Financial Consumer Protection And Literacy: A Compative Study Between Bulgaria And Romania

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FINANCIAL CONSUMER PROTECTION AND LITERACY: A COMPATIVE STUDY BETWEEN BULGARIA AND ROMANIA

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1. INTRODUCTION

Up until the financial crisis of 2007 - 2009, the global economy was adding an estimated 150 million new consumers of financial services each year. The rates of increase have since slowed down, but the growth continues. Most of the new consumers are in developing and emerging economies, where consumer protection and financial literacy are still in their infancy and where consumers are faced with an array of new financial products despite their relatively low familiarity with financial matters. The level of understanding of financial issues is too low there, with negative consequences for both individuals and economies. The common definition of 'financial capability' refers to the ability of consumers to gather, compare and use relevant information in acquiring financial services. Financial education is seen as the key intervention which reduces financial ignorance and improves the consumers' position on the financial market. Several high-income countries have established national financial capability strategies and many other middle-, and low-income countries have also started implementing such policies.

As a result of demographic, economic and policy changes, the needs of both the European citizens and the financial products themselves have grown in complexity. This, coupled with the deregulation and globalisation of the financial markets, poses not only considerable opportunities but also threats for the financial wellbeing of individuals and households. If left unattended, changes in the financial system can also pose a variety of risks to society, which will bear the costs arising from market inefficiency. This further highlights the importance of consumer protection and financial literacy for ensuring confidence in the financial system (which is also relevant for Bulgaria and Romania) and for increasing financial inclusion.

In April 2010 the World Bank commissioned two nation-wide surveys of the levels of financial literacy in both Romania and Bulgaria. The main objective of these surveys was the establishment of a well-targeted national program for financial education. The data obtained from the respective surveys form the basis for the comparative study on financial capability and consumer protection in Bulgaria and Romania, which is the focus of this report. The purpose of this paper is to define the main challenges as regards consumer protection in the financial services sector in Bulgaria and Romania.

The survey revealed several important problems that need further policy consideration. One main observation is that the financial sector in both Bulgaria and Romania is underutilized; it is comprised mainly of banking services such as debit cards and consumer loans. Outside the banking system only insurance and, to a certain degree, leasing services enjoy popularity. Furthermore, it can be inferred that large proportions of the populations of both countries are not involved in the formal financial sector, whilst those who are, are of relatively low financial literacy. Such tendencies limit individuals' access to financial services and in turn have economy-wide implications in terms of hampered growth of the sector.

The next section (part two) discusses conceptual issues and literature related to financial capability in the broader context. In part three we look at the case for comparison between Bulgaria and Romania. Part four of the study deals with data from the respective surveys conducted in Bulgaria and Romania and seeks to draw parallels between the two countries on the questions of: financial status and money management, financial product usage and trust in institutions, and staying informed. Section five offers a summary of the preceding data discussion before concluding with some country-specific policy recommendations.

2. CONCEPTUAL ISSUES - FINANCIAL CAPABILITY

What is financial capability?

Financial capability here is defined as "the ability to manage money, keep track of finances, plan ahead, choose appropriate financial products and services and stay informed about financial matters" (World Bank, 2009, p.35) and it is within these domains that the comparative study is positioned. This definition is synonymous with the one developed by UK's Financial Services Authority. The terms 'financial capability' and 'financial literacy' are often used interchangeably in literature, however, we note that the former is broader than the latter and reflects actual behaviour (FSA, 2003). For instance, an individual can be deemed 'financially literate' given their knowledge, understanding and skills in regard to financial matters, however being 'financially capable' would require their literacy to be reflected in their actual behaviour.

What constitutes financial capability will to some extent vary according to one's personal situation and preferences. Even though financial capability stands to differ between the poor and the wealthy, the individual households, the small and larger businesses, it can't be argued that all would benefit from understanding how to manage their personal finances better.

Why is financial capability important?

Financial capability matters to everyone: individuals, financial services firms, businesses, governments, employers and voluntary organizations. For individuals, the ability to make sound financial decisions is of unquestionable importance. For individuals and business owners, the benefits are far reaching, ranging from avoiding excessive indebtedness and saving for the future to improvements in the wellbeing. Financial services providers stand to benefit from well-informed and engaged consumers, given that people who lack financial understanding and skills are more likely to be financially excluded. The financial capability of consumers can translate into a reduction in the cost of acquiring new customers and, thus, lead to an increase in the volumes of business. The incidence of complaints can also be reduced. Governments can also benefit in the form of increased savings and stimulation of economic activity by stimulating competition and innovation in retail financial markets. Employers have noticed that the increased financial capability of their staff has resulted in greater productivity as a result of a reduced preoccupation with money worries.

The following features of modern financial markets make financial capability a crucial component for an efficient and effective financial sector:

1) **The growing sophistication of financial markets** means consumers are not just choosing between interest rates on two different bank loans or savings plans, but are rather being offered financial instruments for borrowing and saving, which are increasing in complexity, with a large range of options.

2) **Individuals are expected to take on greater responsibility and assume the burden of risk** for complex savings tasks, which were previously at least shared with governments or employers, such as investing for a pension or for the higher education of their children. As life expectancy is

increasing, the pension question is becoming particularly important as individuals will be enjoying longer periods of retirement.

3) **Credit is more readily available than in the past, creating not only opportunities for credit users, but also a risk of over indebtedness.**

4) **Individuals will not be able to choose the right savings or investments for themselves, and may therefore be at risk of fraud, if they are not financially capable**.

5) **In order for financial markets to work well they need informed customers.** Clients of financial service products often cannot even articulate their needs well. If the financial literacy is to be improved, providers will be able to develop more appropriate products and put in place appropriate distribution channels. This will probably create a more vigorous market, increasing competition and quality (Habschick et al., 2007).

6) **Many people who are in a position to save fail to do so. This will have a negative impact not only on individuals, but on the wider economy as well.** 'Consumer financial capability' is therefore an important issue at both the aggregate and the individual level.

While recent developments of national and international financial systems create opportunities for these economies in terms of economic growth, they also pose a risk for the financially less capable (OECD, 2006). This is true for countries where consumers are generally familiar with financial instruments such as credit cards, mortgage loans and perhaps even some of the more complicated pension products. For middle-income economies (such as Bulgaria and Romania), many of whom have only a limited experience with formal financial systems, where rapid development has given consumers access to financial services, the improvement of financial capability holds an even greater promise. While applying the concept of financial capability shows potential, it will need to be tailored to local specificities. Innovative interventions, coupled with sound impact evaluation, are required in order to assure maximum effectiveness (Holzmann, 2010).

How can financial capability be achieved?

Although there are many innovations in financial education and capability enhancement programmes, there is only limited information and consensus on what works and what doesn't. Financial education, information, instruction, training and guidance are all thought to contribute to the improvement of individuals' financial capability. However, these popular interventions aren't without their opposition. Lauren Willis argues that the belief that financial education turns consumers into responsible and empowered market players who can confidently deal with complex instruments is something of a wishful thinking, unsupported by empirical findings (Willis, 2008). He suggests that financial education can be harmful if it increases confidence without increasing ability, thus leading to bad decision-making. Furthermore, he claims that financial education prevents people from demanding what is really needed - effective market regulation (Ibid.). In response to such arguments, Shaun Mundy (Mundy, 2011) stresses that financial capability initiatives do not intend to turn consumers into financial experts but rather to make effective use of financial resources, i.e. to recognize when they should seek professional advice. It is often argued that financial capability initiatives and regulation are complementary interventions and that, when both are present together, they ensure a vibrant financial services industry. Requiring firms to set out key features of financial products in plain language would achieve little if consumers lack financial capacity, and vice versa. Put differently, an efficient financial sector requires both demand and supply side considerations (Ibid.).

Some argue that since financial capability programmes are aimed at affecting people's actual behaviours, there should be a focus on influencing attitudes in addition to financial education and information initiatives.

Empirical evidence on financial capability and financial education

Over the last ten years interest in financial capability and measures to improve it has risen not only in developed countries but also in middle-, and low-income economies. Consumer financial capability has been investigated in empirical studies from an objective and a subjective viewpoint. Several studies link consumer financial knowledge with responsible financial behaviour (e.g. Chang, 1992; Hogarth, 2002; Hilgert, 2003; Perry, 2005; etc.) A number of studies have also found consumer financial knowledge to be positively associated with consumer income and education level (Hogarth, 2002; Kinsey, 1981; Mandell, 2006; Perry, 2005).

While some progress to measure financial capability has been made in developed countries, there still exists a need for robust published evidence about the sorts of approaches which are likely to yield success. Many financial capability programmes have been evaluated, yet most of these evaluations have been done in order to inform the implementing institution or donor, and, as such, have rarely been made publicly available (Mundy, 2011). What partly contributes to the lack of data is that many programmes are broad in scope, making measurement of their effectiveness difficult to assess.

A World Bank-led programme (funded by the Russia Trust Fund) has set out to evaluate the effectiveness of financial education programmes in low-, and middle-income countries and to provide them with a free operational country-tested toolkit. The leader of the programme, Robert Holzmann, has explained that despite the progress made in exchanging experiences and practices, there still exists considerable conceptual and empirical uncertainty in high-income countries, impeding their ability to convincingly guide low-, and middle-income countries in developing a comprehensive financial capability strategy (Holzmann, 2010).

3. THE CASE FOR COMPARISON: BULGARIA AND ROMANIA

The comparative study between Bulgaria and Romania is aimed at identifying the issues of financial capability in a broader cross-country context while acknowledging each country's national specifics. The survey results for Bulgaria and Romania share some similarities which is a reflection not only of the common background which they shared before the beginning of the reforms in the early nineties, but also of the similarities in the path of their economic development. There are however some important differences which are the result of the different monetary systems and the economic policies pursued in the two countries in the last decade.

Romania and Bulgaria have gone through a long transition period and have acceded to the EU later than the other CEECs. They have established rather specific national frameworks and have implemented different policies with regards to the main elements of transition – liberalization of the economy, privatization, land reform, and have, since late nineteen, upheld different monetary regimes that influence the entire economic policy setting. Bulgaria applies currency board arrangements while Romania holds an inflation targeting monetary regime.

Further noteworthy similarities include the observation that financial sectors in both countries exhibit relatively high prevalence of foreign-owned banks and particularly ones with EU origin. Rapid credit growth and an enlarging capital market in the first years of EU membership, as well as a strong EU-inspired legal framework have also in the past been characteristic for both countries.

The comparison will then give the opportunity to outline the common problems and to seek for the reasons that drive the differences like cultural or policy considerations that are important for the future policy design.

4. METHODOLOGY

The FSA methodology applied in the UK and a few other countries was judged as an appropriate starting point for approaches. The content domains of the ESA approach are thought as having a universal appeal while being open to adjustments in domains, questions and coding. Using such an approach can potentially allow for comparability between financial capability scores in the identified content domains (Holzmann, 2010).

5. COMPARATIVE DATA ANALYSIS OF FINANCIAL CAPABILITY: FINDINGS

5.1. FINANCIAL STATUS AND MONEY MANAGEMENT

It is generally understood that money management is a key part of financial capability. It involves being able to live within one's means, which in turn requires developing strategies to make ends meet and resist pressures to spend or borrow money (Kempson, et al., 2005). In a UK baseline survey for financial literacy, participants felt that those people who were financially capable would certainly be making ends meet. However, it is acknowledged that anyone with a sufficiently high income would be able to make ends meet without them necessarily having many money-management skills, and that one of the considerations for this group should be how well they kept track of their finances (Atkinson, et al., 2006).

5.1.1. Household Income Perceptions

A reliable financial capability measure can be constructed from various variables, among which are variables capturing people's perceived financial situation; whether their financial situation has worsened since last year; and whether households have a financial plan. The surveys conducted in Bulgaria and Romania in 2010 both included questions on perceived household income and planning. The results are discussed in the following section.

In Bulgaria 11% of the people think their finances are stable and can afford expensive things, while 57% claim that even buying clothes is hard for their household. It can be argued that the financial had a major impact on households, thereby contributing to the 35.9% of the respondents who report that they hardly make the ends meet. The data indicates that 20.6% of participating households could afford only food products and 24.1% cannot buy durable goods.

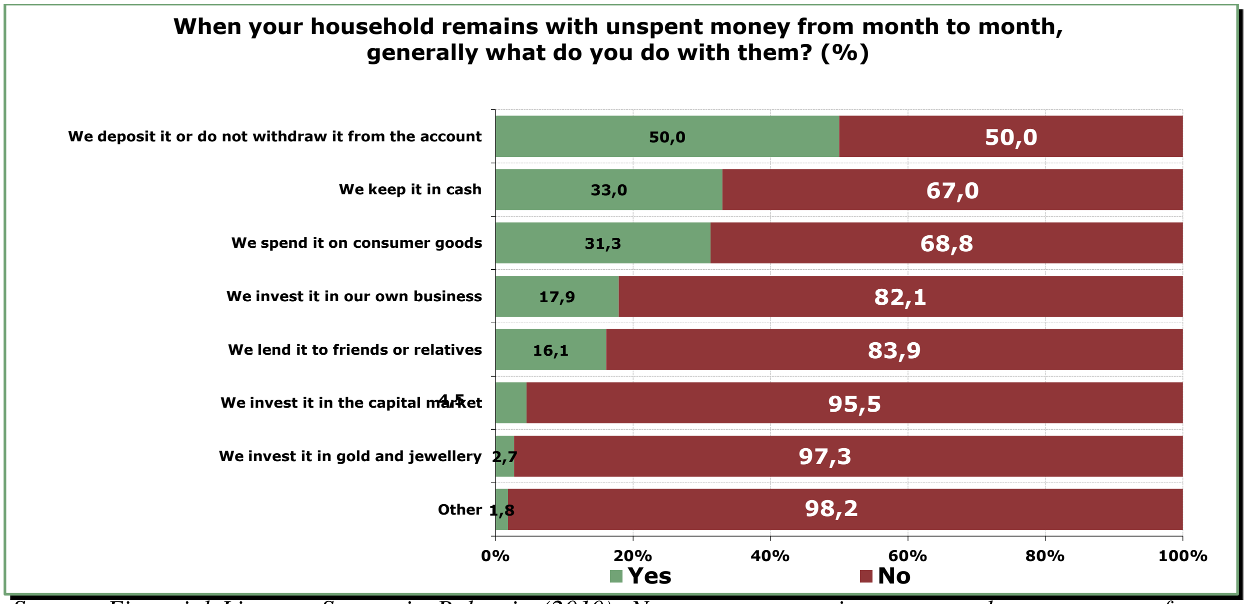
As well as managing financial resources, however, people need to manage personal debt, the levels of which have increased markedly over the past few decades. Therefore, loan management, as well as household budgeting, has also become a field where specific know-how is necessary. Planning ahead is required for two purposes: to cope with unexpected events and to make provision for the long-term.

5.1.2. Spending Practices

The prevailing spending pattern in Bulgaria is one of overspending. Only 7.8 % of respondents always spend the amount earned the previous month and a mere 2.4% always have left over money from month to month. Close to 40% are those who never end the month with unspent money. The survey data shows that the most frequently observed households are those which sometimes spend the entire money earned (28.6%), sometimes remain without money at the end of the month (30.7%), and never remain with unspent money (36.4%). It can be inferred that Bulgarian households run a deficit in their budgets that is financed by borrowing from the financial sector and relatives and friends.

The picture in Romania is not dissimilar. More than 40% of the population in Romania succeeds regularly to spend exactly as much as they earn, compared with about 50% in Bulgaria. In Romania, around 35% of the population remains with unspent money from month to month: 8% regularly and 27% from time to time.

Figure 1. Bulgaria: Spending practices



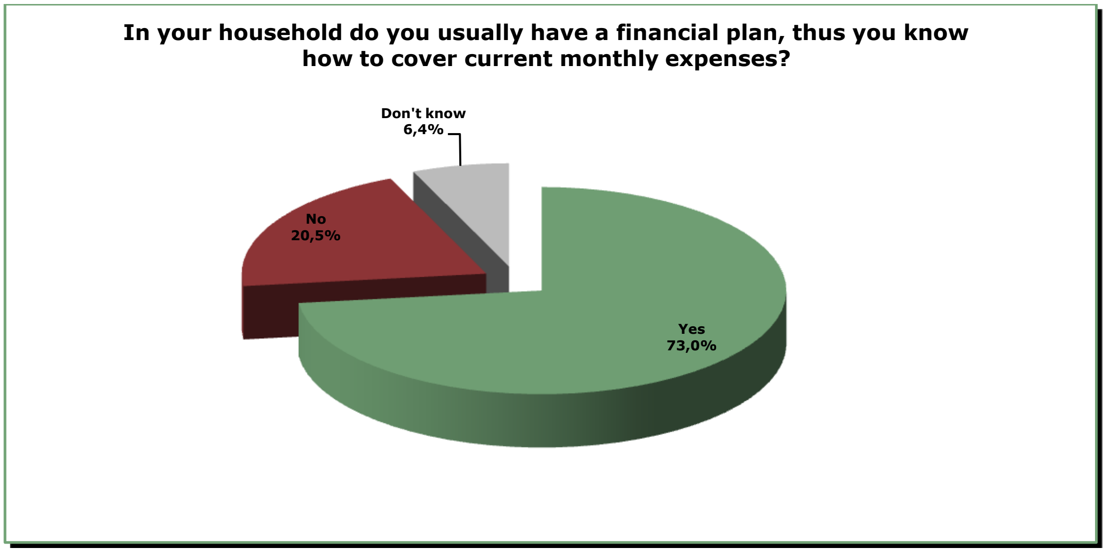
Source: Financial Literacy Survey in Bulgaria (2010). Note: money remains unspent always or very often, N=112

5.1.3. Saving Practices and Planning

The ability to save is strongly associated with planning ahead; that is, with making financial provisions for the future both for expected commitments and unexpected events. Unexpected events can upset budgets and financial plans. Financially capable people are better equipped to deal with unexpected falls in income as they would usually have a plan for meeting expenditure in such circumstances and are aware of possible sources of financial help. Planning is even more relevant in the area of employment - disrupted working careers require a sound management of personal finances in order to bridge gaps between two jobs, etc.

73% of Bulgarian households claim to have a financial plan. In Romania, the number is very similar and stands at 70%. However, 66% of Romanians admit to not keeping a record of incomes and expenditures - a statistic which is indicative of poor planning practices.

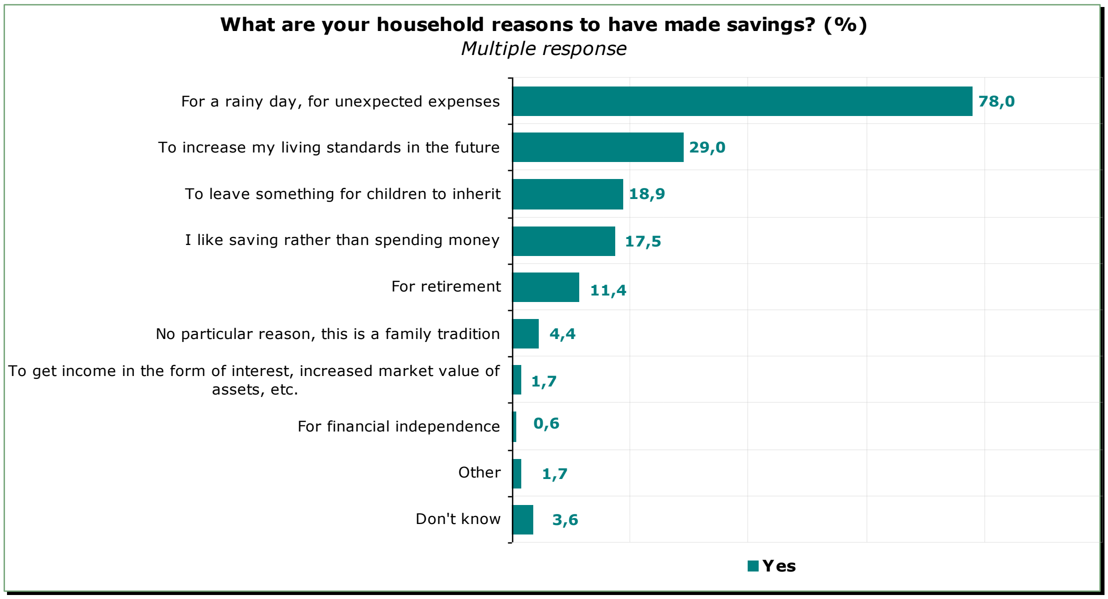
Figure 2. Bulgaria: Households' financial plan



Saving behaviour clearly differs with income. In the surveys, nearly all of those who do not save mentioned a single reason – lack of money to do so. For people on low incomes, saving was difficult, therefore it can be concluded that saving is not always spontaneously identified with financial capability. Another noteworthy observation is that the proportion of those who save is significantly lower among poorly educated people (e.g. Roma people in both Romania and Bulgaria), suggesting that saving also varies with the level of education.

About half (51%) of the population in Romania do not save any funds from their monthly income. This proportion is lower than in Bulgaria (61%). Furthermore, in Romania a large proportion of spare money is kept in cash (74%). This can be traced back to the mistrust in financial institutions, the poor access to financial services and the poor financial education. In Bulgaria, the corresponding figure is much lower. Only 33% keep the savings in cash.

Figure 3. Romania: Reasons for saving



Source: Financial Literacy Survey in Romania (May 2010). Note: N=968 persons who used to save.

Planning for the long-term is also important and contributes to one's financial capability. In terms of pensions, 11% of Romanians point to retirement provisions as a reason to save. The investing of savings is preferred by only 17% of Bulgarians, who plug money in their own businesses, and by only 6.1% of Romanians, who would do so if they acquired some additional money tomorrow.

In both Bulgarian and Romania only a very small share of the population saves for the long-term by investing in stocks and shares (4.5% and 1.3% respectively).

5.2. USAGE OF FINANCIAL PRODUCTS AND POPULARITY OF FINANCIAL INSITUTIONS

Given the array of financial products available, being aware of what is on offer and being able to choose those products that are most appropriate to an individual's circumstances are important aspects of financial capability.

The questionnaire included 18 types of financial services in Romania and 17 in Bulgaria. The list of financial services included both formal services (participation in the financial system) and informal services (such as borrowing from relatives, friends or usurers, or obtaining an informal credit from shops).

The participation of the Romanian population in the financial system is low. Over half (52.4%) of the population aged 16 years or more does not use any financial service, be it formal or informal. The most used services are those that are compulsory by nature. In Bulgaria, a considerably higher percentage of the population (37% as compared with 16.50% in Romania) make use of debit cards. This is the result of laws which necessitate that all payments from the public sector, including salaries and pensions and social assistance, go through debit cards. Insurance is the second most widely uses financial service for both countries (around 20% for Bulgaria); this is a reflection of compulsory insurance laws. Even though insurance is widely used, insurers remain widely mistrusted in both countries (Figure).

There are large discrepancies between the various groups within the population (for both Bulgaria and Romania):

- the higher the household income, the more formal financial services used;
- women and men use formal financial services to the same extent;
- young people (aged 16-24 years) and older people (aged 65 years or more) use significantly less financial services and products than people aged 45-64 years, who in turn use significantly less financial products and services than people aged 25-44 years;
- the higher the level of education, the more formal financial services used;
- Roma people, as well as rural residents, use significantly less formal financial services.

Consumers in Romania and Bulgaria alike make little use of the financial product in meeting unexpected income drops. Instead, they make use of informal consumer loans (from shops) and borrowing from relatives and friends. In Romania, 61.5% of respondents would borrow from relatives to make up for overspending from month to month. This strong impact of family, relatives and friends on accessing, advising and receiving financial services is very characteristic of East European Countries. The high level of inter-family and inter-friends indebtedness is accompanied by severe difficulties in balancing the family budget of the majority of Romanian and Bulgarian households.

The study results indicate that consumers' use of financial services is limited and concentrated in very few financial services. This could be a sign of both limited access and/or of an underdeveloped financial services market. Previous surveys conducted in Bulgaria in 2005 and in 2009 (USAID, 2005) show similar tendencies and therefore suggest there has been limited progress in the period between 2005 and 2010, despite a booming financial sector characterized by record credit growth and capital market turnover.

The most significant change between 2005 and 2010 in Bulgaria is the almost doubling of consumer loans from 16.0% to 23.9% of the population. There is also an increase in the usage of credit cards, which has risen from 8% to 12% in 2010. The mortgage credits are almost double, but still only 3.5% use this service, which is a very low percentage as compared with the other EU countries (Figure 4). This is a result of the high credit growth experienced by the new EU Member States after the accession.

The prospects for enlarging the scope and intensity of financial services are positive, although the demand for financial services is very low if judged by the intentions of consumers to buy financial services in the next two years. Only 38% of those who currently use financial services in Bulgaria plan to use some in the next two years, while 24% of those who do not use them at the moment plan to use them in the next two years.

When questioned about their intentions about usage of financial products, respondents in Romania and Bulgaria appeared to have little interest in utilizing additional financial services. Consumer loans in both countries are at the lead (12.4% and 9.1% respectively). In Romania, respondents also show some intent to use other banking services such as debit and credit cards. (Table 1)

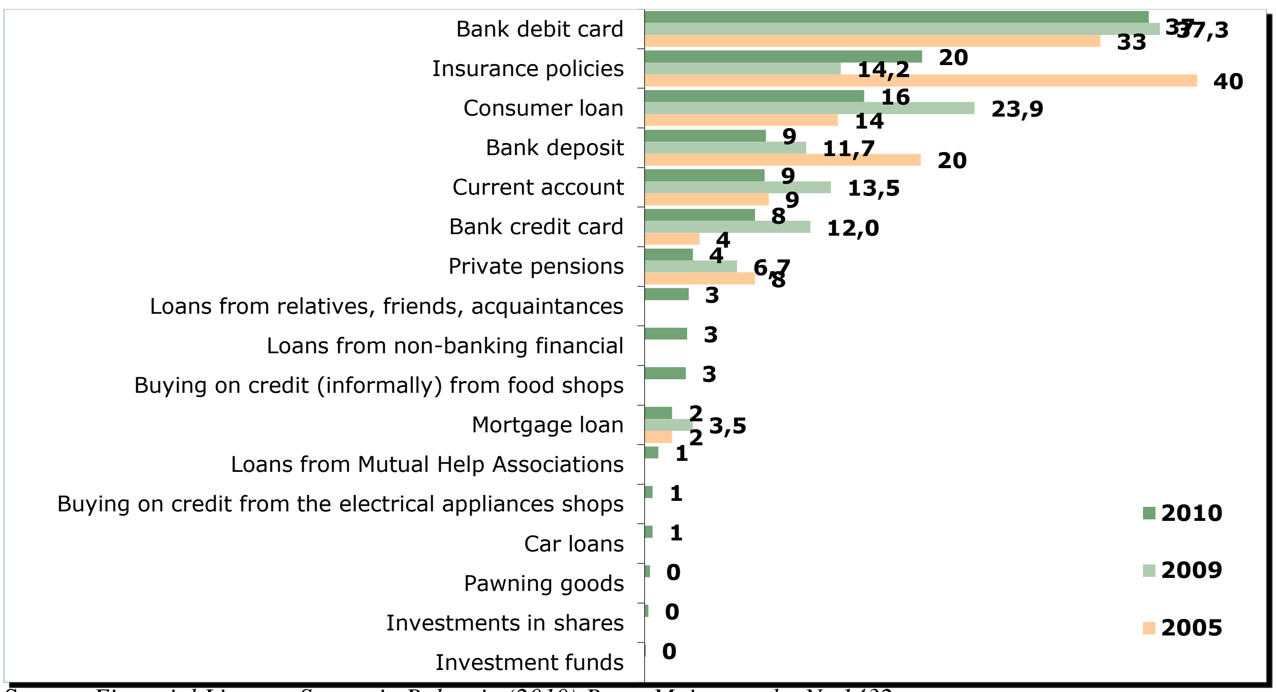
Table 1. Comparative intent of usage of financial services

Type of financial service	Bulgaria	Romania
1 Consumer loan	9.1%	12,4%

2 Mortgage loan	2.0%	2,4%
3 Current account	2.5%	7%
4 Bank deposit	2.9%	11,5%
5 Bank debit card	2.4%	11,8%
6 Bank credit card	3.1%	8,6%
7 Insurance policies	3.2%	4,6%
8 Private pensions	1.9%	4,3%
9 Investments in shares	0.6%	0,6%
10 Investment funds	0.7%	0,1%
12 Car/ terrain loans	1.7%	2,6%
13 Pawning goods	0.4%	0,4%
14 Loans from Provident, Fingroup Credit or other non-banking financial institutions	0.9%	0,5%
15 Loans from usurers	n/a	0,3%
16 Loans from relatives, friends, acquaintances	2.8%	27,7%
17 Buying on credit (informally - „pe caiet”) from food shops	2.9%	16%

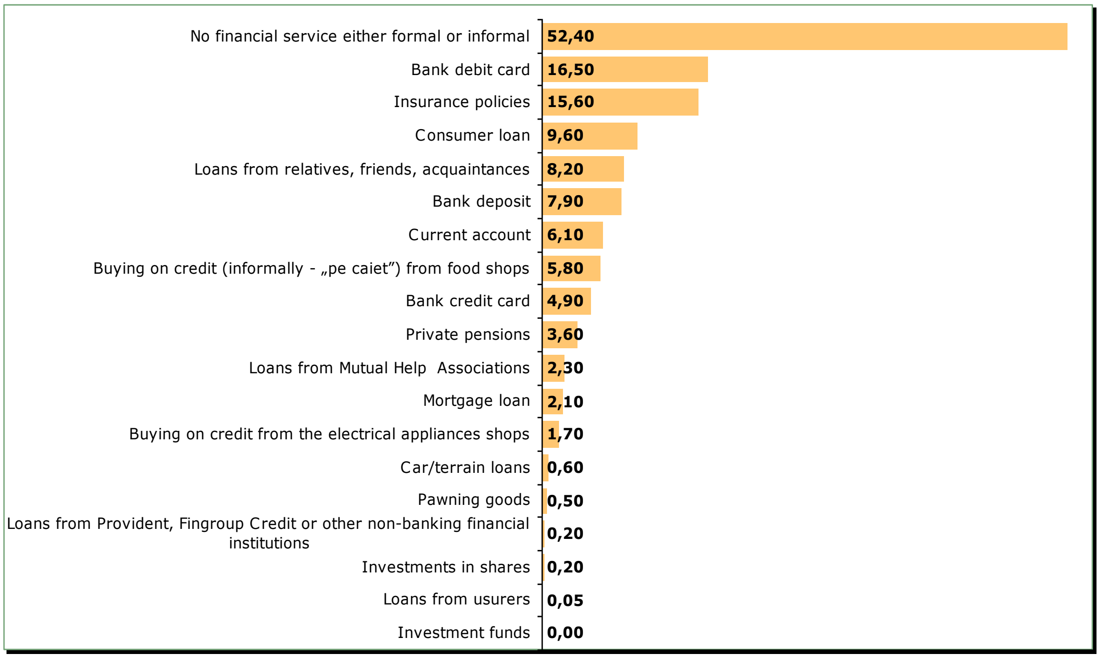
18 Buying on credit from the electrical appliances shops	n/a	7,3%
19 Don't know	10,1	17,2%

Figure 4. Bulgaria: Usage of financial services and products (in %)



Source: *Financial Literacy Survey in Bulgaria (2010) Base: Main sample, N=1432*

Figure 5. Romania: Use of financial services and products (% of population aged 16 years or more)



Source: *Financial Literacy Survey in Romania* (May 2010).

Knowledge about the financial institutions

One of the reasons behind the low demand for financial services is the low level of confidence in the financial sector institutions. The survey confirmed some tendencies that had already been identified by the previous surveys.

In Bulgaria, the Bulgarian National Bank is the only financial institution trusted by the Bulgarian population and it is even growing. The distrust still dominates as regards the rest of the institutions, although to a lesser extent than in 2005. At present, as well as five years earlier, the private pension funds generate the greatest distrust, but their negative balance has reduced by 17%. The negative attitudes towards the Financial Supervision Commission and the insurance companies have similarly settled down, by 20% and 11% respectively. The distrust in the securities market, which is largely unknown to the people, remains high. Nevertheless, even this institution enjoys a slight positive trend.

The attitudes towards the commercial banks and the Bulgarian Deposit Insurance Fund have improved. Trust in financial entities is rather weak. The National Bank of Romania and the National House of Pensions, among the state regulatory structures, as well as commercial banks and mutual help associations, among financial institutions, are trusted by 40% of the population. The other financial entities are either not known or little trusted by more than 60% of the population. With respect to trust in financial bodies, Romania and Bulgaria are very similar.

One of the interesting results of the survey is that the data indicate that the respondents have more confidence in the Bulgarian currency than in the Bulgarian economy. The stable currency regime obviously contributed to the high level of confidence in the currency. The trust in the Romanian currency is less pronounced.

Table 2. Trust in national currency

	Very much	Much	Average	Little	Not at all	Do not know
Trust in BGN	**8.0**	**25.6**	**31.7**	**10.7**	**11.7**	**12**
Trust in RON	**6.0**	**20.1**	**40.0**	**19.2**	**8.8**	**5.1**

The trust in commercial banks is rather polarized. While 20.8% of Bulgarian respondents and 12.9% of Romanian respondents trust them 'much' and 'very much', 35.8% of Bulgarians and 36.8% of Romanians have little or no confidence in them at all. The neutral position is taken by only about a third of respondents in both countries. Securities companies are the least trusted financial companies (about one third of the respondents do not trust them at all), as well as the most unknown ones since 37.5% of Romanians and 32% of Bulgarians do not express an opinion about them.

There is a strong link between confidence in institutions and the knowledge about their role, functions and performance. Improving consumers' knowledge about institutions is an important factor for financial capability. The data reveal a serious problem with the confidence in the financial sector which is partly related with the lack of experience. Both problems need to be considered by the commercial financial companies. The mistrust limits the access and usage of those services. More elaborate marketing strategies and educational activities may be needed in order to increase the confidence in those institutions. There is also a strong correlation between the perceived quality of financial services and the confidence in the institutions that provide them. Improving the quality of the provided financial services is an important factor for increasing their use.

5.3. STAYING INFORMED

The final domain of financial capability is related to staying informed, including keeping abreast of changes in the economy, keeping track of new financial products and changes to existing ones, and knowing where to get help and advice.

5.3.1. Self-Assessment of Financial Literacy

The recent financial crisis has proven that low financial literacy is a strong contributing factor to irresponsible borrowing by consumers. Increasing the knowledge of the financial market and its services contributes not only to financial stability but also to the development of the financial sector, as is indicated in the studies1 which show that the higher the financial literacy grows, the larger the use of financial services will become. Consumers' own perception of financial literacy is an important tool in measuring financial capability. The self-assessment of financial literacy indicates rather low levels of knowledge about financial services. While 26.5% of Bulgarians consider their financial knowledge as being

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[1] USAIAD (year)

‘unsatisfactory,’ 19.8% consider themselves as being totally illiterate. Romanian data indicate an even more alarming situation – 28.4% report they are totally illiterate with regard to financial services. Only about 1% of Bulgarians and Romanians find their financial skills excellent.

Table 3. Self-assessment of financial literacy

	Excellent knowledge	Good knowledge	Satisfactory knowledge	Unsatisfactory knowledge	No knowledge	Do not know
Bulgarian	1.5	13.3	33.8	26.5	19.8	5.0
Romanian	1.0	7.2	25.9	24.0	28.4	13.5

One of the indirect indicators of financial literacy is whether the consumers follow the financial news and tendencies. The survey data confirm that consumers follow the financial tendencies that are more close to their expenditures and the services they use. The differences in the opinions of Bulgarian and Romanian respondents are not significant.

Table 4. Specific financial tendencies followed by respondents in Bulgaria and Romania

	Bulgarians	Romanians
Changes in inflation	29.1	29.1
Changes in interest rates on deposits	23.3	26.9
Changes in the interest rates on credits	27.9	34.3
Changes in the public pensions, benefits and tax exemptions	33.2	36.3
Changes in capital market	4.3	5.9

indexes

Table 3 indicates that changes in the public pensions have enjoyed the highest interest by consumers, while changes in the financial market indices are of interest for only around 5% of Bulgarians and Romanians. The respondents follow the information about the interest rates on credits more closely than they do on deposits.

5.3.2. Sources of Information

As far as obtaining financial information, almost 90% of Bulgarian respondents drew on national TV programmes as their main source. The second most preferred source of information is national radio with 34.5% and national newspapers with only 20%. Local media do not enjoy such popularity as the national ones. The case of Romania is not too dissimilar. The majority 44% indicated "Newspapers, magazines, TV programmes specializing on financial issues" as a primary source of information. Advertising was the second most preferred primary source with 22%. The majority of Romanians (40%) identified friends and family as a secondary source. In Bulgaria, we yet again see this strong inter-family inter-friend influence, as 28.5% of respondents prefer their friends and family as a source of information, second only to the financial companies' own information about their products and tariffs.

Internet access and computer literacy are positive factors for financial literacy. The use of internet facilitates the access to financial services since it enables customers to reach information about the services offered, the pricing and the market tendencies with relative ease. The provision of financial services through the internet is of relatively low cost and therefore increases the scope and efficiency in the provision of financial services. This gives consumers the opportunity to compare and choose the most suitable product, thereby allowing responsible borrowing. The internet is also an easy marketing tool for financial sector companies and a crucial medium for increasing the financial literacy of consumers. It can be argued that the access to the World Wide Web contributes to the development of the financial market.

Unfortunately, the survey showed a rather low level of internet use by both Bulgarian and Romanian consumers. 64.1% of Romanians and 55.7% of Bulgarians do not use the internet at all. 47.1% of Romanian respondents who use internet do so on a daily basis, while the Bulgarian consumers who use the internet on a daily basis are about twenty per cent more – 65.2%. The low level of internet usage in both countries is an impediment to the development of this tool for providing services and consumer protection.

Trying to understand why financial literacy is low and searching for the subjectively appropriate tools to improve is an important task undertaken by the surveys. In terms of topics of interest for financial education programmes identified by the respondents, just under 76% would like to see topics of debt and credit included in financial training courses.

6. CONCLUSION AND POLICY RECOMENDATIONS

Some academics and practitioners have turned their sights to behavioural economics in order to obtain answers as to what constitutes a successful financial capability approach. Emerging from such analyses are the following pointers:

- Consumers, faced with too much information or a large number of choices are likely to be overwhelmed and do nothing;
- Consumers have the tendency to be overconfident about their financial capability skills. It is also likely that those people will ignore information which threatens their views. To encourage people to become more objective would involve challenging their views or getting them to explain the rationale for their opinions.

When developing financial capability programmes it may be useful to look to the lessons learned from other financial marketing programmes. Some such lessons are (Mundy, 2011):

- Keep things as simple as possible
- Use relevant and engaging language and contexts
- Repeat messages
- Use a variety of methods and channels

The basic foundations needed for consumer protection and financial literacy are in place in Romania and Bulgaria but they would benefit from further strengthening support. Improvements in six areas are recommended: consumer awareness, information and disclosure for consumers, professional competence, dispute resolution, financial education and financial literacy surveys.

Increasing financial literacy first of all is a matter of improving education. Ensuring an increase of financial literacy requires the development of financial educational programmes (in and outside school), addressed to a young (aged 16-24 years) and active population in particular.

What learning strategies, interventions, and delivery methods hold the most promise for effective financial education outcomes? The surveys in Bulgaria and Romania revealed important tendencies that have to be taken into consideration when financial literacy and financial capabilities are addressed.

- ☐ <u>Make the financial information widely available</u>
- ☐ <u>Make the consumer rights more popular</u>
- ☐ <u>Make the consumers aware of the institutions</u>
- ☐ <u>Make the consumers trust in the institutions</u>
- ☐ <u>Make the use of financial services “user friendly”</u>
- ☐ <u>Make the financial investment more popular</u>

The access to financial services is very limited and there is an urgent need for a joint action on the part of all stakeholders to improve financial knowledge. The public authorities have to be supported by the financial business organizations since the financial sector companies will greatly benefit from the increased financial capabilities of consumers due to the enlarged clients’ basis. The NGOs’ sector, which is rather weak in both countries, should be encouraged to provide training and promotional activities for consumers of financial services.

The surveys also revealed that the financial knowledge is rather diversified. There are groups of consumers that are totally ignorant about the sector. That is why it would be appropriate to establish a targeted approach for financial education, specified to the needs and capabilities of different social groups. Special attention needs to be paid to the retired people, the young consumers that enter the market after graduation, the rural population, etc.

Consumers in both countries rely to a larger extend to the information gathered from the electronic media. This information is important for the design of training and education programmes. The sector of financial consultations is still not developed in the two countries and it needs further encouragement.

The institutional framework of the financial sector is not known by a large majority of the population. Obviously, financial regulators have to be more transparent and more responsible for providing information to the public about their role. There is need for a comprehensive strategy as to how to improve the financial knowledge of consumers. This strategy should mobilize the efforts of all stakeholders.

APPENDICES

1. Survey Design - Bulgaria

1.1 Preparation of the survey questionnaire in Bulgaria

The questionnaire is based on the model Financial Literacy Survey questionnaire, also used in Romania in order to achieve a comparison between the results of the two countries. Questions from previous surveys on financial literacy issues conducted in Bulgaria have been included in the questionnaire as well. This allows for a comparison of the survey results with those of previous studies. The questionnaire was reviewed by the relevant institutions – the Bulgarian National Bank, the Ministry of Economy, Energy and Tourism, and the World Bank.

1.2 Definition of sample size and sample frame

Sample size: based on statistical calculations in order to obtain a maximum standard deviation of +/- 2.5% .Main sample - 1500 respondents (general population)

Booster – 300 respondents (aged 16-17 years)

Sample frame: random, two-staged stratified sample with probability, proportional to the size of the location. The sample includes both urban and rural areas and is based on two stratification criteria: NUTS region (6 regions – North-West, North-Central, North-East, South-West, South-Central, South-East) and type of location (5 groups – Capital; Regional centre with more than 100000 citizens, Regional centre with less than 100000 citizens, Small town, Village).

1.3 Implementation of the sampling procedure

All NUTS regions in Bulgaria were arranged in descending order according to the size of the population. At the first stage, the sample was distributed in proportion to the size of the population in each of the 30 strata (6 NUTS X 5 types of location groups), different from zero. A cumulative column with the number of locations in each region was prepared. This cumulative column was used for defining the number of the sample points at the second stage of the sample and, respectively – the number of the respondents in each location (proportionally to its' size). The sample step was calculated according to the following formula: Sample step = Number of population in the region (N) divided by the number of respondents in the sample. A random starting number was defined. A number of 10 respondents in each sample nest were set in order to minimize the influence of correlation error within the sample nest. The largest locations included a higher number of sample nests. The number of sample nests and the number of respondents in each location were defined, proportionally to their size. At a second-stage, using the random selection based on the "last birthday in the household", the respondents were selected within each sample point. The sample was representative of the adult population (18+). An additional sample booster of young people (aged 16-17 years) was prepared according to the same criteria.

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