudes and behaviors necessary to make sound financial decisions and ultimately achieve individual financial prosperity (Measuring Financial Literacy, 2011, p. 3). The newest definition of OECD states that

financial literacy is 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 (*National...*, 2015, p. 641).

In order to assess the general level of financial literacy Atkinson and Messy (2012, p. 40) propose to sum up the three components: knowledge, behavior and attitudes. This gives a simple measure that takes into account the various aspects

of financial literacy, including financial planning, the choice of financial products and money management on a day-to-day basis. According to the World Bank, the terms “financial literacy” and “financial capability” are often used interchangeably. The term “financial literacy” is associated with the financial know-how (financial knowledge), and “financial capability” is a broader term covering the behavior and interactions of knowledge, skills and attitudes (Valant, 2015, p. 8). Financial literacy is a concept variously translated into Polish – as the financial competence, financial knowledge or financial awareness (more: Świecka, 2016; Frączek, 2013; Kuchciak, 2013; Zdanowska, 2012).

Lusardi sees four aspects of this definition that should be highlighted. First, financial literacy does not refer simply to knowledge and understanding, but also to its purpose which is to promote effective decision making. Second, the objective of financial literacy is to improve financial well-being, not to affect a single behavior, such as increasing savings or decreasing debt. Third, financial literacy affects not only individuals but society as well. Fourth, financial literacy, like reading, writing and knowledge of science, enables people to participate in economic life. To design the assessment, three dimensions have been considered: content, processes and contexts. **Content** comprises the areas of knowledge and understanding that are essential for financial literacy. **Processes** describe the approaches and mental strategies that are called upon to negotiate the material. **Contexts** refer to the situations in which the financial knowledge, skills, and understanding are applied, ranging from personal to global situations (Lusardi, 2015, p. 642).

Table 1. Financial literacy dimensions and areas

Financial literacy dimensions		
Content	Processes	Contexts
Financial literacy dimensions areas		
Money and transactions	Identifying financial information	Education
Planning and managing finances	Analyzing information in a financial context	Home and family
Risk and reward	Evaluating financial issues	Individual
Financial landscape	Applying financial knowledge and understanding	Societal

Source: Lusardi (2015), p. 642.

The level of financial knowledge affects financial education, which is understood as taking extensive measures aimed to disseminate knowledge and shape positive habits among citizens, leading to the right decisions in managing their personal finances, according to their current and future needs (e.g. buying your own housing and/or financing the education of their offspring) (Iwanicz-Drozdowska, 2011, p. 13).

2. Financial literacy in Poland – research review

Numerous studies conducted in Poland confirm that the financial literacy of Poles is not at a high level. Most studies aimed at measuring the financial knowledge are surveys, which usually contain test questions of objective and subjective nature.¹ Poland also participates in international studies in the area of evaluation of financial knowledge. In 2012, ING Group examined the financial literacy in 11 European countries: Spain, France, Italy, Turkey, Austria, Germany, Netherlands, Belgium, Luxembourg, Poland and the UK. Poland took 7th place in the test of financial knowledge with a score below the average for all countries (2.74 correct answers). The questions in the test related to issues such as: interest rates, inflation, bonds, mortgage, profit and return (ING, 2012).

Unfavorable image of financial education in Poland was confirmed by a recent study by the OECD in 14 countries. Questions that the respondents were asked aimed at identifying the level of financial knowledge and assessment of the behaviors and attitudes of many aspects of financial awareness, such as: managing household budget, short-term and long-term financial planning, the determinants of the choice of financial products. In Poland, different levels of financial knowledge were reported. The largest number of respondents knew the concept of allocation (91%), time value of money (77%) and the interest paid on loans (85%), the smallest part about compound interest (21%) and the risk and return (48%) (Atkinson, Messy, 2012, p. 7).

¹ Assessment of the level of knowledge may be either: a. A subjective result of its own, subjective assessment of the level of knowledge, which can be both overestimated and underrated; may vary depending on one's point of reference, comparison with people from the immediate environment, media, etc.; b. The objective level of financial knowledge – resulting from the checking of knowledge with appropriate instruments, for example tests, practical application.

Standard & Poor's Ratings Services, in collaboration with renowned research institutions, including Gallup, the World Bank Development Research Group and the Global Financial Literacy Excellence Center, conducted a survey the aim of which was to determine the level of global financial knowledge.² Of the 148 countries in the world whose citizens took part in the Standard & Poor's study, the highest reported percentage of people with adequate knowledge of finance was that of the Nordic countries. Poland in the general assessment of Standard & Poor's, which includes 148 countries, took 40th position with a score of 42%. This is a result similar to the average for the so-called The new European Union (41%), a group of countries that joined the Community in 2004 or later, however, significantly lower than the average for the whole European Union, which equals 52%. Polish rate is also one of the lowest in Central and Eastern Europe, e.g. in the Czech Republic it amounts to 58%, Hungary 54% and Slovakia 48% (Klapper et al., 2015, pp. 6–8, 23–25).

The condition of the financial competence of Polish society is diagnosed among others by Kronenberg Foundation at the Citi Handlowy based on periodic surveys carried out since 2008. So far, eight editions of a research of Poles' attitudes to saving have been carried out,³ and they were expanded in 2009 by the "Financial knowledge of Poles" research report. It was created on the basis of in-depth questionnaire, evaluating both economic knowledge, behavior in the area of finance and psychological conditions of different social groups. The results of these studies show a disturbing picture of economic behavior in Poland. The initial step in the process of shaping the financial competence is to gain theoretical and practical knowledge. Research shows that both the level of financial knowledge and the interest in it is low in the Polish society. In the "Financial knowledge of Poles" study it has been measured in three ways:

- 1) awareness of own knowledge – the average score was 2.16 points on five-point scale;
- 2) a subjective comparison of personal knowledge with others – a fifth of the respondents stated that it is lower than that of the others;

² The survey was based on interviews with more than 150,000 adults across 148 countries. Of the 148 countries targeted for data collection in 2014, 144 countries successfully collected data and met Gallup quality standards.

³ Reports from research can be found of following website: <http://www.citibank.pl/poland/kronenberg/polish/10199.htm>.

3) an objective level of financial knowledge – for 20 questions about macroeconomics and personal finance the average number of properly granted answers was 8.3 points, up to 10% of respondents did not give any correct answer (Kronenberg, 2009, 2015).

One of the recent studies of financial knowledge of Poles is the report of the Department of Education and Publishing of Narodowy Bank Polski, which systematically monitors the state of the knowledge and economic awareness of Poles. The objective test of economic knowledge conducted by the National Bank of Poland in 2015 shows that the average Pole answered correctly to 10 of 20 questions of the test. However in the entire studied population, there was not a single person who knew the right answer to all the questions of the test. According to NBP surveys for Polish children and young people, the least problematic questions are those about the rules governing the individual financial behavior – pensions, financial and banking systems and taxes. The largest deficits in knowledge concern the general principles of the economy: the stock market and foreign exchange markets, and macroeconomic issues (NBP, 2015).

An example of a study on the financial knowledge of the area of personal finance management is a report on an area of crediting – “Knowledge of credit products and financial credibility in the perception of Poles” conducted by Millward Brown on behalf of the Credit Information Bureau and the Kronenberg Foundation at Citi Handlowy. According to this study, as many as 39% of Poles determine the state of their knowledge of financial issues as poor, and 43% believe that it is average. In fact, the figures are even more alarming. While 62% of the respondents declared knowledge of the concept of creditworthiness, and every other claims to know what the financial credibility is, when it comes to credit scoring or APR, 58% and 78% of the respondents have no idea what they are. Problems are also caused by terms such as “consumer bankruptcy”, “the loop of debt” or “credit history” (BIK, 2014).

Low level of financial knowledge of Poles is also confirmed by primary research conducted by the authors:

1. Study of financial knowledge in selected provinces of Poland.⁴ In the survey, the respondents were solving a financial knowledge test consist-

⁴ The survey was conducted among 1,181 people from three regions: western, Lower Silesia and Podkarpackie in 2014. The research was conducted as a part of research project Personal finance management evaluation model.

ing of 15 questions of true/false. The average score of the test of the financial knowledge obtained by the Poles is 5.48 points of the 15 possible to acquire. Only 30% of the respondents obtained more than 50% of the points. Only 2% of the respondents managed to get more than 90% of the points. Unfortunately, up to 11% of the respondents did not get a single correct answer.

2. Study of financial knowledge in the biggest cities in Poland.⁵ In the survey, the respondents were solving financial knowledge test consisting of 10 questions of true/false. The average score of the test of the financial knowledge obtained by the inhabitants of the largest Polish cities is 3.5 points out of 10, while the median is 3 points. Only 18% of the respondents obtained more than 50% of the points (more than 5 points). Only 1% of the respondents were able to get 90% of the points. While no one solved the test flawlessly, up to 7% of the respondents did not give a single correct answer (more: Musiał, 2016, pp. 97–108).
3. Study of financial literacy of students.⁶ The test consisted of seven questions about central bank supervision of financial institutions, savings taxes, inflation and savings interests. Over 60% of the respondents gave a maximum of 3 correct answers out of 7 possible (more: Świecka, Musiał, 2016).

Assessments of the level of financial knowledge of Poles as a whole nation as well as selected socio-demographic groups are also found in the research of other Polish authors (Maison, 2013, pp. 183–199; Iwanicz-Drozdowska, 2011, pp. 143–252; Kuchciak et al., 2014, pp. 197–266).

3. Policy

Development of the National Financial Strategy carried out by the government will positively affect the effectiveness of actions taken in the field of financial

⁵ The survey was conducted among 1,086 people from 7 major Polish cities: Warsaw, Kraków, Łódź, Wrocław, Poznań, Gdańsk, Szczecin in early 2015 as part of the research project No. 2013/09/N/HS4/03,697 funded by the National Science Center.

⁶ The survey was conducted among 949 students of 10 departments of the University of Szczecin in the academic year 2014/2015.

education in the country. Work on the national strategies was launched in 2009 as an aftermath of the financial crisis. These activities were an integral part of the OECD in the field of financial education as a complement to the protection and financial inclusion of consumers in order to strengthen financial stability and development. It was especially designed as a new policy tool to combat some of the lasting effects of the global financial crisis in 2008, offering solutions for local governments in designing and implementing policies for financial education. In 2015, 59 countries implemented national strategies for financial education in the world (Table 2), representing more than two-fold increase compared to 2011, when 26 countries reported the development or implementation of a national strategy (*National...*, 2015, p. 11).

Table 2. Status of National Financial Education Strategy in 2015

	Level of national strategies (NS)	Number of countries	Countries
1	NS have been changed or implemented after the change	11	Australia, Czech Republic, Japan, Malaysia, Netherlands, New Zealand, Slovakia, Singapore, Spain, United Kingdom, USA
2	NS have been implemented for the first time	23	Armenia, Belgium, Brazil, Canada, Denmark, Estonia, Ghana, Hong Kong, India, Indonesia, Ireland, Israel, Korea, Latvia, Morocco, Nigeria, Portugal, Russia, Slovenia, South Africa, Sweden, Turkey
3	NS are being designed at the advanced level	25	Argentina, Chile, China, Colombia, Costa Rica, Salvador, France, Guatemala, Kenya, Kyrgyzstan, Lebanon, Malawi, Mexico, Pakistan, Uruguay, Peru, Poland, Romania, Saudi Arabia, Serbia, Tanzania, Thailand, Uganda, Zambia
4	NS are planned	5	Austria, Macedonia, the Philippines, Ukraine, Zimbabwe

Source: *National...* (2015), p. 11.

Conclusion

In summary, the available evidence suggests that the state of financial knowledge of Poles has admittedly improved slightly but still remains at a low level. The response to the low level of financial knowledge is education, which is an essential

and fundamental element affecting the financial inclusion of both young people, those who join the labor market, and those who have completed their professional lives. Currently, there are already many initiatives of this nature, although they are highly dispersed and reach a small part of the population. There is no single national educational program starting at the lowest levels of education, as is the case in the UK. Financial education should begin in the early school years, and even in pre-school education with the need to adapt education programs to the level of the trainee. Financial education is important, because in recent years financial literacy has become a resource seen as necessary for the proper functioning of the financial market. This was due to the increasing sophistry of financial markets. This means that customers not only choose between two different interest rates on bank deposits and savings plans, but consider a wide range of complex financial instruments for saving and borrowing money, with a wide range of options. Moreover, the negative outcomes of customers' financial decisions have impact on customers, but also on banks or other financial and non-financial institutions, and on government and the country's economy (the franc credits case is a good example). Therefore, financial literacy should be available for a wide range of people, so that everyone can use it in everyday life.

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Wiedza finansowa w Polsce: teoria, badania i polityka

Streszczenie. W obliczu rozwoju rynków finansowych, coraz istotniejszym problemem staje się niski poziom wiedzy finansowej społeczeństwa. Podejmując codzienne decyzje finansowe konsument narażony jest na coraz większe ryzyko z powodu własnej niewiedzy. Celem artykułu jest przedstawienie wybranych aspektów dotyczących wiedzy i umiejętności finansowych (financial literacy) w Polsce oraz wskazanie potrzeby zwiększenia dostępu i jakości edukacji finansowej w kraju.

Słowa kluczowe: wiedza finansowa, kompetencje finansowe, świadomość finansowa