

FINANCIAL (I)LITERACY: DOES THE FINANCIAL ADVISOR HELP?

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Abstract: *Sustainable economic development and economic growth are the basis of a healthy economy. All advanced countries in the world are trying to ensure a healthy economy, and thus a long-standing position in macroeconomic comparisons, through using effective economic policies. In recent years, however, a serious problem exists in many developed countries that we can see as a macroeconomic problem. It is not just a problem of indebtedness of State (public debt), a major problem is the large indebtedness of households / individuals. Studies and analyzes suggest a new problem, and that is, probably, financial illiteracy. Slovakia, as a member state of many international organizations, is involved in programs to increase financial literacy, with the help of education programs at primary and secondary schools. Financial literacy is the ability to use the knowledge, skills and experience to effectively manage own financial resources to ensure lifetime security for yourself and your household. The financial market provides many different types of products, and the layman is hardly able to orient them. Therefore, the existence of financial advisor appears as one possible solution to this problem. The article deals with the definition of financial literacy, and with the definition of financial literacy it is an attempt to approach financial illiteracy. For the development of paper were used several scientific methods of investigation. We focused on evaluating our own financial literacy survey with high school graduates. The financial literacy test used by the selected consulting company was also used for our statistical data. For a better understanding of financial literacy testing used by a consulting company, research is complemented by an interview. Based on the findings of the research, recommendations are made for practice. The article deals with issues of financial literacy in Slovakia, but the conclusions are also applicable in other economies.*

Keywords: *financial advisor, financial literacy, mortgage, Slovakia, youngsters.*

1. INTRODUCTION

The OECD/INFE [1] defines financial literacy as: “A combination of awareness, knowledge, skills, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.” Within the meaning of that definition is therefore important to pay attention to the youngsters as a group of individuals dealing with financial question on everyday basis – even if the sum of their daily transactions can’t be considered as influencing the State’s economy. The PISA 2015 survey has therefore focused on the young people’s financial literacy. Slovak students’ performance has been very

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low comparing to other OECD countries. Students are able to make very simple decisions in their daily spending, to know the purpose of an invoice and the difference between needs and wants, but sadly more complex tasks are too difficult for most of them [2]. If the students don't learn to pay attention to their finance, how can they later consider for instance to purchase a mortgage?

2. LITERATURE REVIEW

Financial literacy is not just a phenomenon of our time. Decisions on the use of funds have been made in the past, are being done today and will be done in the future. People make a lot of important decisions every day. People need different competencies / skills to make their decisions effective and right. Basic skills should be – to know how to:

create and maintain own or family budget. Managing the own personal budget and managing family budget is not easy. There is a large number of offers on the market, and therefore it is necessary to manage and to be able to solve the financial problems.

Understand price formation. People need to know the basic process of price formation. Economic theory says that the market is the place where demand and supply meet together. Then price is made by a market. However, price is influenced by different variables. Each producer wants to achieve the highest profit. The customer also wants to get the most out of the market but with the optimal use of their financial options. The market represents a mechanism for realizing the interests of individual economic / market entities. It is a mechanism by which buyers and sellers work together to determine prices and quantities of goods and services.

The third competence should help second competence. People should be able to properly and effectively dispose of its funds.

Gathergood and Weber [3], in their study, identified a relationship between home-ownership or renting a house and financial literacy by young people. The ones with lower financial literacy take unfavorable loans and have more debts. Financial literacy among students of economic faculties in Slovakia increases between the first-year of their studies and their last one. The gender is doing a difference (men have a higher level of financial literacy) but attending a business oriented secondary or high school is not. [4] So, the education and financial literacy are linked together but it is not enough for an explanation. [5] For someone it is better to count on an advisor in case of financial decisions. But if the person-client is feeling anxious of a financial advisor his or hers likelihood of consulting a financial professional is in this case lower on the other hand, this anxiety could lead to self-studying or to improvement in one's financial literacy. [6] As mentioned women have a lower level of financial literacy in a robust overview on this issue Bucher-Koenen et al. [7] are highlighting two groups of women – singles and widowed that are most at risk. Johnson and Sherraden [8] consider what it would be like if all children in the school (from elementary school) would have their own saving account and learn how to manage it and maybe the parents could learn something too.

Lisý [9] states that people have “invented” money as a universal means of exchange for facilitating the economic cycle. The emergence and use of money have gone through great historical developments and progress - from commodity money through full money to incomplete money; from cash to cashless money. The importance of knowledge, information and innovation which are becoming the main drivers of growth, is growing sharply in the new economy. The increasing power of information and knowledge is changing the way people communicate but also change the trade and business. The offer is big, the money options are limiting and the right decision has to be made constantly. The financial market is large, the offer

to use funds is still growing. Whether people are financially literate or illiterate can greatly influence how they work with the funds.

The various institutions are engaged in analyzing financial literacy exploring how to influence, how to shape financial literacy. Ministry of Education, Science, Research and Sport of the Slovak Republic has analyzed the financial literacy, too. Financial literacy is defined, by mentioned ministry, “like the ability to use knowledge, skills and experience for effective management of personal funds with the aim to secure one’s lifelong financial security. Financial literacy is not an absolute state, it is the continuum of abilities that are conditioned by variables like age, family, culture or residence. Financial literacy represents the state of continuous development enabling each individual to effectively react on new events and continuously changing economic environment.” [10] Financial literacy is the ability to understand how money works and how someone manages money. More specifically, it refers to the set of skills and knowledge that allows an individual to make informed and effective decisions with all of their financial resources. Financial literacy creates demand for financial products and services, thereby accelerating the pace of financial inclusion as it enables the common man to understand the needs and benefits of the products and services offered.

In the Knowledge Economy Dictionary [11] we find the theory of financial literacy as “the ability to use knowledge, skills and experience to effectively manage own financial resources to ensure life-long financial security for one’s own and his household.” Despite the impossibility of stabilizing the definition of financial literacy, we can define its common attributes, which are in particular:

- the ability and the way people perceive banking products,
- the way they are used,
- the degree of management of their own finances.

Financial literacy can be defined as a set of three basic components: monetary literacy, price literacy and budget literacy. In addition to the three main constituents, the following are often mentioned in the literature: Information literacy, legal literacy and numeracy. Subsystems of financial literacy are - Financial knowledge, financial capability, and financial responsibility.

The financial market is part of the system of the economy and it is the heart of the financial system. It is considered to be the most important among all markets, mainly because of the fact that its resources are usable in every economic area. “The financial market is a system of relationships, institutions and instruments that allow the accumulation and deployment of temporarily free funds between economic entities on the basis of supply and demand relationships.” [12] The base of the financial market is to create channels that allow the transfer of funds from entities that they have in excess to operators who are in deficit. The movement of funds takes place in two forms, direct or indirect financing. Indirect funding is based on the existence of financial intermediaries such as commercial banks, insurance companies, investment institutions, asset management companies and other financial intermediaries such as financial companies, securities traders and others. [13]

3. METHODOLOGY AND DATA

We summarize findings from three different surveys on financial literacy. As the data are different, and there was not the same questionnaire used, we would like to highlight some of the findings from the different surveys:

- Online screening questionnaire (416 respondents),

- Secondary school graduate students (total of 216 students),
- Financial advisor cases of adult clients (total of 44 cases).

The online questionnaire was a part of a dissertation theses research and the data were obtained from the respondents during the year 2016 [14]. The respondents were asked to answer 10 multiple choice questions. For the group of secondary school graduate students, the data were collected in the first half of the year 2018. Students were asked to submit their answers via an online questionnaire. The questionnaire had 29 questions and was a part of a Diploma Thesis research project. [15] The Financial advisor was asked to summarize his experience with his clients' financial literacy. The information about the clients included age, sex, relationship status, education and the Advisors opinion on the level of the clients' financial literacy.

4. RESULTS AND DISCUSSION

The financial market comprises a large number of banks, insurance companies, asset management, investment insurance companies and other institutions that may pose a chaos for the client in need of help with their finances. The solution is to find only one person, a financial adviser, or an intermediary who is oriented on the financial market. Financial intermediaries are found by clients in banks, insurance companies and other institutions. What is limiting in this case is the fact that such an advisor can only offer the client products from the portfolio of the institution that is his / her home or a partner company. The risk to the client is therefore the fact that he / she will be provided with a service that is appropriate and optimal but may not be the best one. [19] Another situation occurs when the client searches for a private financial agent. The financial agent works with a larger number of institutions, its portfolio of products is much more extensive than the financial intermediary in the bank, and therefore the choice to choose the most appropriate offer for the client is much more realistic. The definition of financial advisors reflects the fact that the relationship between the financial agent and the client is based on trust and combines consulting and other counseling activities. [16] It is also possible to distinguish financial adviser from a financial agent on the basis that agents provide financial services for commission from a financial institution while consultants provide them with fees from the client. Ing. Peter Krištofovič says: "Paid financial advice is, in my opinion, the highest level within our department, because it is possible to really generate high added value here." The financial adviser has several activities on the financial market. They are actively searching for new clients, long-term communication and maintaining relationships with an existing client, constantly gathering information about the financial market situation, management of various complaints and many other activities. [18] The financial intermediary can be also financial institution. There are several financial institutions acting as financial intermediaries. Financial intermediaries are divided into financial markets as follows:

- deposit institutions (commercial banks, savings banks),
- contractual institutions (insurance companies, pension funds),
- investment institutions (investment and asset management companies),
- Securities dealers,
- stock exchanges and over-the-counter markets,
- other financial intermediaries. [12]

Findings of the online questionnaire

The online questionnaire did provide a broader screening on financial literacy. The respondents were mostly university graduates (59.6%), and to 36 years old (89.4%), structure of respondents is dependent on the online provided method of questioning. On the other hand, for the needs of this paper the results are suitable. Respondents were asked to answer 10 multiple choice

questions. Of the total number of 416 respondents, the minimum and higher number of correct answers was reached by 308 respondents (74%). Based on the results of the questionnaire, we can state that the overall level of knowledge of the respondents is good. 16.3% of respondents cannot identify which loan has better conditions, means that 37.50% decided just according to the high of the installment. By total credit costs 23.1% of respondents considered the interest rate as the main parameter of the total cost of the loan. In the University degree group one fifth of the respondents were not been able to accurately determine what impact the inflation has had on their investments.

Findings in the group of secondary school graduates

Graduates of Secondary schools were asked to answer 29 questions in an online questionnaire. According to the findings, 65% of the graduates knows what the term financial literacy means. In 68% of the cases the graduates had at least one subject in which they learn about finance (36% Economy, 17% Accounting and 47% in the subject called “Civic education”). The main findings are that the graduates don’t know the difference between costs and returns, just one fifth of them knew the correct answer. They don’t know the difference between a credit card and a debit card (62%). And they take no difference between the available balance on the account and the current account balance (64%). But they do understand what inflation or a standing order is. Graduates also know who creditor and debtor are. The results are not ambiguous. Students lack a full financial education. They know the common terms but as the tasks become complicated, they can’t connect the information and decide the optimal (in our case the right) answer.

Findings in the group of financial advisors’ clients

The financial advisor did provide a short overview of his clients. The total was 44 clients, 17 females (average 33.9 years old), 27 males (average 34.4 years old). All of the clients have contacted the Advisor freely with needed advises in fields of advice vary between mortgage to retirement savings. According to the Advisor, not a single one of the clients was financial literate. So, we can say even if the client is seen as well educated – university degree (63.7%), this is not yet a prerequisite for being financially literate. These finding could indicate that clients are not anxious to contact an advisor by their financial decisions.

5. CONCLUSIONS

Financial literacy is still discussed and broadly marginalized topic of interest. In our summarized findings we assume that even if the Secondary school graduates have one to several experiences with topics including basic finance knowledge, they can’t use them in more complex tasks. For the older respondents the main financial indicators in mortgage decision are not on a satisfying level. Therefore, we see the contact to a financial advisor as a good first step for them in terms of gaining the information needed before they made the decision. Due to the large number of products many people can be classified as more or less financially illiterate. Financial illiteracy means a situation in which people do not understand financial terms and risks, they lack the knowledge to make effective decisions in a whole range of financial contexts. The financial situation does not improve people, but it gets worse and the economic life is getting worse. Financial illiteracy is not the end, and financial education can be improved. A financial intermediary serves as a subject who, through his knowledge and skills, can help understand the market and the various financial products and offers. The profession of financial advisor, if executed responsibly, has a positive impact on the financial market and great benefit for clients. At first glance, there may seem to be a lot of financial advisors on the market today. [20] However, the reality is different and there is only a small fraction of consultants who stay

on the market for a long time, that are searched for by clients and are beneficial to them. Financial advisors are different, some take the job as an opportunity to earn extra income besides a primary job, but a much larger number of financial advisers are aware of the importance of the profession and perform it fully for all their working time. It is necessary to realize that financial advice does not work for everyone. If a financial advisor wants to succeed in the long term, he must be able to pass on to clients. It should be the rule that it is not important for the counselor how much time he spends at work, but what he did during the job and what benefit he brought to his clients. A great benefit for the client and also for the financial adviser is the building a long-term relationship, which is about the beneficial cooperation for both sides. This model also has the advantage that, unlike other financial institutions that focus on one-off business and contract signing, the financial advisor monitors the client's finances in the long run, looks at its future development, is with the long-term client, during which provides his advice and service. The client gets expert advice about his finances from a specialist who knows the products of all institutions and is familiar with their benefits and risks, and the advisor gets a satisfied client whose positive reference is the key for expanding clients.

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