



THE ROLE OF BANKS IN BULGARIA IN INCREASING FINANCIAL LITERACY

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Abstract: *The paper investigates the implementation of a national strategy for increasing financial literacy in Bulgaria and the types of activities performed by the financial sector contributing to financial literacy. Some key elements of the financial literacy strategy are discussed in the paper as well as the role of the financial sector for the realization of the goals of the national strategy. The paper stresses on the role of the banking sector and the types of activities it performs for increasing the financial literacy. The paper argues that despite the number of activities performed by the financial sector the necessity of creating a national strategy is inevitable as it guarantees the involvement of the different social groups, coverage of large scope of topics and sustainability on a long-term basis.*

Keywords: *financial literacy, national strategy for financial literacy, financial sector, financial products and services, banks*

JEL: *G21, G51, D18*

Due to its significant social impact the financial crisis put on the agenda for the policy makers the topic of financial literacy, the necessity to increase consumer protection and the needs to create or reconsider the existing national strategies for increasing financial literacy with measurable results. The Covid-19 pandemic re-confirmed the necessity for increasing financial literacy due to the active digitalization as well as the creation of proper financial behavior. Financial literacy depends on financial knowledge, financial behavior and the attitude of consumers to financial issues. Increasing consumers' financial literacy in a certain country is a long-term process requiring a lot of resources, e.g. monetary, educational, human as well as the involvement of the state authorities, institutions, financial intermediaries and consumers willing to increase their knowledge and change their attitude to financial products and services. This is a challenging and controversial task in times of quick changes in the financial world and the high speed of digitalization.

Increasing financial literacy in the society is a responsible task – it should be realized through the creation of a long-term national strategy, changes in education, proper definition of the needs of the different social groups and targeting tailor-made programs towards each group. A key prerequisite for the success of the national strategy for financial literacy is the involvement of state authorities at different levels as well as the financial sector itself.

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The definition of financial literacy is broad and complex. It involves financial knowledge, skills, attitudes and behavior leading to sustainable decisions that contribute to increasing personal welfare. Financial literacy is an individual knowledge and skills. It is associated with financial education but financial education is a narrower concept despite being a leading one when defining financial literacy. It involves the process through which consumers improve their understanding of financial products and services and the related risks through acquiring information about them; thus, making consumers able to make effective decisions and take actions leading to improving their financial welfare. Financial inclusion is another concept related with financial literacy meaning a wide range of regulated financial products and services used by all social groups. Financial welfare is determined by the individual perception of own financial state, financial limitations, financial satisfaction and overindebtedness. Financial resilience describes the ability of the consumer to resist the negative effects of unexpected economic and financial crisis and shock. All these key terms should be properly defined and taken into consideration when developing a national strategy for financial literacy as a prerequisite for achieving measurable results from its implementation.

Lusardi & Mitchel (2011) prove that financial illiteracy is widespread in both well-developed and rapidly changing markets as women are less financially literate than men and young people and the old ones have a lower level of financial literacy than the middle-aged people. Stolper & Walter (2017) make a survey and provide evidence with respect to the effectiveness of the programs on financial education proving to be rather disappointing. Van Rooij, Lusardi & Allesie (2011) prove that people with low financial literacy are significantly less likely to invest in stock. Krechovská (2015) argues that it is necessary to increase financial literacy especially among young people who will shape the economy in the future and that nowadays, financial education becomes a lifelong process.

The paper argues that despite the number of activities performed by the financial sector the necessity of a national strategy is inevitable to guarantee the involvement of the different social groups, large scope of topics and sustainability of realization the aim of increasing the financial literacy on a long-term basis. Due to the universal type of banking in the country the major role of the banking sector for the realization of a national strategy is indisputable also taking into consideration the long experience it has in increasing the financial literacy through different projects that have been realized by the banks.

Where does Bulgaria stand in the field of financial literacy: Since 2021 Bulgaria has its National Strategy for Financial Literacy accompanied by a plan for its implementation. The country is quite lacking behind other European countries that implemented such strategies earlier. The implementation of the strategy involves not only state intuitions and organizations but also sectoral organizations representing the financial sector in the country.



In brief, the main aim of the National Strategy is to increase the knowledge of consumers for the management of personal finance, financial control and risk management; thus, leading to the creation of financial stability and abilities for financial planning on medium and long-term basis. The strategy outlines four priorities as the development of a framework for competencies in the field of financial literacy, content development and free of charge access to educational and information resources through different channels, incl. digitalization, increasing financial literacy of pupils and students and stimulating the inclusion of vulnerable groups in the financial sector. Annual reporting is foreseen to be performed to the Council of Ministers by the Ministry of Finance on the development of the priorities set in the National Strategy. On the basis of the published reports it can be concluded that the main challenges for the strategy implementation are related with the increase of financial literacy of pupils and students which starts from very low levels, the long horizon for the young people and digitalization (e.g. the digital banking is the new normal for the young people today) as well as the vulnerable groups which are rather inhomogeneous as different needs for increasing their financial literacy are detected (MF, 2022, 2023).

Considering the level of financial literacy Bulgaria ranks around the middle among other countries according to the OECD report (OECD, 2020) - 58,5 at average level of 60,5 (the report evaluates three elements of financial literacy - financial knowledge, financial behavior and attitude to finance)². Considering the statistics provided in the report it can be concluded that Bulgaria is below the levels for the OECD countries except the element financial behavior where the country is scored at 59,3 (the average level for OECD is 59,2). These unfavorable results are due to the late start for the creation of a national policy for increasing financial literacy, despite the existing number of initiatives and activities performed by the NGOs and the financial sector.

The first initiative to put financial literacy at national level was in 2013 when a coordination mechanism for financial literacy issues was created at ministry level and the first draft for national financial literacy strategy was created. However, it was not realized. The initiative for creating financial literacy was restarted in 2019 at state level when an intra-institutional working group was created which included representatives of different ministries with the leading role of the Ministry of Finance and representatives of the organizations from the financial sector. The result of the activities of this group was the creation of national strategy in 2021 setting the priorities and target groups as well as the description of a detailed plan for its realization. In the National Strategy a thorough monitoring of the implementation and realization of the strategy is foreseen which indicates the serious involvement of the different stakeholders. It should be also noted that the creation of the intra-institutional working group and the development of the

² According to the OECD methodology financial literacy includes three main elements – financial knowledge, financial behavior and financial attitude.



document National Strategy for Financial Literacy came as a result of the realization of a project under a joint project between the Ministry of Finance in Bulgaria and the Ministry of Finance in the Netherland and the OECD (MF, 2021). In the middle of 2023 Bulgaria adopted Framework for financial literacy for Financial Literacy for Adults following the framework of OECD and including four main competences as money and transactions, planning and management of personal finance, risk and profit and financial environment. Each competence is measured in three dimensions as information, knowledge and understanding; skills and behavior; and confidence, motivation and attitude (MF, 2023). The same approach is followed in the OECD/EC financial competence framework for children and youth in the European Union (OECD/EC, 2023).

Where does the financial sector in Bulgaria stand in the field of financial literacy: Considering different surveys (World Bank, 2010, OECD, 2020) in the field of financial literacy it can be concluded that the perception of financial literacy is very low among the Bulgarian citizens together with the poor knowledge of financial products and services and consumers rights as well as the negative reputation of the financial sector. Normally, the lowest levels of financial literacy are associated with the young people, pensioners, low income and marginalized groups and people living in small communities. It should be noted that due to being the poorest country in the EU the majority of the Bulgarians are hardly able to accumulate savings, therefore they hardly look for such opportunities³. Another thing is the historical peculiarities as Bulgaria has been for almost a half century a country with a planned economy and the population was traditionally lacking market initiatives and knowledge. Due to historical reasons the Bulgarian population is oriented naturally towards the banks as main financial intermediaries to provide different financial services. Deposits and property investments are seen from the majority of the Bulgarians as main investment opportunities. It should be also noted the level of reputation of the financial sector in the country which is rather low starting from the financial pyramids in the beginning of the 90s, going through huge banks' failures in 1996-1997 where almost 25% of the Bulgarian banks collapsed, the global financial crisis of 2008-2009 which brought back the fears for financial turbulence again despite the fact that the financial sector was not severely hit and no failures of financial intermediaries were registered then and the failure of the fourth largest bank in the country in 2014.

The financial sector unconditionally considers the importance of the financial literacy, especially for consumers of financial services and financial products. The financial sector believes that the high level of financial literacy provides adequate and satisfied customers of financial products and services and stimulates financial institutions to develop innovative and qualified products and services responding to

³ According to Eurostat data GDP per capita for 2022 in Bulgaria 41% below the EU average level.



the personal needs. To have customers with high levels of financial literacy is a must today due to the increasing number and complexity of financial products and services, the rapid development of the financial sector, the increasing levels of digitalization and the different types of crises (political, social, health, etc.) that tend to appear nowadays. The high level of financial literacy is a prerequisite for increasing financial resilience of consumers making them able to adapt better to the unforeseen shocks and incidents as well as to the risks and challenges associated with these negative changes.

The high level of financial literacy is very important for the financial sector not only as a key provider of financial products and services but also as an employer of specialists with proper level of financial education. The financial sector in Bulgaria tends to involve a lot of efforts for increasing financial literacy of its customers providing budgets for financial initiatives on a regular basis. Increasing financial literacy is a part of the social responsibility and corporate strategy of many financial institutions. Despite the long-term lack of national policy for increasing financial literacy in Bulgaria joint initiatives in the financial sector were created as one such example was the initiative for improving financial education for school students realized in 2017 together with the leading financial associations. In fact, this project reveals the concept of the financial sector for increasing financial literacy in the country that it should go through implementing financial education on a regular basis in school programs involving the efforts of the Ministry of education by providing the necessary changes in school curricula and educational resources and the financial sector itself. The implementation of financial education in the school curricula as a part of the regular curricula is highly effective guaranteeing results on a large scale and on a long-term basis⁴. The positive thing is that this aspect of increasing financial literacy is incorporated in the national strategy and measures as analyses of the school's curricula are foreseen to be undertaken as well as the development of educational platforms and resources and preparation of teachers with respective qualifications. University education should also incorporate financial literacy in its curricula as currently, each young person regardless the type of his/her major should take important financial decisions and responsibilities which may determine the future welfare.

Financial literacy, financial supervision and financial regulation are the elements of consumers' protection of financial services. The financial sector is one of the most regulated economic sectors worldwide, including Bulgaria. Financial regulation aims at providing harmonized rules for the activities of financial institutions in

⁴ According to the Action Plan (2021-2025) to the National Strategy for Financial Literacy topics related to financial literacy have been developed as a part of the material included in different school subjects but as a separate subject Financial Literacy has not been developed, neither planned to be included in the school curricula. There are some considerations for including Financial Literacy as a facultative (elective) subject at high schools. Currently, at economic universities curricula have been developed including basic knowledge in the field of finance and financial literacy. That subject is also envisaged to be facultative (elective).

terms of capital stability, providing financial products and services appropriate for the different types of clients according to their risk profiles, thus maintaining the stability of the financial market and contributing to the economic development. Some specialized legal framework even requires banks and investment intermediaries to provide information to the client, thus increasing his/her financial literacy, e.g. the requirement for precontractual information before concluding an agreement for consumer credit where according to Art. 6 in the Law on Consumer Credit the lender should provide appropriate explanations allowing the consumers estimate how far the credit agreement suits to their needs and financial state. Another example is the Ordinance №38 of FSC on the activities of investment intermediaries that requires certain levels of financial knowledge by the employees offering financial products. Thus, it is guaranteed that the people offering financial products to consumers have the proper financial education and knowledge to explain clearly the characteristics of those products, not misleading the clients about their riskiness and profitability⁵. Other financial institution, e.g. the deposit insurance fund and the investor compensation fund provide detailed information and lead campaigns and initiatives explaining and clarifying the protection that is provided by the financial safety net in the country⁶. Additionally, examples can be given regarding the legal requirements for providing certain products in order to guarantee financial inclusion, e.g. the requirement in the Law on Payment Services and Payment Systems (LPSPS) for offering a basic bank account by the banks operating on the territory of Bulgaria. Art.118 of the LPSPS sets the types of operations that could be performed through that account as well as rights for opening such an account. Payment services are basic bank services and they should be guaranteed to all consumers even the vulnerable ones e.g. low-income people, immigrants, minorities, students. Through the basic bank account, it is guaranteed that payment services are provided to those vulnerable groups.⁷

Financial sector is largely involved in the realization of the National Strategy which is a proper approach due to the practical knowledge the financial sector has for the products and services it offers and that knowledge can be transferred from the financial sector to consumers. It is planned to be involved in the strategy realization through providing mainly support for the development of a curricula for financial education, methodology, study materials, practical cases, digital platforms and resources, education of trainers, and channels for the distribution of the information regarding financial education. The financial sector is very active in promoting and

⁵ These requirements are stipulated in Art. 66 of Ordinance №38 of FSC on the activities of investments intermediaries.

⁶ The Law on Deposit Insurance and the Law on Public Offering of Securities require the bank/investment intermediaries to provide the clients information on the level of protection provided by the deposit insurance scheme and the investor compensation scheme in case of a failure of a bank/investment intermediary.

⁷ According to Art. 118-120 of LPSPS the basic bank account provides the major payment services in national currency to consumers at prices lower than the average ones for the banking sector.

increasing financial literacy as different methods for that are used, e.g. simulations for different financial products and services, creation of specialized sections in the Internet sites of financial intermediaries with educational materials, podcasts and webinars dedicated on different financial topics, development of key documents explaining capital markets, instruments traded on them and financial transactions, training of volunteers who teach at schools and universities, internships and scholars, development of specialized curricula for increasing financial literacy among students, creation of platforms, conferences, seminars, meetings. The Internet sites of the branch organizations of the financial sector also have dedicated sections on financial literacy, e.g. the Internet site of the Association of Banks in Bulgaria has a section dedicated on the main banking products and services as deposit, loan, cards, electronic banking, investments, payments and deposit guarantee. Additionally, the Internet site reflects on regular basis the information from different campaigns intending to increase financial literacy as the campaigns against cyber fraud and “financial mules”, the European money week⁸. The Association of Bulgarian Insurers has also a special section named For the Consumers which contains interactive information about insurance risks, types of insurances, basic terms used in insurance, as possibility for asking questions on different topics in the field of insurance is provided⁹.

Despite its main function as a regulator of the non-bank financial sector the FSC has also developed a special section on its Internet site dedicated to financial literacy which contains detailed information about the insurance, pension and capital market as different practical cases, financial glossary, quiz and consumer guidelines are included¹⁰. The Deposit Insurance Fund, the major part of the financial safety net in Bulgaria, has a section on its Internet site dedicated to the depositors, which includes questions and answers section explaining the activities of the deposit insurance scheme in Bulgaria as well as short videos explaining the main characteristics of the deposit insurance scheme, guaranteed amounts of deposits and payments provided in a case of a bank failure as well as a test for checking the knowledge about the deposit insurance scheme, a brochure and a glossary¹¹. Despite the large number of activities undertaken by the financial sector, including the regulator and the financial safety net, it can be concluded that the activities are directed to the general public, including young people (school and university students) and pensioners but there is a lack of initiatives targeting people with disabilities, minorities and people living in distant places and small communities lacking access to Internet. This proves the need of the creation of a national strategy with a large scope including different social groups, incl. the vulnerable ones and guaranteeing long-term results.

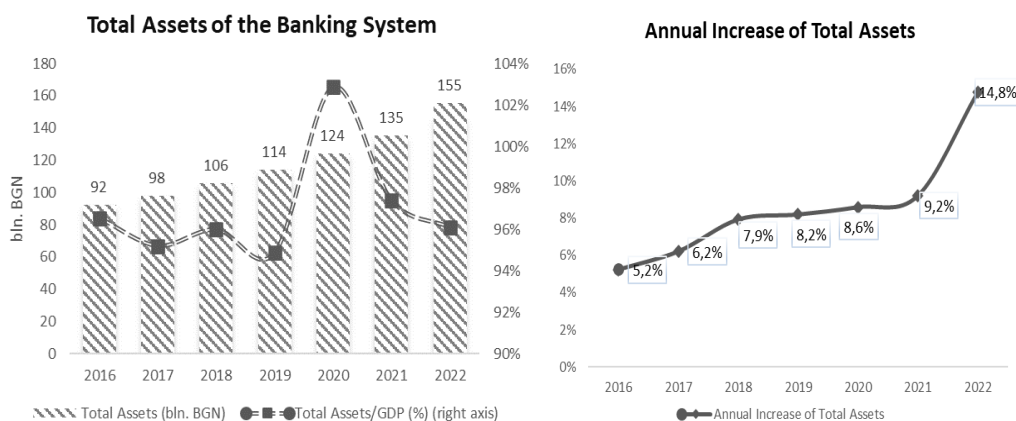
⁸ For more information see <https://abanksb.bg/>.

⁹ For more information see https://www.abz.bg/en_EN/za-potrebitelya.html.

¹⁰ For more information see <https://tvoitefinansi.bg/>.

¹¹ For more information see <https://www.dif.bg/bg/za-vlojitelite/za-vlojitelite>.

Where do the banks stand in the field of financial literacy: Banks are major financial intermediary in Bulgaria as the Bulgarian banks are universal types specialized not only in attracting deposits and granting loans but also in a number of services as defined in Art. 2 of the Law on Credit Institutions. Banks' assets, composed mainly of loans¹², tend to grow constantly. Despite the increasing interest rates loans to the non-government sector are growing reaching 78,08 bln. BGN as of the end of June 2023 which is a growth of 10,9% on an annual basis. Loans to deposits ratio is also increasing reaching the level of 75,58% as of the end June 2023 but keeping still lower that the EU average of 104,97%¹³. This indicates that deposits continue to be the basic source for lending for the Bulgarian banks and that the Bulgarian banks rely mainly on the deposit market for attracting resources for their lending operations¹⁴. The figures below show the total assets dynamics and the deposits dynamic in the Bulgarian banking system.

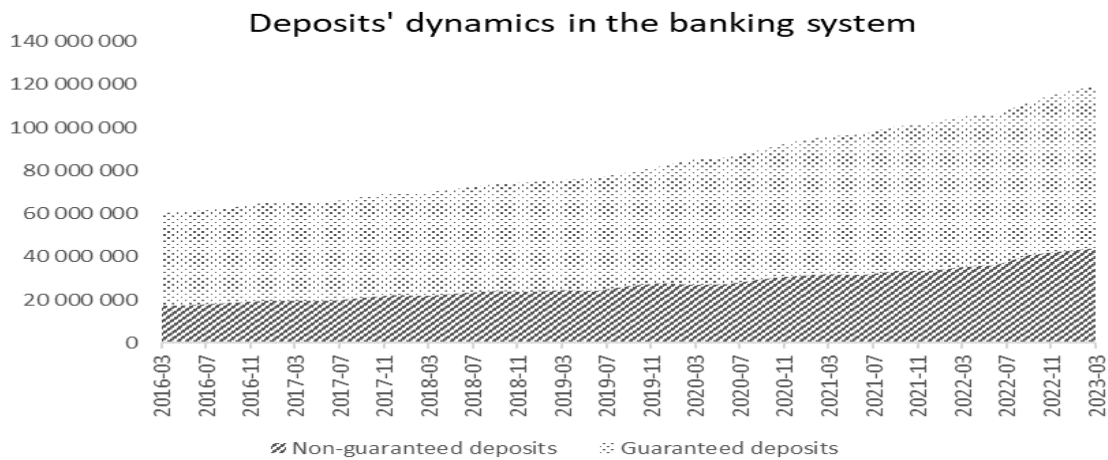


Source: BNB, own calculations

¹² According to Quarterly Report of the ABB as of the end of June 2023 65% of the assets in the banking system are in the form of advances, 15,9% in cash and 15% in securities.

¹³ This figure refers to the SSM banks and it is as of the end of March 2023.

¹⁴ As of the end of June 2023 the share of deposits in banks' liabilities reach 97% as the liabilities in the banking system tend to grow with an annual rate of 13,5%.



Source: BNB, own calculations

Banks perform different activities for increasing financial literacy that feature regularity and stability as dedicated budgets are set aside for their realization. Even during the Covid 19 pandemic the banks continued with those activities transforming their realization to the digital channels. The activities of the banks are directed to school students, professional schools and university students, young entrepreneurs. Those activities are aimed at providing knowledge about the different bank products, savings and investments possibilities, lectures on specialized topics. Except the typical bank products other topics as pensions, insurance, investment products, saving plans are discussed during the activities performed by the banks. Regarding young entrepreneurs the topics are directed towards types of financial instruments, types of risks in developing business projects, good practices for sustainable business. The activities for increasing financial literacy are realized through digital games, podcasts, quizzes and competitions, animated videos. In the last years cyber security is a key topic due to the intensive digitalization and innovations as the majority of activities are directed to fraud prevention. Vulnerable groups are also covered by the banks' activities, e.g. the annual campaigns against financial mules¹⁵ as the banks publish information materials on financial mule schemes, advice for protection and counteraction.

From an investigation¹⁶ of the information published on the Internet sites of the Bulgarian banks (mainly annual reports) it can be concluded that the banks in the first group according to the BNB Banking Supervision classification¹⁷ are more involved in

¹⁵ Financial mule is a person is a person who transfers illegally acquired funds between different bank accounts, often in different countries and receives a commission for that activity. Financial mule are usually people from vulnerable groups, e.g. unemployed, low-educated, coming from minority groups. Often these people do not understand the consequences of their actions.

¹⁶ A review on the information on banks' websites is performed by the author of this paper.

¹⁷ According to the BNB Banking Supervision classification in terms of assets banks operating on the territory of Bulgaria are divided into three groups: the first group of banks includes the top five banks in terms of assets (DSK Bank, UBB, UniCredit Bulbank, Postbank and Fibank), the second group includes the rest of the banks and the



initiatives dedicated to increasing financial literacy compared to the banks from the second group. Some of the banks in the first group have permanent campaigns developed on own dedicated pages on cyber security (information and recommendations on safe online banking), partnership with high schools and universities by providing lecturers and educational materials, providing possibilities for scholarships and internships, educational digital games with practical case studies related to investments, insurance, banking, savings, development of special products, for instance debit cards for teenagers, educational multi media, radio podcasts on financial topics including presentation of forecasts and educative information, joint projects with different NGOs aiming at increasing financial literacy among young people, dedicated monetary resources for initiatives realized by NGOs for increasing financial literacy. Banks from the second group are much more limited in the activities for increasing consumers financial literacy as their activities are mainly brought to the creation of glossaries for financial terms and different types of calculators, e.g. for loan installments, pensions, etc. What is also typical for the banks from the second group is that they use information from other sources, e.g. questions and answers developed by the Deposit insurance fund on the guarantee provided by the deposit insurance scheme, brochure from the European Commission on consumer rights when performing payments in Europe.

Conclusion: The financial sector in Bulgaria performs a number of activities targeting consumers' financial literacy. Despite the majority of those activities aim at increasing information and knowledge on products and services offered by the financial institutions, thus stimulating their usage general knowledge and information on banking, investments, savings, insurance, and pensions is provided to consumers contributing to the increase of the level of their financial literacy. The expertise from the financial sector is valuable but the implementation of a national financial literacy strategy is a prerequisite in order to achieve measurable results in increasing the financial literacy in the society. The existence of a national strategy guarantees the involvement of a wide scope of topics and target groups, esp. the vulnerable groups. The vulnerable groups require specific attitude and knowledge, specific products and services as well as serious resources to guarantee adequate results. The existence of a national strategy for financial literacy and the collaboration between the financial sector and state institutions responsible for its implementation is a prerequisite for achieving the goal for increasing the financial literacy in the society.

third group includes the branches of foreign banks operating on the territory of Bulgaria. According to the data as of the end of June 2023 in terms of assets the banks in the first group have a share of 76,2%, the banks in the second group – 20,9% and the banks in the third group – 2,9%.



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