

A Multidisciplinary Approach to Financial Culture*

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Levente Kovács – Elemér Terták:

Financial Literacy

Panacea or placebo? A Central European Perspective

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Having read the recently published book of Levente Kovács and Elemér Terták cover to cover, it was my first impression that economics, especially its subdivision on financial culture, affects an extremely large number of different disciplines, and is thus a really multi-disciplinary topic. When exploring the perspective of financial culture, the two authors deal not only with economics, but also with history, jurisprudence, sociology, social psychology and pedagogy. All this diversity is certainly not unjustified, and gives a special value to the book.

The authors point it out that the global interconnection of the financial markets, the constant appearance of increasingly sophisticated financial products and the resultant risks pose new challenges all the time for every participant, at individual, institutional, social and even at global level. Making optimal individual and family financial decisions requires appropriate financial skills and motivation. Those who have adequate financial knowledge are expected to respond better to financial shocks. It is one of the features of this work that it analyses its subject matter from several aspects, and so the global financial markets and actors, the relations between banks and their customers, the media as the main driving force of social attitudes and education and research, as areas of intervention, are given an important role. This does not come as a surprise, since the authors are not only scientific researchers and instructors, but also important persons in the domestic financial sector: Levente Kovács is Secretary-General of the Hungarian Banking Association, a university lecturer with habilitation, while Elemér Terták is an economist, author of several works, chief executive officer of Hitelgarancia Zrt. and former administrative state secretary of the Ministry of Finance.

* The views expressed in this paper are those of the author(s) and do not necessarily reflect the official view of the Magyar Nemzeti Bank.

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The introduction to this volume is a kind of exposition of the problem, which calls attention to the exposure of the “man of the street”, influenced by messages of the media and their own – often unsubstantiated – desires and fears. The authors demonstrate that average citizens without appropriate skills usually make their financial decisions not at the appropriate pace, which means that they benefit too little from an upturn and take more than their share of the disadvantages of a decline. The authors make it clear that it is necessary to develop financial culture, in order to enable the general public to become connected to financial services in the appropriate manner and to the appropriate extent, and in the introduction already they take a stand for the inclusion of the education of financial culture in school curricula.

In the following chapter the authors review the concept of financial culture and the opportunities for its dissemination. The presentation contains both an historical and an international outlook. In Hungary, the distinction of the level of financial culture is an entirely novel approach by nation, culture and even subculture: *“it is impossible to make an international comparison of financial culture and skills, since different types of skills are necessary for the management of financial challenges based on the level of development of the economy and the traditions of the financial intermediary system”*. At the same time, they treat as an axiom the statement that the higher the financial culture in a society, the higher the level of available savings is in the country, since the financial culture of the general public also contributes to the stability of the financial system. When writing this review, it is raised on several points that the statements formulated in the book deserve being explored by research (this applies to the above statement as well).

The authors treat the perception of the banking sector as one of the most delicate issues. They provide an historical overview on the role of money and on how the perception of interest-taking has changed in various eras and by various religions. This is one of the most exciting, most interesting parts of the book. The authors claim that the negative perception of banks is rooted in cultural history and religion, which is only further compounded by the distorting effect of the media. The impact of social level communication (the media, advertisements and political communication) on financial culture, and within that, financial skills, attitudes and behaviour is a matter worthy of research.

The next chapter of the book presents the range of financial skills the lack of which could generate – in the opinion of the authors – social exclusion, consumer dissatisfaction or financial losses. The book presents a case for the education of financial skills at such a level that is capable of adapting to the constantly changing technical environment. At the same time, it is quite stringent when it claims that *“... the faculty and the educational administration are not prepared for this challenge, and even their relevant motivation is quite low”*. In respect of financial attitudes, we

see quite an emotional approach to prejudices against banks, which is explained, in addition to the deficiencies in financial skills and the effects of the media, by stating (and rightly so) that self-justification is a natural human reaction. We can observe this behaviour, for example, when the general public blame their sustained losses on the banks, as an external justification. This applies even more when the political sector holds the banks accountable for losses sustained at the level of society (which is only partially justified). The authors point out sharply that this phenomenon disrupts the assumption of responsibility for financial decisions, the propensity to repay loans and contractual discipline. All of this causes severe economic and moral damages, both at social and individual level.

The part that presents the specific nature and behaviour of banks is especially interesting. The authors emphasise that banks have an inherent inclination to operate in such a manner that they fill up the space available for them so to say, and without appropriate regulation this reinforces cyclical impacts that can be only and exclusively mitigated by regulatory and supervisory means. This is followed by an analysis of the issue of the state as a regulatory authority and a market actor, which could be important study material for every decision-maker. Considering the professional history and experiences of the authors, the following statements should be taken seriously: *“...although the sector of credit institutions is not fond of regulations, it does need them as a limiting activity, and also requires them as a potential, legitimate means of enforcement of contractual discipline”*.

In the following part, the book presents research findings of determining significance concerning financial culture. The reviewer feels honoured that in four of the eight scientific research projects highlighted and presented in detail in the book he was the leader of the working group performing the research. These were the international longitudinal research conducted with the support of the Financial Compass Foundation and based on the OECD methodology, and research conducted based on a financial personality test, which is unique in Hungary. The State Audit Court is also included in the selection with two research projects. One study analyses the financial culture of students of higher education, the other the financial culture developments introduced in extra-curricular education in Hungary. Research by Econvecio spanning several years affects a wide group of secondary school students. The survey of the Student Loan Centre was focused on the vision of the future of career starters, while the researchers of the University of Miskolc compared the financial skills of students of economy to those of other students. Deloitte prepared a scientific analysis on the financial habits of Hungarian households. The description of the surveys complies with the scientific standards, but its style is still highly accessible and easy to follow. In summary, the results of the research imply that in Hungary the level of financial skills can be considered average in international comparison, however, the practical application of the skills

in the area of financial attitudes still shows a significant backlog. This measure of financial awareness is related to income and life position, social and economic relations, personal attitudes and personality. In addition, socialisation also plays an important role. However, the role of education-training is still not implemented properly or at all in several cases. It follows from the above that the authors stress the role of training and education, highlighting the need to develop the skills and competencies of our time in a practice-oriented manner.

Related to the development of financial culture, the volume presents the events and significance of Money7 in more detail. On the initiative of the Hungarian Banking Association, for the first time our country joined in 2015 this event happening simultaneously in some 30 countries all over Europe. Today the number of cooperating partners has increased to five, and thus in addition to the founder Banking Association and the Financial Compass Foundation, the Ministry of Human Capacities, the Ministry of National Economy and Junior Achievement Hungary Foundation also take their share of the financial education of the generation of the future. This initiative, which is extremely popular in Hungary, offers several professional programmes for schools. In 2017, a huge level of interest was shown all over the country for this series of events which was renewed in several respects: over 1,000 schools registered, and the number of students who participated in over 10,000 school lessons exceeded 150,000. As a result of the successes of the initiative, financial awareness and management were incorporated in the regime of the academic year as a thematic week.

Finally, the volume warns that the modern technical environment and the rapid spread of digitalisation impose a constant challenge both for the individuals and for financial education.

This book is downloadable for free from the website of the Hungarian Banking Association.