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Financial knowledge, skills and investment practice in Hungary - results based on a primary research[1]

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Abstract

Nowadays financial knowledge and the financial literacy is a cardinal issue in an everyday speech, because the sub-prime crises, and its consequences highlighted the shortcomings of the financial knowledge. When we are talking about the reasons of the crisis, we always mention households', companies' and banks' responsibility, next to supervisions' and governments' responsibility as well. According to the opinions, articles, we should think, that the main problem is the lending and borrowing activity of the banks till the millennium. But it isn't true. The main reason is the lack of financial knowledge and the financial consciousness. Did anything change since 2008 in this field? Should we understand the main financial concepts, definitions related to the financial products and investments, or nothing has changed guarantying the chance of the next financial crisis? The Hungarian households receive a lot of critics about their financial knowledge from the crisis. National and international researches highlight the deficiencies of the financial attitude and literacy, but meaningful steps to improve it hasn't made till now. There are some initiatives of the central bank and civil organizations, but an overall improving strategy hasn't born yet. In this study we try to show the Hungarian people's basic financial knowledge in investment definitions, financial terms, which determine the success in financial world.

Keywords: financial knowledge, financial literacy, investments, primary research

1. Overview of literature

Money, as the indicator of the economy's performance and as an appropriate tool for the accounting of the performances, is one of the most significant factors and actors of the capitalist and internationalised societies. The society heavily influenced by the media sees the importance of money everywhere, through the daily printed and electronic press, the television and the Web. Anything can be purchased for money, from the electronic devices to dream journeys, but even health and friendship are considered to belong here as well. But do we handle the money well and do we interpret its essence correctly? The crisis in 2008 pointed out that in many cases our assumptions are wrong, and on the basis of erroneous grounds we make such crucial financial

[1] SUPPORTED THROUGH THE NEW NATIONAL EXCELLENCE PROGRAM OF THE MINISTRY OF HUMAN CAPACITIES

decisions (like for example taking out a loan) that will have a lifelong effect on our future and success, and thus on the life of us and our family too.

The person, the individual is the dominant among the dogmas of the economics as well. The consumption of the individuals is measured, the usefulness is analysed, and all in accordance with how much money the consumer has. The classic definition of demand also says that despite the consumers are "willing" to buy the assets, they are "unable" to do so. As Adam Smith (1959) noted, people always act rationally, following their own interests, and therefore they believe in the self-regulatory quality of the market (invisible hand). However, Keynes also highlighted the psychological factors on top of the individual rationality during the economic actions, which was vehemently condemned then – at the time of the Great Depression. In fact, in his opinion the psychological factors are the ones that determine the happiness and actions of the people the most, which Keynes called "animal spirit" (Akerlof – Shiller, 2009). This was the very thing that the banking and lending practices prior to the crisis proved wrong when they suggested that contrary to the classic definition of demand the willingness alone is enough for the consumption, because the capability will be added by the bank. This practice took advantage of the people not being financially educated and not being in the possession of financial knowledge that would have been necessary when making the decisions. Nevertheless, on the margin of the financial culture and literacy we have to mention those ethical and moral issues, or rather the complete denial of the ethical and moral principles, which were the reason why the utilization of the factors with otherwise poor financial culture became possible (Csiszárik-Kocsir, 2016).

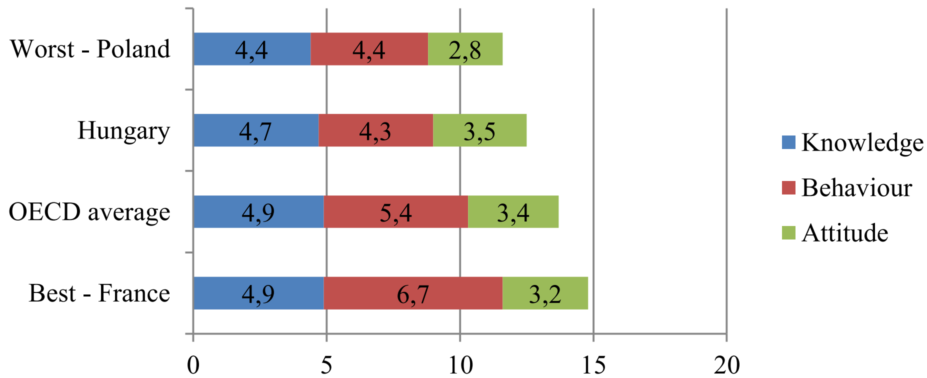
Nearly ten years after the economic crisis the finances, the possession of money and the related knowledge have been becoming more and more important, basically a part of our lives. The crisis and the subsequent events drew the attention to the deficiencies connected to the financial knowledge (Klapper – Lusardi – Panos, 2012). Due to the general prosperity and the unlimited liquidity prior to the crisis certain age groups socialized in a way that they did not learn how to handle money, they did not learn how to make a budget, since the message that came from every direction said that the missing liquidity can be replaced with loans, several even. Before the crisis Johnson and Sherraden (2007) had already warned that it would be advisable to involve the younger generation too in the preparations of the financial processes by extending the taught subjects in a financial direction, or maybe by involving them in making the family financial decisions. Osana, Tucker and Bennett (2003) already had the same opinion, because this way a larger financial responsibility can evolve. The loans taken out irresponsibly and the early, rash consumption can be connected – either directly or indirectly – with the absence of financial literacy and financial culture. The examination of the financial culture is a term or research field with an ever growing popularity these days. Numerous articles, researches, theses or dissertations deal with it, yet no specific, tangible steps have been made towards development. Every bigger bank treats the development of the financial culture as part of their corporate social responsibility (CSR), but they do not really have concrete results yet.

The term financial culture has not been given a uniform definition up until today. In the strict sense financial culture means financial literacy skills and capability, which requires special professional knowledge. According to the generally accepted definition it is "such a level of financial knowledge and skills, with the help of which the individuals are able to identify the basic financial information necessary for their conscious and cautious decisions, then after obtaining these information they are able to interpret them and on this basis they are able to make a decision, assessing its possible financial and other consequences for the future" (MNB – PSZÁF, 2008). Based on the definition of Atkinson and Messy (2012), financial culture is a sum of such skills, abilities, attitudes and patterns of behaviour that are essential for making the right financial decisions both on a personal and social scale. In the possession of financial literacy we can increase and improve prosperity, which can be felt not just at micro but at macro level as well. Based on the opinion of Luksander and her co-authors (2014), financial culture is nothing else but the ability of processing the financial information and making the right financial decisions. Suganya, Sakthivelrani and Durai (2013) outlined the substance of financial culture as the sum of such knowledge through which the individuals are able to maximize their lifelong financial prosperity. Ultimately, it can be asserted that the financial culture always means some sort of combination of abilities and skills, with which the personal and social well-being can be achieved. This is unimaginable without a specific professional knowledge, so it can therefore be concluded that the role of financial education is unmissable and unavoidable in this topic.

The knowledge that knows and understands the modern financial processes and capable of adapting to changes is indispensable in today's globalized world. This is why Grifoni and Messy (2012) claimed that the thrust of the term's meaning was a skill that is vital today. The financial culture can be split into parts, since it has levels that can be developed and others that are harder to develop. Those elements of the financial culture that can be modified easily and within a relatively short period of time with education and trainings belong to the former group. Such elements are for instance the financial knowledge, financial skills and abilities. The parts of the financial culture that are difficult to develop are manifested in traditions, habits, specific seen and learnt norms, views and values (Balázsné, 2013). The latter, which is picked up from the parents, family and friends, can be shaped the hardest, because due to the socialization it becomes a part of us, it is integrated into our character, hence it goes with us all our lives (Koh – Lee, 2010). This process is called economic socialization, where the young raised generations learn from their educators the principles of using money, and acquire the attitudes that will later broadly determine their success or failure in the financial world. The family has an emphasized role in this process, as they teach the principles of money management and usage that they find decisive (Zsótér, 2012). This is all connected to the previously introduced opinions, according to which we have to start developing the financial consciousness already at school age in order to make the occasional negative habits somewhat correctible.

The assessment of financial culture in terms of a whole economy or society is not an easy task, but it can be declared that in the global financial world the evaluation of this field hints at the financial literacy of the individuals of an economy and society (Bárczi – Zéman, 2015). Certain researches correlate the financial culture with the financial knowledge, while others refer to it as a financial attitude, financial proficiency or the possession of financial information. There is no common understanding about who is responsible for the development of this field either. Based on certain opinions the development of the financial literacy needs to be started during primary education, whereas others suggest that this should be the sole task of secondary schools. Financial culture or financial consciousness includes the adequate and applicable level of financial knowledge, or in other words the stock of material knowledge, in addition to the concrete numeracy and math issues. The OECD has been running comprehensive analyses on the financial culture of its member states for years, in which it assesses the financial knowledge, behaviour and attitude of the countries' nationals (OECD, 2016). In its latest survey it rewarded the financial culture of the countries with a maximum of 21 points, 7 of which for financial knowledge, 9 for financial behaviour and the remaining 5 for attitude. With regard to the examined OECD countries it can be stated that France had the best rating with 14.9 points. Poland ended up being last on the list with 11.6 points, which remains well below the average 13.7 points. Unfortunately Hungary's result (12.4 points) is also below the average, however, it does not stand out from the average rating of the region (the Czech Republic had 12.6 points).

Figure 1.: The financial culture in the OECD countries



Source: OECD, 2016

Based on this graph it is clear that the financial culture of Hungary needs a serious development. Our financial knowledge, behaviour and even our attitude perform poorly compared to the maximum figures. By examining the region it can be established that the Visegrad Four move together in the context of financial knowledge too. The poor financial capacity can also be explained as the consequence of the end of communism. 20 years might have passed since the political transition, but in the Eastern half of Europe we are still learning how to deal with money. Within the learning process education must have a key role, where the students are introduced to the basic element of the capitalist economy, the money, and they are taught how to handle, invest and utilize it. The purpose of this study is to illustrate our financial knowledge in terms of investments and savings, highlighting the major shortcomings and misbeliefs, and ultimately the financial knowledge of the respondents.

2. Material and method

The present study is based on a research from 2016, which was conducted in written form with the help of a questionnaire containing closed questions. There were no open questions in the questionnaire for the sake of the better statistical evaluation and processing. Moreover, we did not deem them necessary either, since a qualitative round had preceded the questionnaire. The questions of the form covered several topics from the value of money through the correct usage of financial and investment knowledge to ethical issues. The basis of the questionnaire was an inquiry carried out in 2015, during which 2,675 respondents shared their thoughts. That research had been preceded by a focus group survey, and then the final structure of the questionnaire unfolded in the course of deep interviews. The experiences and results of the research from 2015 set the ground for the extended – on a number of points – and amended questionnaire of 2016, which had also been preceded by a focus group survey where individuals belonging to different segments were asked via 9 questions on the previously listed topics. 3,736 people participated in the present research.

Among the questions there were multiple choice questions and rating scales as well. The questionnaire was filled mainly by people from Budapest and the region of Central Hungary, and mainly by the younger age groups, because the declared objective of this research was to chart the financial opinions and attitudes of the Y generation. The inquiry was made in writing, and the respondents filled the questionnaire anonymously and in electronic form. It was only compulsory to give their gender, highest education and date of birth as future segmentation features. The received sample of 3,376 people is not representative, but provides for the possibility of establishing a representative research at a later time. The questionnaire's results introduced in this study were assessed with the help of the SPSS 19.0 and MS Excel 2010 programmes. The composition of the respondents is illustrated in the table below:

Table 1.: The composition of the sample

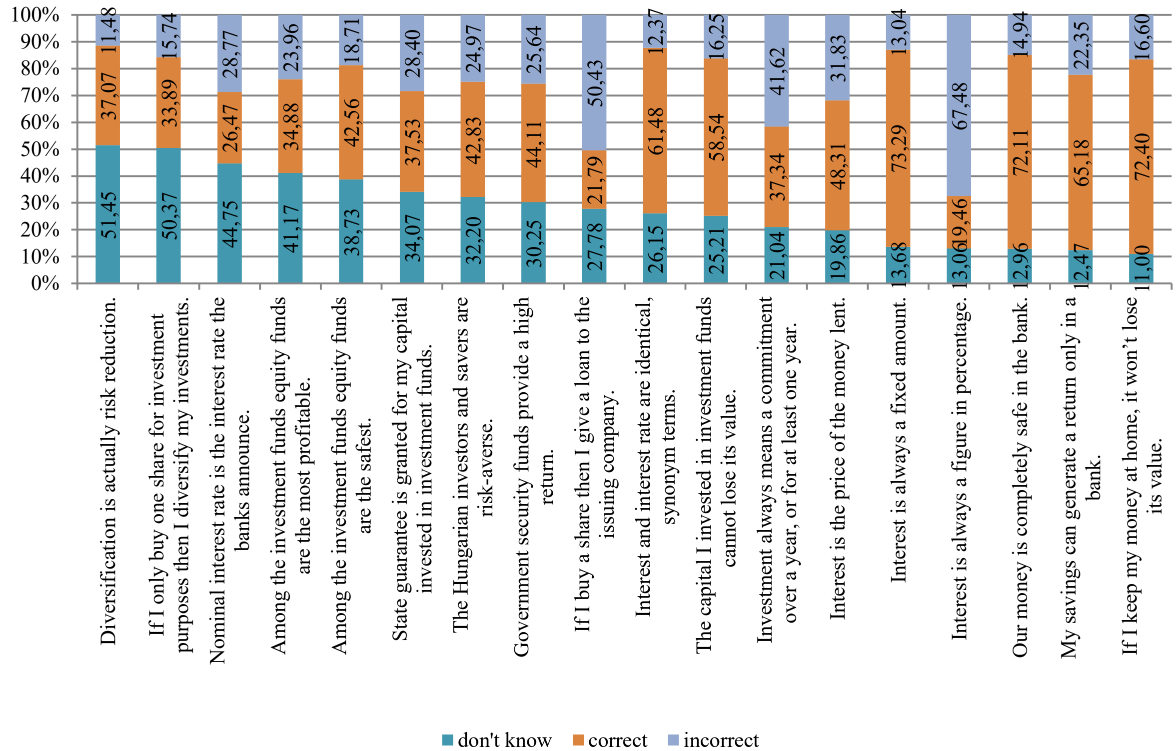
Male	47 %
Female	53 %
1946-1964	8 %
1965-1980	16 %
1981-1999	74 %
After 2000	2 %
Primary	8 %
Secondary	60 %
Tertiary - BA	24 %
Tertiary - MA	8 %

Source: own research, 2016, N = 3736

3. Results

In the part of the above mentioned research introduced in this study we asked the respondents to judge the correctness of the drafted 18 statements regarding investments and savings. The respondents had three options, as they had to decide whether the statement was correct or incorrect, and in case they could not make up their mind they also had a chance to say they didn't know. The statements concerned the diversity of investments as well as placing the money into investment funds, the essence of the interests, the time value of money and the forms of savings. The percentage breakdown of the given answers is shown on the diagram below.

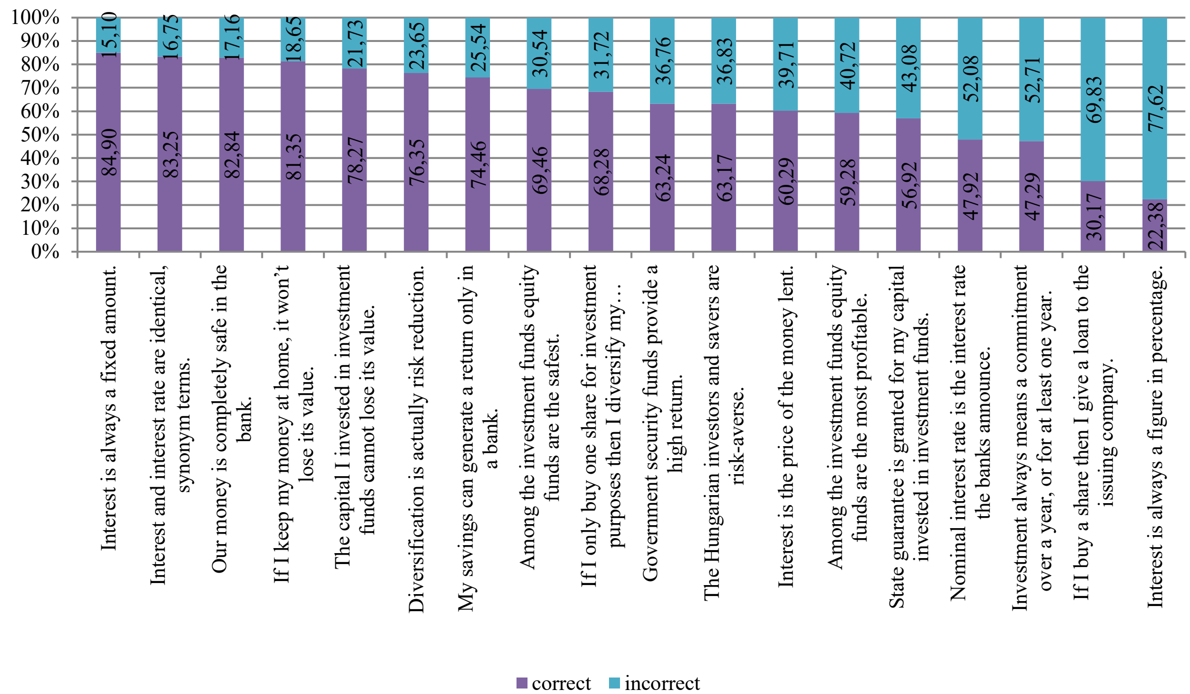
Figure 2.: Assessment of the correctness of the statements about investments and savings



Source: own research, 2016, N = 3736

On the basis of the diagram it can be considered that the respondents are not aware of the definition of diversification, nor of its practical operation. Proportionally these two statements had the highest number of respondents who could not decide the correctness of the claims. Unfortunately a high percentage of the respondents are not familiar with the definition of nominal interest rate either, and therefore they are unable to properly interpret the significance of the real, nominal or even the effective interest rates and the difference between them. Today investment funds are more and more popular, so it would be expected from the respondents to have a clear picture of the definition and operation of the investment funds. In spite of this, one-third of the respondents could not make their minds up with regard to the state guarantee for the money placed in investment funds, but they were uncertain about the assessment of equity funds as well. A substantial part of the respondents is aware of the savings and the time value of money. The proportion of the respondents who could not interpret the interest and the related terms was only around 10% within the whole sample, but problems already occurred in accordance with the assessment of the correctness of the statements. Hereinafter the correctness of the statements will be analysed after excluding the answers 'I don't know', as the below graph shows.

Figure 3.: Assessment of the correctness of the statements about investments and savings after filtering out the answers 'I don't know'



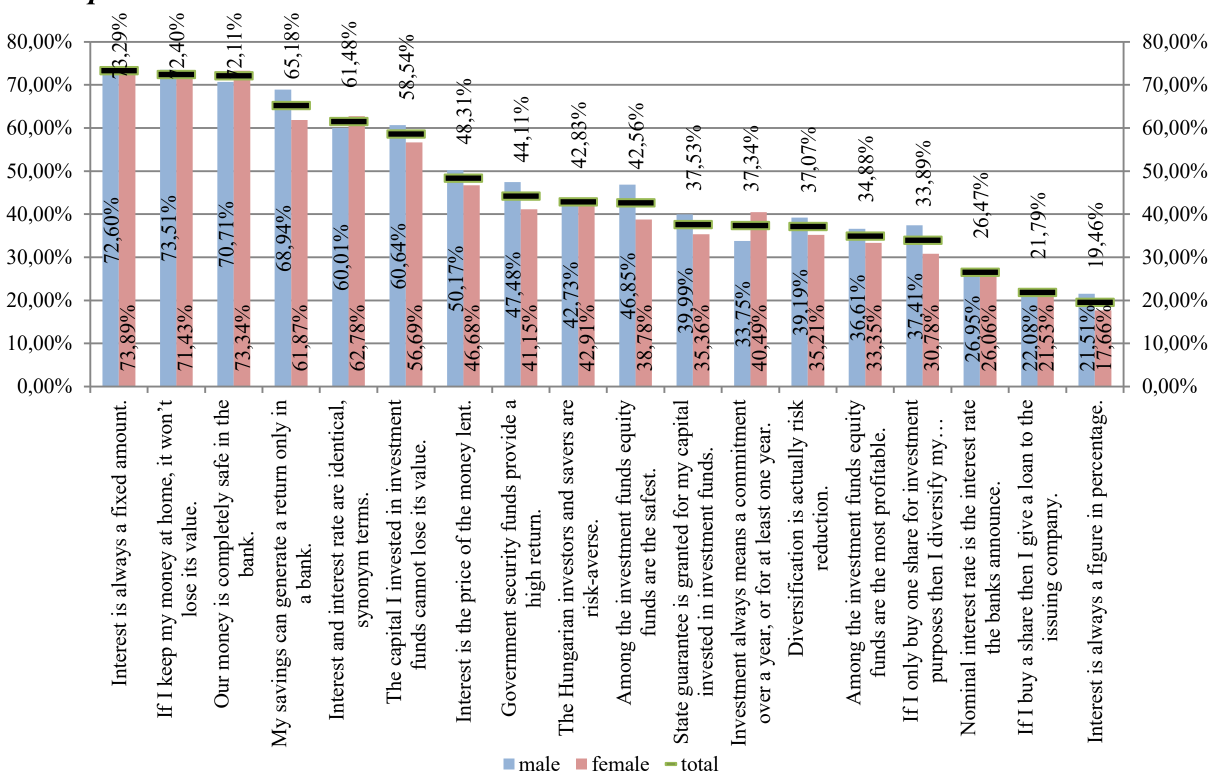
Source: own research, 2016, N = 3736

Based on the graph it can be stated that the respondents generally know what interest means, they know that the interest is not always a fixed figure, and they also fully comprehend that the interest and the interest rate are not identical. Contrary to this, they don't know what the difference is between the interest and the interest rate, because only 22.38% of the respondents gave the right answer to this. They also understand well that the money is not safe in the bank, and they were correct about keeping the money at home too. However, it has to be noted that the more the questions turned towards the investment opportunities, the lesser the rate of the correctness became. The answers were divided regarding the definition of diversification, and the respondents were less and less able to interpret how government securities and investment funds as potential investment options worked. Sadly, it can be established that their basic investment knowledge was really bad and very defective. The statements related to investments were the ones to which 'I don't know' was given as an answer on a high proportion, and the actually responding participants did not answer correctly on a large scale either. This makes it clear that the financial knowledge of the Hungarian population is extremely scarce, and it is unfortunately true in terms of the young people too.

This is definitely an area of the financial culture to develop so the Hungarian citizens, including the young generation, could be effective actors of the financial and capital markets. Education has an enormous role in this, although in addition to the educational institutions the civil organizations dealing with financial trainings play a strong part as well. It would be advisable to extend the scope of the investment knowledge through the simplification of the stock of knowledge and through making it to be more targeted. The channels in the Community and the often visited news sites that are able to simply and briefly draw attention to these investment opportunities provide an excellent platform for this. Such sites and writings are available today too, but they are being mentioned on portals that do not have the main focus. Websites or posts would be more effective where the information concerning the new investment opportunities would be illustrated visually and clearly via pictures and diagrams.

Further in this study we will examine how the correct and incorrect answers evolved by the gender of the respondents. The results are shown on the below graph.

Figure 4.: Proportion of the correct statements about investments and savings by the gender of the respondents



Source: own research, 2016, N = 3736

It can be established that in connection with all the drafted statements men gave more correct answers comparatively. The female respondents gave more correct answers rather about the everyday finances. They were the ones who interpreted adequately the statements related to the interest and the everyday finances at a higher rate. Of the 18 statements in total, women were able to give a correct answer at a higher proportion in only five cases, while in terms of the remaining 13 statements men had the majority of the correct answers. This can partially be explained by the fact that men are working in financial positions at a greater percentage, they are more open towards the financial and capital markets, and they are more interested about the daily happenings of the economic world. The information implied by the diagram confirms again that the development of financial knowledge and financial consciousness is indeed necessary. Since the educational system provides equal chances for everyone, the education, namely the primary and secondary institutions, is what is capable of proportionally polishing the previously introduced picture. Overall, the percentage of the correct answers given by men was 47.29%, whereas according to the results of the survey it was only 45% in the case of women.

Finally, we wanted to examine whether there was some sort of statistically justified connection between the correct interpretation of the statements and the gender of the respondents. For this we used the Pearson's Chi-square values. If this value is below 0.05 then we can say there is a statistically justified connection between the above two factors. It can be stated on the basis of the research that such relationship does exist at the majority of the statements. This was detected in 13 cases. Interestingly the statistically justified connection can mostly be seen by the statements regarding the deeper knowledge, and there is no link between the gender of the respondents and the assessment of the statements' correctness in respect of the everyday issues. This means that the respondents interpreted the simpler statements relatively correctly regardless of their gender. These recently shown facts are the ones that expose the inner anomaly of the financial culture. Attention must be paid to the financial information and financial background knowledge being improved uniformly among both men and women. Today's modern world demands financial consciousness at all levels, in every era, irrespective of age, gender or even level of education.

Table 2.: Pearson's Chi-square values in terms of the assessment of the statements and the gender of the respondents

Diversification is actually risk reduction.	0,0021
If I only buy one share for investment purposes then I diversify my investments.	0,0001
If I buy a share then I give a loan to the issuing company.	0,0062
State guarantee is granted for my capital invested in investment funds.	0,0136
The capital I invested in investment funds cannot lose its value.	0,0076
Among the investment funds equity funds are the safest.	0,0000
Among the investment funds equity funds are the most profitable.	0,0017
The Hungarian investors and savers are risk-averse.	0,2418
Government security funds provide a high return.	0,0005
Nominal interest rate is the interest rate the banks announce.	0,4434
Interest and interest rate are identical, synonym terms.	0,1390
Interest is always a fixed amount.	0,0104
Our money is completely safe in the bank.	0,1639
If I keep my money at home, it won't lose its value.	0,0000
Interest is always a figure in percentage.	0,0000
My savings can generate a return only in a bank.	0,0000
Investment always means a commitment over a year, or for at least one year.	0,0000
Interest is the price of the money lent.	0,0762

Source: own research, 2016, N = 3736

4. Summary

Based on the above it can be established that the development of the financial culture is one of the biggest challenges these days. As the international surveys also confirmed, in our region the financial knowledge and financial consciousness are way below the expected level. The reason for this is that our educational system is still not prepared to be able to pass the knowledge base necessary and useful in the financial world, without which we cannot be effective participants of the financial and capital markets. The deficiencies in financial knowledge are principally manifested in the everyday finances, in the field of investments and savings.

Due to the deficient knowledge base we are unable to have a substantive participation on the financial markets, which results in dependence on banks and in the dominance of certain forms of investments and savings. In the possession of an adequate financial knowledge we can become more confident actors of the financial markets, and it can lead to more efficient and more effective participation. If we know the financial markets and we are able to translate the information coming from there, then we will be able to quickly make the changes too that guarantee the safety of our investments. It is well-know of the Hungarian households and enterprises that they are risk-averse. This risk-averse behaviour exists because of the lack of confidence, and it is further enhanced by the lack of financial knowledge. The challenge of the future is to help overcome this deficiency in order to Hungary and the entire Central-European region would be able to connect to the bloodstream of the financial world with all their might and knowledge.

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