THE STUDY OF THE FINANCIAL CAPABILITY OF POPULATION IN ARMENIA 2019

EXECUTIVE SUMMARY
PREPARED BY
EV CONSULTING CJSC

March 2020
Yerevan, Armenia

THE STUDY OF THE FINANCIAL CAPABILITY OF POPULATION IN ARMENIA 2019

Executive Summary

Prepared by EV Consulting CJSC

FOREWORD

Dear Reader,

The Central Bank of Armenia (CBA) is committed to the continuous improvement of the financial literacy level in Armenia for financial stability in the country and the economic well-being of our citizens.

Financial education is a complex and permanent process that yields tangible results in the long run.

Given the strategic importance of financial education, in 2012, we formed a Steering Committee for the development and implementation of the National Strategy for Financial Education, comprised of the CBA, the Government of Armenia, and private as well as non-governmental sectors. The Government of Armenia approved the strategy developed by the Committee in 2014.

The Strategy envisages carrying out nationwide surveys every five years to assess the population's financial literacy and review the results of undertakings in order to increase their effectiveness and focus.

This Financial Capability Survey is the second one conducted, and its findings will be extremely useful, particularly in the review process of the said Strategy and the participatory elaboration of its new Action Plan for 2020-2024.
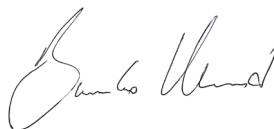
On behalf of the CBA, I would like to express our appreciation to the Savings Banks Foundation for International Cooperation for their invaluable contribution to the success of our joint initiatives over the years, as well as to EV Consulting and CRRC-Armenia for conducting the study and aiding in gauging the impact of our work.

Armenak Darbinyan
CBA Board Member

Dear Readers,

The Sparkassenstiftung für Internationale Kooperation (Savings Banks Foundation for International Cooperation, SBFIC) is a benevolent development agency acting in the sphere of financial systems development worldwide. SBFIC was commissioned by the German Government to implement a regional programme in the South Caucasus, supporting the proliferation of responsible and inclusive financial services. The Financial Capability Barometer Survey 2019 is an important measuring milestone to assess the impact of the cooperation between the Central Bank of Armenia and SBFIC on the implementation of the five-year National Financial Education Strategy (NFES 2014-2019) action plan. SBFIC wants to thank the Central Bank - and Armenuhi Mkrtchyan and her team of the Centre for Consumer Protection and Financial Education in particular - for the constructive and results-oriented work on our joint projects and the Financial Capability Barometer Survey 2019, especially. Our gratitude also extends to EV Consulting and CRRC-Armenia, who were commissioned by SBFIC to revise the methodology, conduct the survey with a nation-wide representative sample and to provide the report at hand. SBFIC hopes and assumes that the findings and recommendations of this report will be integrated into the revised, new five-year NFES action plan for 2020-2024. We are looking forward to continued excellent cooperation.

Branko Wehnert
Country Representative SBFIC Armenia

PREFACE

Financial education is increasingly becoming more essential for the general public – a trend that is combined with higher complexity and diversity of existing financial instruments. People are required to be financially literate to manage their personal finances or even balance the family budget. The growing sophistication of financial markets increases the quantity of decisions people have to make on a daily basis, from choosing the right investment or savings plan to learning about potential financial fraud cases and bad financial deals. Economic development leads to the higher share of complex financial services in the market and an increased pace of changes, which is sometimes more than most consumers are able to digest. This is the reason that the increase of financial literacy amongst the general public has become so important for governments and central banks worldwide.

A financially literate person has the knowledge, skills, and culture in order to make responsible decisions on personal finance and undertake proper actions to deal with a situation.[1] Financial literacy improvement in the country is essential to handle the market expansion of complex financial services and economic development as well as changes. It is also important for emerging from poverty and improving welfare.

In recent years, the availability of "fast" and "easy" loans, where the requirement is to present a person's passport information without the need for pledge requirements, have been booming in Armenia. Such alluring offerings, which are considered "free" or accessible finance options to accommodate limited budgets, easily trap people. Financial literacy and education are essential in order to reduce and mitigate

---

1   As defined by the National Financial Education Strategy of the Republic of Armenia adopted in 2014.

the risks as well as to make informed decisions for managing savings and investments by utilizing opportunities created by the development of capital markets.

Since 2010, numerous institutions in Armenia have been implementing independent programs aiming to improve financial literacy in Armenia. Since the programs were mostly carried out independently, the absence of consistency as well as duplications between the projects decreased the efficiency of such projects. On May 30, 2012, the Committee of National Strategy for Financial Education (NSFE) was established to unite all the efforts and establish intensive collaboration and cooperation between institutions involved in the financial education process in Armenia. The Committee is an interagency advisory body, and its members help ensure the effective performance of the development and implementation of the NSFE throughout Armenia.

The NSFE's main mission is to increase the financial literacy level in Armenia by incorporating financial literacy education in schools, spreading awareness about financial literacy among adults, and establishing effectively coordinated, monitored, and evaluated financial literacy projects throughout the country.

Since 2007, considering all the financial sector development challenges, the Central Bank of Armenia has prioritized the improvement of financial literacy and has initiated various projects. Armenia has participated in different financial literacy assessments conducted globally such as OECD/INFE financial literacy survey (2010) and the World Bank financial capability survey (2012). The data and the findings of those studies were used for the development of the NSFE, which was adopted in 2014.

The Financial Capability Barometer (FCB) study was conducted in 2014 at the request of the CBA in the framework of strategy development and served as a baseline assessment. The study was based on the

new FCB methodology designed by the CBA, in cooperation with the Alliance for Financial Inclusion (AFI). The main objective of the FCB is to assess the financial capabilities of Armenia's population and to monitor the effectiveness of the NSFE. This study is to be conducted every five years.

The FCB baseline survey conducted in 2014 revealed that Armenia had ample room for improvement in its financial literacy level. Based on the conducted survey results, only 18% of the population was financially literate. About 36% of the respondents took out new loans to refinance existing loans. Only 6% of the respondents held savings accounts in financial institutions, although 64% of the respondents did generally save for unexpected events.[2] This highlights the growing importance of improved financial literacy in Armenia.

Several projects have been implemented within the NSFE framework since 2014. Below are the highlights of major initiatives:

- Financial Education in Rural Areas (FERA) was launched in 2015 in cooperation with the Ministry of Territorial Administration and Infrastructure of the Republic of Armenia. The aim of the program was to improve the financial knowledge and capabilities of rural population through trainings. During 2016, 2017, and 2019 the workshops were organized in 158 rural communities of Armenia engaging 2,518 participants. Workshops in rural areas focused on seasonality, planning, and budgeting, normalized culture of debt, savings, and other financial services by contributing to improved financial literacy and education, and responsible financial decision making.

- Financial Education in Schools (FES) was launched in 2014 in

---

2 ADBI Working Paper Series, Financial Inclusion, Regulation, Financial Literacy, and Financial Education in Armenia.

collaboration with the Ministry of Education and Science of the Republic of Armenia. Based on the developed and approved financial literacy curriculum, teacher manuals and teacher training programs, the financial education topics were integrated into four subjects in primary, secondary, and high schools: Mathematics, Me and the World, Algebra, Social Sciences. The program was piloted in 14 schools during the 2017-2018 academic year. Based on the positive feedback from the pilot projects, the teacher training program was launched in 2018, engaging 2,532 teachers from 346 schools. An additional 2,419 teachers from 339 schools were reskilled in 2019 to prepare them for financial education integration in the schools. The plan is to include all schools in the country into the project by 2021. Furthermore, in 2019 the Ministry of Education and Science of the Republic of Armenia adopted the Finance Passport School Guideline for primary and secondary school levels as well as the Savings Game as official pedagogic school teaching material. These tools are accessible from the https://abcfinance.am/ online portal.

- My Finance Month (MFM) is organized annually within the framework of NSFE starting from 2013. The main focus of this initiative is on effective personal finance management. More than 35 public and private institutions are engaged each year, and more than 25 small educational projects target all groups of the country's population. The purpose of the program is to increase awareness, knowledge, and skills on financial services and on general financial literacy topics.

Besides the abovementioned projects, the CBA is always engaged in similar projects and initiatives collaborating with different institutions and partners in order to ensure the continuity of financial education projects in the country.

The second round of the FCB survey was conducted in 2019. The study aims to measure the progress made since the baseline study of 2014 and pinpoint areas that need adjustments for the next five years. Based on the results of the FCB survey, action will be taken to validate or adjust the current financial literacy programs and assure the continuous improvements of the Financial Capability Index (FC Index) in Armenia. Then the NSFE's new action plan will be developed for 2020–2024 engaging all stakeholders of the NSFE.

FINANCIAL CAPABILITY INDEX 2019 AND CHANGES COMPARED WITH 2014 AT A GLANCE

Index and Sub-Indices of Financial Capability of the Armenian Population, 2019						
Components	A. Knowledge	B. Skills	C. Attitudes	D. Behavior		Average A-C
A. Financial and Macroeconomic Concepts	**27.2%** +1.8	**70.5%** +6.9	**47.4%** +2.6	**27.1%** +3.5	**42.7%** +3.5	**48.4%** +3.8
B. Efficient Management of Personal Budget	**51.0%** -3.3	**31.4%** -3.0	**66.5%** +12.1	**53.2%** +11.6	**50.5%** +4.4	**49.6%** +1.9
C. Savings and Long-Term Planning	**31.5%** +4.0	**35.2%** -0.2	**56.2%** +13.2	**41.0%** +12.1	**41.0%** +7.3	**41.0%** +5.7
D. Efficient Debt Management	**26.2%** -3.4	**52.1%** +4.2	**51.9%** -0.3	**65.4%** -2.4	**46.2%** +1.1	**43.4%** +0.2
E. Information Collection, Comparisons, and Decision Making	**14.8%** -6.3	**77.9%** 0.0	**74.1%** +3.3	**28.2%** +5.1	**48.7%** +0.5	**55.6%** -1.0
F. Protection of Personal Rights	**29.0%** -8.3	**72.0%** +4.6	**58.7%** +1.8	**65.6%** -3.9	**56.3%** -1.4	**53.2%** -0.6
G. Safe Usage of Financial Instruments	**5.8%** -4.2	**12.6%** -0.6	**77.6%** +2.8	**71.7%** +4.6	**41.9%** +0.6	**32.0%** -0.7
	26.5% -2.8	**50.2%** +1.7	**61.8%** +5.1	**49.2%** +5.5	**FC Index** **46.8%** +2.3	**46.2%** +1.3

Thematic groups (row label, left side)

Source: FCB 2019 and 2014
Note: Changes (percentage points) are calculated against FCB 2014.

EXECUTIVE SUMMARY

The Financial Capability Index of Armenia comprised 46.8% in 2019, which puts Armenia in the Average Financial Capability group of countries.

The Financial Capability Index of 2019 increased by 2.3 percentage points compared to 2014, though this increase did not affect the position of the country within the financial capability classification groups.

Overall, the Attitude and Behavior components improved significantly compared to the 2014 study, whereas the Knowledge and Skills component did not. Improvements were particularly noticeable in the case of "Savings and Long-Term Planning" and "Efficient Management of Personal Budget" thematic groups.

Future initiatives and projects need to focus on the population's increased knowledge and skills regarding financial services and their usage, which has the largest contribution potential for widening the Financial Capability Index.

General Knowledge of Financial and Macroeconomic concepts is rather poor.

The respondents' skills related to the Financial and Macroeconomic Concepts increased significantly (by 6.9 percentage points) compared to 2014. While respondents were assessed to be quite skillful when dealing with the practical implications of the financial and macroeconomic concepts, mainly driven by intuition and personal experience, their knowledge level and, consequently, their behavior, were poor. The results show that the respondents

are comparatively more knowledgeable about the relatively simple financial tools and services.

Most respondents do not consider pawnshops, currency exchange offices, and insurance companies as financial service providers, thus the awareness level of those institutions as financial organizations is quite low. Commercial banks and credit organizations are the most well recognized financial service providers. Among insurance services, automotive insurance is the most popular, mainly because it is a mandatory requirement for vehicle owners.

The availability of online financial and banking services has reshaped the respondents' awareness about non-cash transactions. They are more actively using online services and are more inclined towards using less cash compared with 2014.

The share of financially excluded respondents[3] who don't use any financial services has reduced significantly compared to 2014, reaching 14.9%. Non-users are mostly from low-income groups and consider the usage of financial services not relevant and/or necessary.

The respondents in general showed trust towards the CBA and commercial banks, although they were not quite informed about the goals and responsibilities of those institutions. The population didn't seem to have a solid understanding of the role these institutions play related to the formation of currency exchange rates, interest rates, and inflation fluctuations.

---

3   This refers to persons who don't use any (formal) financial service.

Respondents' willingness to manage their personal budgets has increased significantly. However, they need more skills and knowledge to implement budgeting efficiently.

The sub-index of the "Efficient Management of Personal Budget" thematic group is the second highest one in the Financial Capability Sub-Indices Matrix. It increased by 4.4 percentage points in 2019 compared with 2014, reaching 50.5%. Respondents were quite enthusiastic about the personal budgeting and planning. However, the survey results showed that they generally lack appropriate skills to execute budget management efficiently. The behavior and attitude of this pillar have improved by 11.6 and 12.1 percentage points, respectively, compared with 2014.

The share of respondents who practically plan and manage their budgets has also increased significantly compared with 2014 reaching 71.6%. Only 15.2% of respondents do not engage in budgeting at all. This share is 19.8 percentage points lower compared with 2014. More than 80% of respondents efficiently plan out their personal budgeting. Another significant improvement over time is the increasing share of respondents planning their seasonal income and distributing it throughout the year.

When they have difficulty repaying their loans and borrowings, respondents mainly cut down on their expenses or identify new sources of income, rather than taking on new debt or loans to refinance current loans.

While respondents mostly consider budgeting and planning to be serious tools, the share of respondents who do not have records of their income and expenses is as high as 38%. This is 10 percentage points higher compared with the indicator of 2014.

The country's relatively high financial stability after the currency crisis of 2014/2015 undermined the population's awareness of

financial risks. While most respondents can identify the influence of interest rate, exchange rate, or inflation fluctuations on their income and expenses, very few respondents identify them as financial risks.

The respondents are aware of the insurance services offered in Armenia, which might be the result of the compulsory insurance of motor vehicles and expanding practice of corporate medical insurance for employees. In Armenia, awareness of insurance services as financial risk mitigation tools is not high.

The population considers savings and long-term planning to be important and there is a definite tendency towards higher rates of savings.

Although the "Saving and Long-Term Planning" thematic group has the lowest sub-index in the Financial Capability Sub-Indices Matrix (41.0%), it recorded the highest increase among thematic sub-indices equal to 7.3 percentage points, compared with 2014.

Respondents have improved their attitude and behavior towards saving and long-term planning activities considerably, although they lack appropriate skills and knowledge to do that efficiently as the knowledge and skills components are far from satisfactory.

Compared with 2014, more respondents started to save, and about 53% of the respondents consider saving money important or extremely important. The share of respondents with savings has increased by 17.4 percentage points, reaching 31%. Most respondents (65.5%) are saving money for a specific purpose, and the most common reason is to cover unforeseen expenses. The majority of those who don't have a specific reason to save (67% of respondents) keep their money at home, which again indicates the lack of knowledge about savings and long-term planning.

In 2019, a higher share of respondents (by about 15.8 percentage points) sets aside a portion of their income, which demonstrates the change in thinking about savings compared with 2014.

The most common investments are in business initiatives, real estate projects, and bank deposits. Only a small number of respondents mentioned pension funds as familiar saving or investment instruments. Due to relatively immature state of the financial market in Armenia, few respondents consider investment in securities as a feasible option for them.

The knowledge component of the pillar has the lowest index, and the understanding of saving instruments, diversification, risk management, interest rate calculations, and capitalization is quite poor.

Most respondents are unaware of the Deposit Guarantee Fund functions and the threshold level of the deposit guarantee in Armenia. The higher awareness level of the deposit guarantee scheme might increase their trust in savings accounts.

Considering the increasing share of respondents dealing with various credit instruments, efficient debt management is a crucial skillset for the population. Awareness about the different types and sources of debt is still low and requires improvement.

The sub-index of the "Efficient Debt Management" pillar has not changed significantly compared to 2014, whereas the share of respondents having debt has increased. Nowadays, respondents prefer formal sources of debt more than informal ones, such as friends, relatives, or acquaintances. This can be explained by the rise in formal debt products in Armenia as a result of lower interest rates or eased procedures for loan approvals at commercial banks

and credit organizations.

There is now higher awareness about consumer and mortgage loans compared with 2014, which can be explained by the intensive advertisements and promotions offered by commercial banks. The share of respondents having debt has increased by 15.3 percentage points, reaching 57% in 2019 due to the increased availability of loans and higher awareness about debt services provided by banks and credit organizations. Though the number of debt holders is increasing, debt management is quite inefficient. About 57% of respondents utilize their full borrowing capacity without accounting for their income, expenses, and personal budgeting.

Almost all respondents (around 83%) expressed negative attitudes towards borrowing more in order to refinance current debt. Cutting expenses or finding other sources of income are more preferable options for respondents to repay their debts. More than 56% of the respondents are practically implementing debt management and repayment scheduling in order to repay their debts in a timely manner. Despite the readiness to manage debt repayment and scheduling, the knowledge and skills necessary for doing that are at an average level and improvements are required.

Respondents generally consider formal sources of information and financial advisory services very important for responsible decision making.

Though the sub-index of "Information Collection, Comparison and Decision Making" did not fluctuate significantly, this pillar showed a significant decrease of 6.3 percentage points within the sub-index of the knowledge component compared with 2014.

Respondents consider themselves able to obtain all required financial information easily and within a short time. The most

popular sources of information are financial institutions, television programs, and advertisements. Online sources, including the websites of financial institutions, declined in popularity compared with 2014. Respondents consider the professional financial advice from formal sources more important. About 80% of the respondents prefer formal or mainly formal sources of information to learn about financial services.

Almost all respondents consider the collection and analysis of financial information important or extremely important before making decisions. Though the importance of obtaining financial information or professional advice is well appreciated, relatively few respondents, only 38%, are ready to pay for advisory services.

Awareness about legal and formal institutions responsible for the protection of personal/consumer rights has ample room for improvement.

"The Protection of Personal Rights" thematic group was the only one that showed a decline in the sub-index by 1.4 percentage points, which was mainly caused by the decline of the sub-index of knowledge component by 8.3 percentage points compared with 2014.

Only 47% of the respondents were aware of the institute of the Financial System Mediator. The overall awareness level of the respondents on the formal and legal ways of protecting their rights and interests decreased compared with 2014. Almost one-third of the respondents had no idea what proper steps could be taken in case their rights were violated.

For consumer rights protection, trust in the courts is the highest, while respondents trust the Arbitration Court the least. The Financial System Mediator is now the second most trusted institution for

consumer rights protection, partly due to the rise in the education level of the respondents. About one-third of the respondents generally don't read contracts before signing them, which results in more disputable cases later on. Increased awareness about the officially legal methods of consumer rights protection is necessary.

Respondents are informed about financial fraud and forgery, but they require more knowledge and skills to identify those cases more easily.

About 86% of the respondents see the necessity for being well informed about the safe usage of financial instruments, financial fraud, and forgery, and almost all respondents are aware about the possibility of those cases. They are very careful in their behavior, and about 92% of the respondents react negatively towards tempting proposals received from unfamiliar sources.

Though respondents are careful and attentive, they are not well aware of the forms of financial fraud and thus cannot identify the signs. The share of respondents having difficulties in naming forms of financial fraud has increased by 11.4 percentage points, reaching 70%.

SURVEY METHODOLOGY AND EXECUTION IN BRIEF

The Financial Capability measurement methodology was developed by the Central Bank of Armenia in cooperation with the Alliance for Financial Inclusion. In order to define a "financially literate person", the approach used in Armenia's National Strategy for Financial Education was adopted, based on which the matrix of competencies of a financially literate person was predefined.

The Financial Capabilities measurement methodology consists of four components: matrix of the competencies of the financially literate person, matrix of the sub-indices of financial literacy, the index of financial capability, and the questionnaire.

Based on the priorities set in the NSFE, the measurement of financial capabilities is carried out in seven thematic directions:

A. Financial and Macroeconomic Concepts

B. Efficient Management of Personal Budgets

C. Savings and Long-Term Planning

D. Efficient Debt Management

E. Information Collection, Comparison, and Decision Making

F. Protection of Personal Rights

G. Safe Usage of Financial Instruments

Those thematic directions were measured across the four components in terms of financial capabilities: **knowledge, skills, attitude, and behavior.**

The survey was conducted based on the sampling methodology developed within the Financial Capability Barometer study. The sampling of the survey was constructed appropriately in order to represent all groups of the Armenian population aged 18 years and older. The quadruple-stratified sampling technique was used in order to obtain statistically representative results of the general population of Armenia, which assumes the following steps: selection of survey communities, selection of interview sites, selection of households, and selection of respondents.

The sample size was 1,536 persons, which ensures a 2.5% margin of error at a confidence level of 95%.

The survey sampling was developed specifically to reflect the geographical distribution (including Yerevan and Armenia's 10 administrative regions) of the Armenian population, as well as the distribution of population by cities and villages. Although some analysis is included in the report for different groups of the population, this methodology is designed for a study of the country as a whole.

The study was commissioned by the CBA with the support of Savings Banks Foundation for International Cooperation and conducted by EV Consulting. The FCB survey was conducted during the period from October 18 to December 8, 2019, by CRRC-Armenia according to the developed methodology of the FCB. EV Consulting analyzed the survey data, calculated the FC Index, and prepared the Financial Capability Study report for 2019.