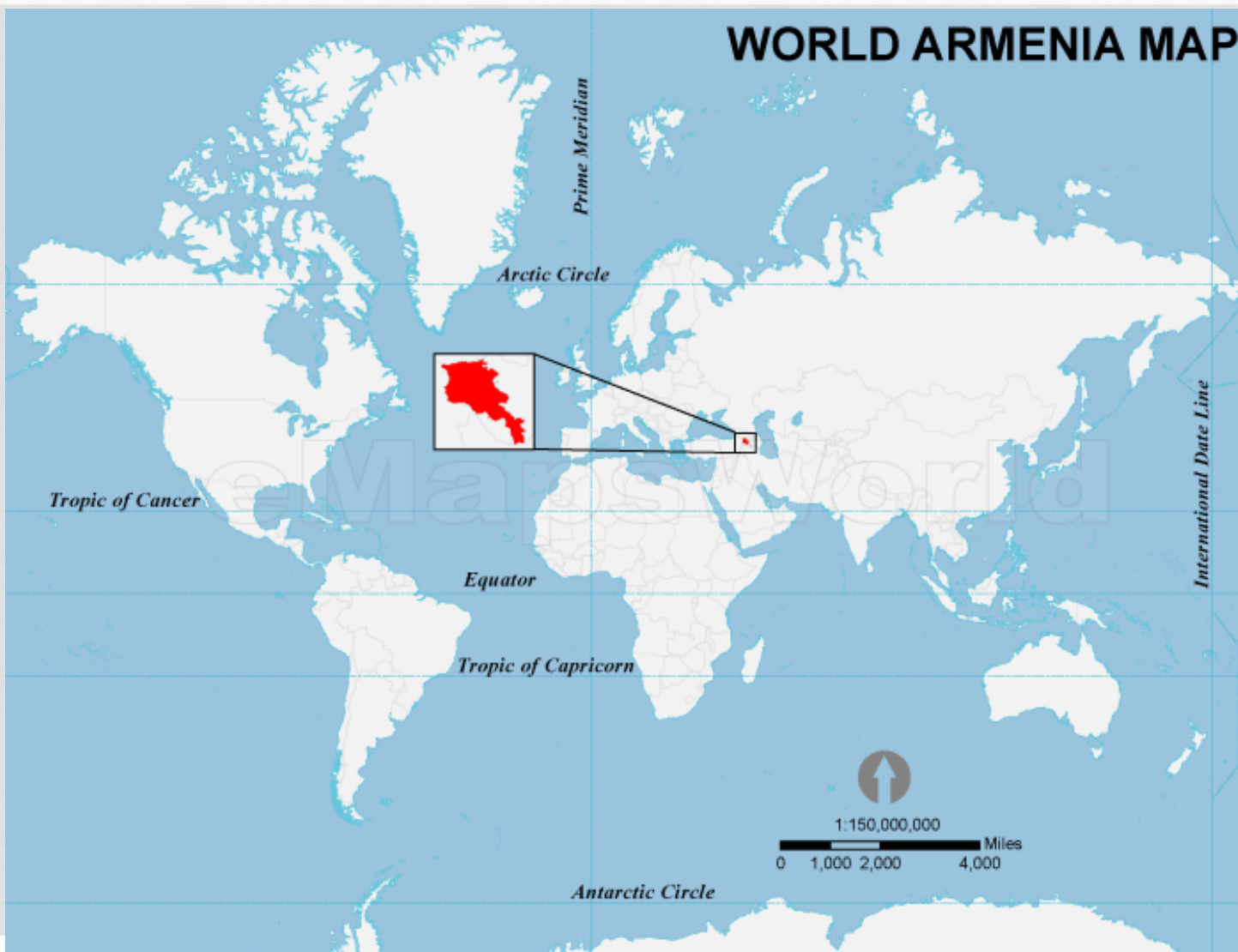


FINANCIAL CAPABILITY MEASUREMENT IN ARMENIA

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BASIC COUNTRY CHARACTERISTICS



BASIC COUNTRY CHARACTERISTICS

- **Location: Southern Caucasus**
- **Population: 3.0 million (2014)**
 - ✓ Urban/rural – 64%/36%
 - ✓ Capital: Yerevan (1 mln.)
- **Language: Armenian**
- **Political System**
 - ✓ Post Soviet Country
 - ✓ Gained Independence in 1991
 - ✓ Presidential representative democratic republic





BACKGROUND

- 2007: new mandate of Central Bank of Armenia (CBA): “creation of environment that is necessary for the protection of financial sector consumers”
- Center for Consumer Protection and Financial Education, separate unit, is functioning under CBA
- Different educational initiatives since 2007
- 2012: Establishment of Steering Committee for Development and Implementation of National Strategy of Financial Education
 - Led by CBA
 - Members are governmental/public bodies, private sector, and civil society/NGOs
- NSFE in Armenia – Adopted by Steering Committee of NSFE and Board of CBA



FINANCIAL EDUCATION INITIATIVES 2007 - 2014

General:
Financial
educational
website



General: My
finance
month



Seminar in
collaboration
with EBRD



General:
Wishing wall



General:
Financial
Flash Mob



General :
brochures on
financial
services



School
children:
educational
CD's



Training of
high school
teachers



School
children:
Financial
brain ring with
Junior
Achievement



Youths:
Financial Bus
tour towards
financial
institutions
with City Hall



Youths:
seminars in
universities in
capital and
regions



School
children:
Citizen project
with



Youths: FLY
project in
universities
with AISEC



General:
several
contests on
financial
topics



Educational
movies and
leaflets on
pension
reform



Special page
on Facebook,
Twitter and
Youtube



Celebration
of World
Savings Day



Financial
shopping tool



Assessment of
financial
educational
materials



Conference
on
Responsible
Finance with
KfWand SBFC





NATIONAL STRATEGY FOR FINANCIAL EDUCATION IN ARMENIA (NSFE)



Setting climate

Targeting

School

Youth

Farmers

...

Supporting

Cooperation schemes

Sustainable funding

Institutional setup

Monitoring and evaluation

**FINANCIAL
EDUCATION
IN SCHOOLS**



**FINANCIAL
EDUCATION
AFTER SCHOOLS
(ADULTS)**



**TRAINING
OF
TRAINERS**



TRAINERS

**MONITORING
AND
EVALUATION**

WARNING

video
surveillance

ACTION PLAN



MONITORING AND EVALUATION

2 dimensions:

- Continuous assessment of the level of financial capability of population: **Financial capability survey**
 - Every 5 years

- Impact assessment of separate programs of financial education
 - Methodology to be elaborated
 - Before and after launching the program



FINANCIAL CAPABILITY MEASUREMENT: CHALLENGES IN ARMENIA

Financial capability measurement: Tool for policy priority setting, effectiveness monitoring and public accountability

- Around 200 ways of measurement exist
- No universal approach to measure financial capability and its dimension levels, and to have financial capability level indicator(s)
- Need to develop a methodology :
 - Quantitative aggregate indicators to monitor the progress of NSFE over time
 - Detailed enough to set priorities in financial education policies
 - Aggregate enough for public accountability
 - Tailored to NSFE of Armenia

FINANCIAL CAPABILITY MEASUREMENT IN ARMENIA

- Central Bank of Armenia (CBA), in cooperation with Alliance for Financial Inclusion (AFI), initiated a project aimed at elaborating **a new methodology for financial capability measurement (FCM)**
- Globally recognized conceptual approaches, international experience in the field of financial capability measurement and the priorities highlighted in NSFE of Armenia were considered
- The FCM provides 4 major outcomes:
 1. competency matrix of financially capable person
 2. scoring matrix
 3. analysis: financial capability index
 4. questionnaire design



COMPETENCY MATRIX OF FINANCIALLY CAPABLE PERSON (1)

Definition:

“Financially capable person” is one who has the necessary knowledge, abilities, skills and culture, which give him/her the possibility to make decisions about his/her personal finances and take actions which are appropriate to the circumstances”

Source: National Strategy of Financial Education in Armenia

COMPETENCY MATRIX OF FINANCIALLY CAPABLE PERSON (2)

Financial capability dimensions and components

Financial and macroeconomic concepts

Personal budget management

Saving and long term planning

Debt management

Shopping around

Personal rights protection

Safe usage of financial services (financial fraud)





COMPETENCY MATRIX OF FINANCIALLY CAPABLE PERSON (3)

	A. Knowledge	B. Skills	C. Attitude	D. Behavior
A. Financial and macroeconomic concepts	XX	XX	XX	XX
B. Personal budget management	XX	XX	XX	XX
C. Saving and long term planning	XX	XX	XX	XX
D. Debt management	XX	XX	XX	XX
E. Shopping around	XX	XX	XX	XX
F. Personal rights protection	XX	XX	XX	XX
G. Safe usage of financial services (financial fraud)	XX	XX	XX	XX

COMPETENCY MATRIX OF FINANCIALLY CAPABLE PERSON (3)

(CB) Saving and long term planning - Skills

- Be able to make diversification
- Be able to calculate simple and compound interests
- Be able to choose shares for investment based on different characteristics
- Be able to manage pension account

(DA) Debt management – Knowledge

- Know the sources and types of debts
- Know what is credit and its types
- Know about nominal and effective interest rates
- Know the types of collateral and consequences of delay debt

(FC) Personal rights protection – Attitude

- Value his/her personal rights protection in a formal way
- Trust the official authorities
- Value the role of Financial System Mediator

(ED) Shopping around – Behaviour

- Before choosing any financial service or product gather related information from different sources and make comparison between them
- Ask for consultation in case of a need



SCORING MATRIX OF FINANCIAL CAPABILITY

	A. Knowledge	B. Skills	C. Attitude	Σ	D. Behavior	$\Sigma\Sigma$
A. Financial and macroeconomic concepts	Index AA	Index AB	Index AC		Index AD	
B. Personal budget management	Index BA	Index BB	Index BC		Index BD	
C. Saving and long term planning	Index CA	Index CB	Index CC		Index CD	
D. Debt management	Index DA	Index DB	Index DC		Index DD	
E. Shopping around	Index EA	Index EB	Index EC		Index ED	
F. Personal rights protection	Index FA	Index FB	Index FC		Index FD	
G. Safe usage of financial services (financial fraud)	Index GA	Index GB	Index GC		Index GD	
Σ						

SCORING MATRIX OF FINANCIAL CAPABILITY (EXAMPLE WITH NUMBERS)

	A. Knowledge	B. Skills	C. Attitude	Σ	D. Behavior	$\Sigma\Sigma$
A. Financial and macroeconomic concepts	43.5%	43.9%	53.8%	47%	31.0%	43%
B. Personal budget management	47.6%	40.8%	51.0%	46%	51.6%	48%
C. Saving and long term planning	31.4%	34.2%	62.0%	43%	45.8%	43%
D. Debt management	29.4%	38.3%	56.9%	42%	64.9%	47%
E. Shopping around	21.7%	65.7%	69.8%	52%	42.1%	50%
F. Personal rights protection	39.7%	71.5%	44.9%	52%	79.9%	59%
G. Safe usage of financial services (financial fraud)	23.3%	22.7%	71.8%	39%	53.6%	43%
Σ	34%	45%	59%	46%	53%	48%

SCORING MATRIX OF FINANCIAL CAPABILITY

	A. Knowledge	B. Skills	C. Attitude	Σ	D. Behavior	$\Sigma\Sigma$
A. Financial and macro concepts	Index DA = 29.4% This is the average score of all knowledge questions of Debt management dimension		53.8%	47%	31.0%	43%
B. Personal financial management		51.0%			51.6%	48%
C. Saving and long term planning					45.8%	43%
D. Debt management					64.9%	47%
E. Shopping around					42.1%	50%
F. Personal rights protection				52%	79.9%	59%
G. Safe usage of financial services (financial fraud)				39%	53.6%	43%
Σ				46%	53%	48%

Index FD = 79.9%

This means that population generally is 79.9% competent comparing with the competencies defined in the respective field.

Cumulative Indexes

Based on the indexes in each dimension and component, cumulative indexes can be calculated.

For example – The index of overall knowledge or the overall index of Debt Management can be calculated.

ANALYSIS

- 1) “Thermostat” approach
- 2) By defined targets (region, urban/rural, age, gender, income level, education and work experience etc.)
- 3) Statistical qualitative research: deeper research to find out all the reasons and factors related to that specific index.
- 4) Deeper analysis by sub-targets and interrelations between financial capability components
- 5) In long term: evaluate the relationship between financial K+S+A and behavior

FINANCIAL CAPABILITY INDEX



Based on the average of all 28 indexes the Financial Capability Index is being calculated, which shows the overall level of financial capability in the country towards the defined competencies.

$$\text{FCI} = \text{AVERAGE}(\text{Index AA}, \text{Index AB}, \dots, \text{Index GD})$$

It is very important to consider the factors which impact financial capability such as access to financial services and low level of income etc.

QUESTIONNAIRE DESIGN

- Equality of components/ no weighting
- 8 sections (including the introduction part)
- Close type questions
- True or false, Multiple choice questions mainly
- Based on each question a separate score is calculated, which is presented as a percentage (%)

QUESTIONNAIRE DESIGN

Q16 (Knowledge) – Could you please tell us, which are considered as an income out of below mentioned options?

- 1) Wage/salary
- 2) Refund of losses by insurance
- 3) Consumer Credit
- 97) Don't know

Q8 (Skills) – Imagine your yearly income is equal to 1,000,000 AMD, and the inflation rate is 5%. After a year, how much your income should be in order you maintain the same level of living?

- 1) Exactly 1,000,000 AMD
- 2) More than 1,000,000 AMD
- 3) Less than 1,000,000 AMD
- 97) Don't know

Q72 (Attitude) – Which of below mentioned statements best describe you? I prefer to take a debt...

- 1) ...only from formal sources
- 2) ...mainly from formal sources, but non-formal ones can be used as well
- 3) ...mainly from non-formal sources, but formal ones can be used as well
- 4) ...only from non-formal sources
- 97) Don't know

Q51 (Behavior) – Do you have any savings?

- 1) Yes
- 2) No
- 97) Don't know

CONCLUDING REMARKS



This new methodology (FCM) provides a flexible framework for policy makers:

- To analyze the situation in the country and perform **effective policy priority setting**
- To evaluate and monitor the **effectiveness of their National Strategy of Financial Education regularly**
- To keep **public accountability** in a easier way, as the methodology is not complicated and people can understand it easily
- FCM provides **flexible principles**, which can be applied even if the reality changes over time or geography and allows tailoring time context and country context
- To evaluate the good case practices of other countries and implement them locally, as the methodology provides a **universal base**

THANK YOU !

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