PRACE NAUKOWE
Uniwersytetu Ekonomicznego we Wrocławiu
RESEARCH PAPERS
of Wrocław University of Economics

302

Finance and Accountancy for Sustainable Development – Sustainable Finance

edited by
Grażyna Borys
Małgorzata Solarz

Publishing House of Wrocław University of Economics
Wrocław 2013

Copy-editing: Agnieszka Flasińska

Layout: Barbara Łopusiewicz

Proof-reading: Barbara Łopusiewicz

Typesetting: Beata Mazur

Cover design: Beata Dębska

This publication is available at www.ibuk.pl, www.ebscohost.com, and in The Central and Eastern European Online Library www.ceeol.com as well as in the annotated bibliography of economic issues of BazEkon http://kangur.uek.krakow.pl/bazy_ae/bazekon/nowy/index.php

Information on submitting and reviewing papers is available on the Publishing House's website www.wydawnictwo.ue.wroc.pl

ISSN 1899-3192
ISBN 978-83-7695-354-0

The original version: printed

Printing: Printing House TOTEM

Table of contents

Streszczenia

PRACE NAUKOWE UNIWERSYTETU EKONOMICZNEGO WE WROCŁAWIU
RESEARCH PAPERS OF WROCŁAW UNIVERSITY OF ECONOMICS nr 302 • 2013
Finance and Accountancy for Sustainable Development – Sustainable Finance ISSN 1899-3192

Małgorzata Solarz
Wrocław University of Economics

FINANCIAL CAPABILITY DEVELOPMENT AS THE RESPONSIBLE FINANCE INSTRUMENT COUNTERACTING FINANCIAL EXCLUSION

Abstract: Financial exclusion is manifested by difficulties encountered in accessing indispensable financial products and services in an adequate form and adjusted to the needs of particular individuals. One of its underlying reasons is the low level of public financial literacy. In many countries diversified inclusion activities are undertaken among which also these focused on financial capability development are conducted. The objective of the hereby paper is an attempt to identify and present the role to be played, in this area, by major stakeholders of responsible finance, i.e. the government and financial institutions.

Keywords: financial exclusion, responsible finance, financial capability.

1. Introduction

Sustainable development was defined in the report issued by the World Commission on Environment and Development. It states that sustainable development means such "development which meets the present generation needs without compromising the ability of future generations to meet their own needs." H. Rogall extended this thought by adding his comment that sustainable development is manifested in pursuing opportunities to provide all contemporarily living generations, as well as the future ones, with sufficiently high ecological, economic and socio-cultural standards, within nature tolerance limits, by implementing the principle of justice both within and between generations [Rogall 2010, p. 25]. On the other hand, referring to the ideas presented by the recognized scientists J. Rawls and A. Sen, sustainable development economy considers the principle of justice being implemented in a society if its population experiences equal chances for a happy life and all its members are guaranteed human rights being observed and living needs being met [Rogall 2010, p. 45]. However, there are certain obstacles in following the above presented goals, such as social inequality and social exclusion manifested by difficulties in accessing indispensable financial products and services in an adequate form and adjusted to the needs of particular individuals. Both in national and international scale diversified inclusion oriented activities are carried out, aimed at financial exclusion reduction. Some of them focus on raising financial literacy of the public. In the perspective of phenomena occurring in financial system the purpose of the paper is to identify and present the role to be played by major stakeholders of responsible finance in the area of financial capability development.

2. Low financial literacy as the reason of financial exclusion

Financial exclusions refers to the process in the course of which citizens experience problems in accessing and/or using financial products and services, at the mainstream market, adequate to their needs and allowing to live a normal life in a society [*Financial Services*... 2008, p. 9]. The scale of this phenomenon is measured, among others, by banking penetration ratio which, in case of Poland, amounts to about 70% and its global level is 50% [Demirgüç-Kunt, Klapper 2012, pp. 11, 52]. This measure illustrates how many people (population percentage aged 15+) do not, in fact, have their personal bank account – 30%, however, does not identify the underlying reasons, while there is a whole spectrum of causes responsible for the absence of such bank account. They are for instance certain physical barriers preventing it, i.e., no bank branch close to the place of residence, however, it can also result from the lack of willingness to open it motivated by reluctance to enter into cooperation with a bank, or a negative balance of benefits and costs resulting from having a bank account. Voluntary resignation from active participation in the financial market is referred to as financial self-exclusion.

Certain social groups are less, while others more, vulnerable to become financially excluded. The research ordered by the European Commission confirms that the latter group consists of poor or homeless people, women, senior citizens, youth, rural inhabitants, individuals presenting low education level [*Financial Services*... 2008, p. 30]. Nevertheless, I. Newton, a wealthy and well educated man, which should make him resistant to financial exclusion, ran into financial difficulties by investing a vast amount of his assets in pyramid schemes. The presented history confirms the significance of low financial literacy in determining financial exclusion. Apart from this one, more financial exclusion causes can be listed: low income, age, gender, no access to financial institutions branches, no cash dispensers, etc.

The level of financial literacy in many societies is unsatisfactory. This conclusion can be drawn after analysing survey results ordered by OECD and carried out in 14 countries at four continents, among others, in the Czech Republic, Malaysia, Germany, Peru, Poland, the Republic of South Africa.[1] The respondents were asked questions about their financial knowledge, behaviours and attitudes referring to diversified aspects of personal finance (Table 1).

[1] Research results regarding the level of Polish population financial awareness are also presented in [Iwanicz-Drozdowska 2011] and [Maison 2013].

Table 1. The results of financial literacy measurement in selected countries (percentage of correct answers)

	Selected question/statements	The Czech Republic	Germany	Poland
Financial knowledge	Suppose you put $100 into a savings account with a guaranteed interest rate of 2% per year. You don't make any further payments into this account and you don't withdraw any money. How much would be in the account at the end of the first year, once the interest payment is made?	60	64	60
	[…] and how much would be in the account at the end of five years? Would it be: a) More than $110 b) Exactly $110 c) Less than $110 d) Or is it impossible to tell from the information given	32	47	27
Financial behaviour	Pays bills on time	85	96	78
	Financial product choice after gathering some info	28	52	32
	Financial product choice after shopping around and using independent info or advice	10	5	2
Financial attitudes	I tend to live for today and let tomorrow take care of itself	69	65	45

Source: author's compilation based on [Atkinson, Messy 2012, pp. 7–9].

Concerns are raised by the fact that 40% of adult Poles do not know how to calculate the amount of interest payable on deposits using simple percentage and as many as 73% of respondents do not know what the capitalization of interest is and how it can influence interest levels. Additionally, research results confirm that the majority of people undertake hasty decisions regarding a particular financial product purchase without making any comparisons of the market available financial offer. Such attitudes put consumers at a disadvantage of choosing an unsuitable product, inadequate for their needs. Only 2% of Poles confess to taking advantage of services provided by financial consultants, which may seem surprising, since a person lacking sufficient knowledge should, in the first place, refer to specialists for advice. Such behaviour can be explained by the belief shared by many people that the financial knowledge they actually present is fully sufficient. The results of studies conducted by D. Maison in 2009 (see [Maison 2013, pp. 183–201]) indicate a substantial gap occurring between objective, actual, subjective and intentional knowledge presented by Polish population.

Low financial literacy results mainly from high level of financial market development which is difficult to follow by average consumers. The level of financial products/services complexity increases, accompanied by technical progress, whereas electronic distribution channels have extended their spectrum of possibilities in accessing financial institutions offer. What is more, many people do not have the skill of planning their financial future effectively, or choosing products which meet, as opposed to those which do not meet, their needs. All these factors finally take their toll and make consumers get into financial problems or, for fear of the unknown, surrender to financial self-exclusion. It should also be mentioned that poor financial literacy deepens the phenomenon of information asymmetry, considered as one of the reasons for market failure, i.e. the situation in which market mechanism does not guarantee the optimal allocation of resources. The representatives of sustainable development economy accept market failure as standard and reject the idea of market self-healing forces, thus arguing that government has a vital role to play in reducing information asymmetry (more in [Solarz 2011, pp. 313–315].

3. The concept of responsible finance

The idea of responsible finance originates from the concept of responsible lending as the reaction to predatory lending sanctioned in many countries in the 60s and 70s of the 20th century. Currently the adjective "responsible" is more and more often used not only with reference to lending, but also to rendering other financial services by the financial institutions.

Responsible finance is perceived in various ways. Owing to the fact that this concept is still at its early stage of development there is no single, generally accepted, interpretation of this theory. The World Bank report published in 2011 informs that the paramount objective of responsible finance concept is its contribution to the promotion of sustainable development idea and thus the activities performed within its framework should bring about beneficial results for economy, society and natural environment in the scale of individual countries and in an international perspective, while access to an extensive spectrum of financial services, covering also these referring to savings, insurance, credits offered to households and enterprises in a responsible manner, presents one of the most important components of sustainable growth and development [*Advancing Responsible...* 2011, p. 1].

According to the authors of the quoted above study, responsible finance is manifested in coordinated activities undertaken in the financial system by public and private entities aimed at influencing financial institutions and their clients in the way which ultimately contributes towards establishing more inclusive and fair financial market. Basic areas, in which responsible finance oriented activities are conducted, refer to the following ones: consumer protection, a responsible financial services provider and the development of financial literacy among consumers (see Figure 1).

In 2003 OECD initiated an international programme for financial education, which consists in organizing extensive activities aimed at popularizing knowledge and creating positive habits among citizens resulting in proper decisions related to their personal finance management, as well as their ability to take advantage of their financial means according to their current and future needs [Iwanicz-Drozdowska 2011, p. 13]. One of the after-effects of this programme was the document, published

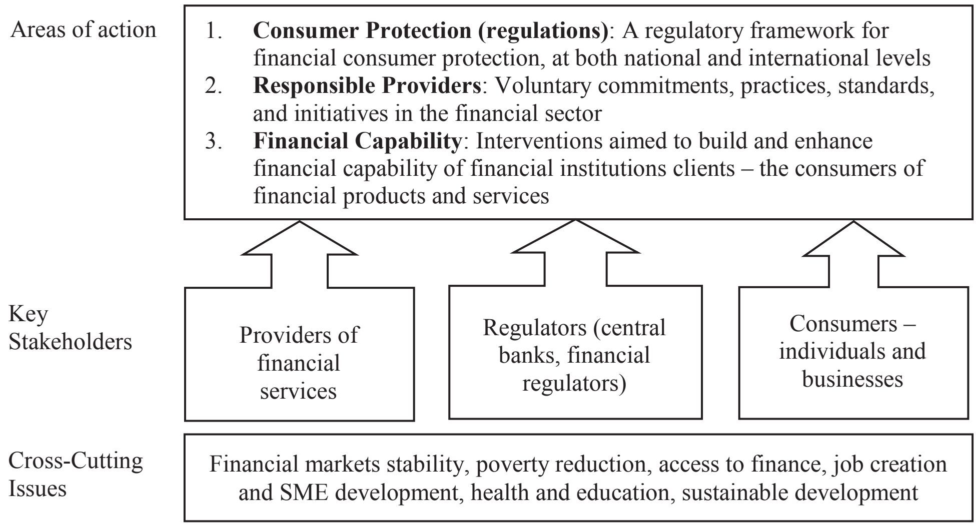

Figure 1. The concept of responsible finance

Source: [*Advancing Responsible*… 2011, p. 7].

in 2005, which presents principles and good practices in the field of financial education [*The Recommendation on Principles*... 2005, pp. 1–7], among which the following were listed:

1) financial education should be actively supported and available as a life-time, ongoing and continuous process;

2) financial education programmes should be adequately adopted to particular needs of individuals who take advantage of them;

3) consumers should acquire knowledge about financial matters relatively early, adequate national authorities should consider including such knowledge into education curricula as a compulsory subject;

4) financial education programmes should cover tools raising their participants' literacy about the need to improve their financial knowledge and extend their skills in risk assessment;

5) knowledge in financial issues offered by financial institutions should be provided in fair, transparent and unbiased manner;

6) persons responsible for financial education should receive sufficient means and obtain adequate practical skills in order to carry out effective trainings;

7) coordination of interested parties, at national level, should be enhanced in order to establish clear division of tasks and facilitate the exchange of experiences;

8) entities offering financial education programmes should periodically evaluate and, if necessary, update the implemented programmes so that they can always offer the best possible solutions.

Three years later the International Network on Finance Education (INFE) was established, which promotes and facilitates cooperation in financial education worldwide. This organization was bringing together over 200 institutions from 90 countries in 2012. Its activities focused on raising literacy regarding the vital role of financial education in fighting financial exclusion resulted in developing, in many countries, national strategies for financial education, among others in Austria (introduced in 2011), Brazil (2010), the Czech Republic (2010), Ghana (2009), India (2006, 2010), Japan (2005), Great Britain (2003), the U.S.A. (2006, 2011) [Grifoni, Messy 2012, p. 12].

4. The government and its role in developing public financial capability

One of the entities playing crucial role in developing financial capability of citizens is the state understood as the government, local authorities, central banks, regulators or consumer protection agencies. Their involvement in undertaking inclusion-oriented activities takes the form of, e.g., nationwide literacy campaigns. For example, the purpose of a large-scale action "Before you sign" is to attract public attention to risks associated with signing financial contracts, including mainly "instant cash," high-interest loans and using financial services not subject to any public regulations. This initiative is organized with media support, i.e. radio, TV, press and the Internet. The following public institutions co-organize such actions: Bank Guarantee Fund, Polish Financial Supervision Authority, the Ministry of Finance, the Ministry of Justice, the National Bank of Poland, Police and the Office of Competition and Consumer Protection. Another program focused on education and enhancing financial capability of Polish citizens is entitled "The Academy – Available Finance." It has been planned by the central bank for the period of 2012–2015. In the first year of its functioning senior citizens were its main addressees and beneficiaries.

The government, and in fact the Ministry of Education, has a chance of introducing, as part of school syllabuses at different education stages, certain elements of personal finance knowledge. Teachers find "Dolceta" portal very useful, which functions under the auspices of the European Commission. The tab "financial education" offers ready to use sets including lesson plans, games or quizzes adequate for different age groups. Additionally, adult individuals can use this website as a self-learning facility since it includes a lot of information explaining crucial financial issues.

The necessary condition to make correct, knowledgeable financial decisions is consumers' access to reliable information about a particular product. It should be offered to a client by financial institutions in the way which facilitates comparisons. The government, as the regulatory authority, can impose the obligation on financial sector entities to inform their clients in a proper manner about their offer, e.g. the Consumer Credit Act in force in Poland (DzU 2011 nr 126, poz. 715).

Summarizing the role played by the government in developing public financial capability, attention should be paid to both strengths and weaknesses of these activities (see Figure 2).

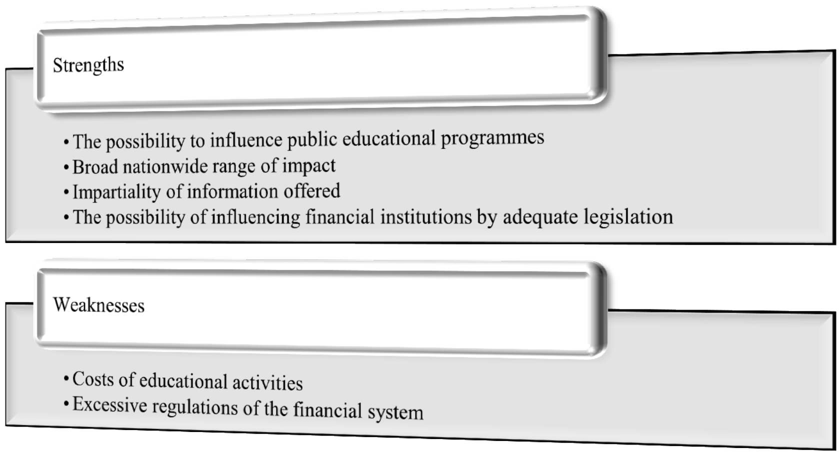

Figure 2. Strengths and weaknesses of inclusive activities aimed at developing financial capability carried out by the State government

Source: author's compilation.

The government has much work to do in the area of financial capability enhancement. Its undisputable advantage is the possibility of introducing changes in educational syllabuses. Social campaigns usually earn much public confidence as being objective and not including components which encourage the purchase of particular financial products. On the other hand, costs of educational activities are listed among weaknesses, but it is obvious that any initiative has to incur costs and should be referred to as investment in the future. The increase of financial literacy among citizens can, in the long-term perspective, prevent e.g. excessive indebtedness which pushes people outside the mainstream market of financial products and services and results in their turning to shadow banking institutions offering high-interest loans. In time they become trapped in a debt loop, their poverty escalates, they have to be covered by social benefits which, beyond any doubt, constitute a burden for the State budget.

5. Financial institutions and their role in developing public financial capability

Responsible finance, interpreted from the perspective of financial products and services providers, refers to the implementation of Corporate Social Responsibility (CSR) concept. The European Commission published Green Paper on CRS in 2011 where Corporate Social Responsibility is defined as the concept following which enterprises voluntarily implement strategies incorporating public interest, environment protection, as well as relations with stakeholders [*Green Paper*... 2001, p. 6]. Therefore, social responsibility is manifested in business not only by meeting formal requirements resulting from legal and economic rules, but also in undertaking socially expected and desirable activities. While observing market active financial entities it is noticeable that more and more of them incorporate CRS strategy in their business strategies. Among the initiatives they undertake there are also these focused on financial capability, which thus enhances fighting against financial exclusion (see Figure 3).

Bank Foundation, memorial of L. Kronenberg (at City Handlowy)	• programmes entitled: "My finance" or "From class to cashbox" addressed to young people
BPH Bank	• "A woman in the world of finance" campaign aimed at educating and supporting women in achieving financial independence
PZU Group	• "Life at 100%" campaign covering long-term savings, pension funds, investment, insurance protection education
Association for the Promotion of Financial Education (at SKOK)	• "Live financially!, i.e. how to manage personal finance" project addressed to secondary schools students
PKO BP	• "Today I save in SKO – tomorrow in PKO" project addressed to young people

Figure 3. Selected CSR initiatives undertaken by financial institutions in Poland aimed at developing financial capability of society

Source: author's compilation.

Projects implemented by financial institutions take the form of presentations, workshops, competitions, cover all personal finance areas, i.e. current household budget management, lending, saving or investing. These initiatives are addressed at different groups of clients exposed to financial exclusion, e.g. women – BPH Bank campaign, young people – e.g. "Today I save in SKO – tomorrow in PKO" project. School Savings Banks (SKO – Szkolna Kasa Oszczędności) represent the oldest financial education programme in Poland. Its history goes back to the 20s of the previous century. New SKO is identified with: a product offer dedicated for schools, for parents' councils, the form of practical learning how to use a bank account addressed at pupils under 13 years of age, the set of educational materials for teachers, students and parents, safe, graphically attractive and suitable for children online banking service. At the end of March 2013 about 150 000 pupils from almost 2000 schools, all over Poland, were using SSB facility.

Summarizing the role played by financial institutions in developing financial capability of society strengths and weakness of these activities should be identified (Figure 4).

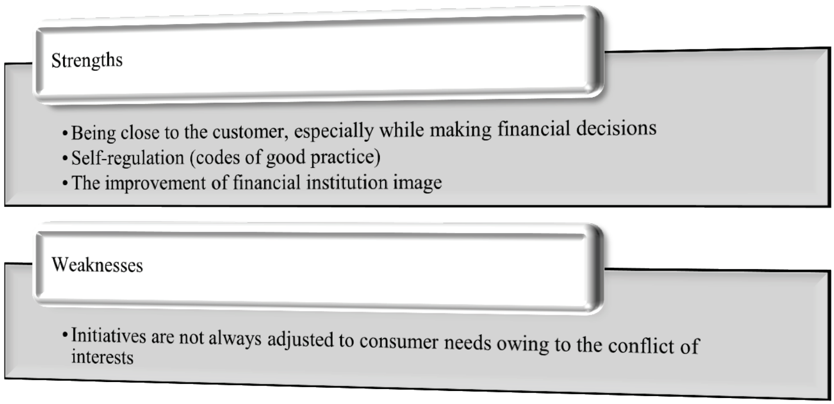

Figure 4. Strengths and weaknesses of inclusive activities aimed at developing financial capability carried out by financial institutions within the framework of CSR

Source: author's compilation.

Financial institutions have direct contact with consumers, especially in the crucial moment of making financial decisions, namely while purchasing a particular financial product/service. If the service provider implements the idea of responsible finance he/she should offer advice and support to clients while making their choices, as well as take due care of the provided financial services quality. Such attitude is, by all means, justified if it refers to a product offered by a given bank, however, one cannot expect a financial institution employee to recommend his/her competitor's products to his/her clients, even if it is more adequate for a particular household. The occurring conflict of interests results in the fact that banks fulfil their role, as financially responsible entities, by presenting their offer in a reliable way leaving the ultimate product choice to a client.

6. Conclusions

In summary of the above presented discussion it has to be emphasized that financial exclusion can constitute an actual barrier in accessing financial institutions' offer, or may be of voluntary nature when people themselves resign form taking advantage of such facility. If the decision about self-exclusion it taken up independently and knowledgeably and is accompanied by an undisturbed access to the underlying information, then it does not constitute the area for inclusion-specific activities. However, if it represents the effect of lacking knowledge about the advantages resulting from active usage of financial products and services, presents the consequence of previous incorrect financial decisions, or the reaction to bad experiences in contacts with financial intermediaries, then it should be identified as the problem worth taking care of. Developing financial capability of society is one of the activities listed among instruments applied in the course of inclusive activities. An important role, in the area of responsible finance, is also played by the government, providers of financial products and services and clients themselves who must be willing to extend their knowledge and financial skills. In order to achieve the intended effect, i.e. the establishment of an inclusive and fair financial market, requires coordinated efforts of all entities which are not indifferent to the problem of financial exclusion.

References

Advancing Responsible Finance for Greater Development Impact. A Stock-Taking of Strategies and Approaches among Development Agencies and Development Finance Institutions, The German Federal Ministry for Economic Cooperation and Development, The International Finance Corporation and The Consultative Group to Assist the Poor, Berlin 2011.

Atkinson A., Messy F., *Measuring Financial Literacy: Results of the OECD / International Network on Financial Education Pilot Study*, OECD Working Papers on Finance, Insurance and Private Pensions, No. 15, OECD Publishing, Paris 2012.

Demirgüç-Kunt A., Klapper L., *Measuring Financial Inclusion: The Global Findex Database*, Policy Research Working Paper 6025, World Bank, Washington, DC, 2012.

Financial Services Provision and Prevention of Financial Exclusion, European Commission, 2008, http://ec.europa.eu/social/ (retrieved 15.03.2013).

Green Paper – Promoting a European Framework for Corporate Social Responsibility, Commission of the European Communities, Brussels 2001.

Grifoni A., Messy F.A., *Current Status of National Strategies for Financial Education. A Comparative Analysis and Relevant Practices*, OECD Working Papers on Finance, Insurance and Private Pensions 2012, no. 16.

Iwanicz-Drozdowska M., *Edukacja i świadomość finansowa. Doświadczenia i perspektywy*, Oficyna Wydawnicza SGH w Warszawie, Warszawa 2011.

Maison D., *Polak w świecie finansów*, Wydawnictwo Naukowe PWN, Warszawa 2013.

Rogall H., *Ekonomia zrównoważonego rozwoju. Teoria i praktyka*, Zysk i S-ka Wydawnictwo, Poznań 2010.

Solarz M., *Wykluczenie finansowe w aspekcie równoważonego rozwoju*, [in:] B. Poskrobko (Ed.), *Teoretyczne aspekty ekonomii zrównoważonego rozwoju*, Wydawnictwo Wyższej Szkoły Ekonomicznej w Białymstoku, Białystok 2011.

The Recommendation on Principles and Good Practices for Financial Education and Awareness, OECD, Paris 2005.

KSZTAŁTOWANIE ZDOLNOŚCI FINANSOWYCH JAKO INSTRUMENT ODPOWIEDZIALNYCH FINANSÓW PRZECIWDZIAŁAJĄCY WYKLUCZENIU FINANSOWEMU

Streszczenie: Wykluczenie finansowe przejawia się trudnościami w dostępie do niezbędnych produktów i usług finansowych w odpowiedniej dla poszczególnych osób formie. Jedną z jego przyczyn jest niski poziom świadomości finansowej społeczeństwa. W wielu krajach podejmowane są wielokierunkowe działania inkluzyjne, a wśród nich takie, które związane są z kształtowaniem zdolności finansowych. Celem niniejszego artykułu jest próba zidentyfikowania i przedstawienia roli, jaką mogą odegrać w tym obszarze główni interesariusze odpowiedzialnych finansów, tj. państwo oraz instytucje finansowe.

Słowa kluczowe: wykluczenie finansowe, odpowiedzialne finanse, zdolności finansowe.