

Constantinos Herodotou: The Significance of being financially literate and national strategies for achieving it

Introduction (virtual) by Mr Constantinos Herodotou, Governor of the Central Bank of Cyprus, in the Cyprus Economic Society seminar, 21 October 2021.

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Introduction

I would like to thank the Cyprus Economic Society for offering me the opportunity to introduce today's seminar, which I believe timely addresses an extremely important economic and social theme. The issue of promoting financial literacy and the role of National Strategies to achieve it are of course, relevant not only to Cyprus but also globally. Dr Chiara Monticone, a senior policy analyst of the OECD and a practitioner in the field of financial literacy with global expertise and Professor Dennis Philip, who teaches Finance at Durham University Business School, an acclaimed academic in financial literacy and close collaborator of the Central Bank of Cyprus, will have, I am sure, excellent contributions on the subject.

According to a definition associated with the OECD, financial literacy is the ability of an individual to combine appropriate knowledge and skills, rational behaviour and attitudes necessary to make sound economic and financial decisions and ultimately achieve individual financial wellbeing. As more individuals operate prudently and comprehend the workings and functioning of the financial system, including how to use its services and products appropriately and efficiently, the broader economic system and society, as a whole, benefit. Therefore, financial literacy can be seen as a key element for a well-functioning economic system and thus as a prerequisite for sustainable economic growth and financial wellbeing of individuals.

The establishment of the Ad-Hoc Committee to prepare the National Strategy for Financial Literacy in Cyprus

Recognising the seriousness of the issue, state authorities around the globe have taken actions in order to enhance financial literacy among the wider population. A typical response to the challenge, is the establishment of a National Strategy for financial literacy in which a number of public and private stakeholders are involved. Up until recently, no such organised effort had been initiated in the case of Cyprus. Even though a number of initiatives have been undertaken by various stakeholders, these significant and valuable efforts have been limited in scope and without the necessary coordination for a truly effective impact on society as a whole.

To this end, following an invitation by the Parliamentary Committee of Education and Culture, an Ad-Hoc Committee for the formulation of a National Strategy for the Promotion of Financial Literacy and Financial Education in Cyprus was established in December 2020.

The Committee consists of members from the Central Bank of Cyprus (CBC), which also has the coordinating role, the Ministry of Finance, the Ministry of Education, the

Cyprus Securities and Exchange Commission, Dr Panayiotis Andreou (Cyprus University of Technology) and Dr Andreas Milidonis (University of Cyprus). The Committee receives administrative and analytical support from the CBC.

The ongoing work of the Committee

The ongoing work of the Committee is noteworthy. It includes an evaluation of the scientific bibliography on financial literacy, as well as a review and assessment of international initiatives for the promotion of financial literacy. The Committee, with the help of CBC staff, has also conducted an in depth econometric analysis of the results of the CBC's sampling survey in order to representatively assess the level of financial literacy in Cyprus, as well as to identify the groups that are in greater and urgent need of financial education. For instance, people who studied financial subjects at high school scored higher in the survey than those who focused on classical studies with 5.2 out of 7, compared to 4.5 out of 7 in knowledge questions; 5 out of 7 being the minimum score for adequate knowledge as set by the OECD.

The CBC had carried out a sampling survey in 2018 to better identify the extent of the financial literacy problem, covering all groups of the population at a national level. This survey followed another similar survey, which focused on university students, namely, a survey by Andreou and Phillips (2018)¹ which showed that the low level of financial literacy among university students appears to be a major problem in our society.

The CBC survey, which as I mentioned covers all segments of the population, is instrumental in deriving useful results on financial literacy in Cyprus. For instance, it confirmed the rather worrisome result that financial knowledge amongst young persons of age 18-29 years in general is rather low. In particular, they score 4.4 out of 7 compared to 5.3 out of 7 for the 40-49 age group. Econometric evidence also shows they are 3.2 times less likely to achieve the minimum score of 5 out of 7 in knowledge questions than the 40-49 age group.

According to the international literature, it is crucial for policymakers to intervene and ensure that financial literacy is taught as a course in the school curriculum early on when children are active, keen learners and more willing to get educated about new concepts.

Therefore, schools as an environment conducive to learning, play an essential, if not the most important role, in the formulation of a National Strategy in order to address the problem of financial illiteracy early on in an individual's life.

Further to the analysis undertaken by CBC staff in support of the work of the Committee, online meetings and regular contacts have taken place between the Committee and a team of distinguished scientific collaborators, who have specialised and international expertise in the field. Namely, Dr Adele Atkinson (Atkinson Financial Research and Policy, formerly from the OECD), Dr Maria Demertzis (Deputy Director at Bruegel), Prof. Michalis Haliassos (Goethe University Frankfurt), Prof. Alexandros Michaelides (Imperial College London), and Prof. Dennis Philip (University of Durham) whom I have already mentioned.

In addition to its foreign-based scientific collaborators, the Committee has also reached out to other countries and international institutions in order to learn from their own experiences. The Central Bank of Austria and the Central Bank of Portugal have already been approached within the framework of close technical collaboration that the CBC agreed with certain national central banks Governors of the euro area, soon after I took over as Governor here in Cyprus.

As envisaged, the Committee is currently in the process of drafting the National Strategy proposal aiming towards the promotion of financial literacy for the population as a whole, as well as for specific target groups. The initial draft is expected to be ready towards the end of the year, while the Committee is expected to submit the complete proposal to the Council of Ministers for endorsement soon thereafter.

Objectives and challenges ahead

Any big change in society requires bold decisions. There may be obstacles to overcome in order for the National Strategy in Cyprus to be fully implemented and it will take some time before we see the anticipated impact on society. These hindrances may be related to conflicting views of some stakeholders which should be carefully and appropriately addressed.

Another important factor which might generate difficulties, is the securement of credible and long-term sources of funding since the estimated cost for such an endeavour is envisaged to be high. Active participation in this endeavour by the State and local authorities, academic institutions, private, non-profit and public organisations is crucial for its success. Official endorsement is thus of paramount importance.

The participation of private and not-for-profit stakeholders in the National Strategy's implementation will be further supported by the development of a code of conduct and prior agreement to specific protocols. A code of conduct is envisaged to provide a uniform framework for the contribution of stakeholders in order to achieve the common objectives set.

Public awareness on financial literacy through tailored campaigns is equally important, as it will facilitate the receptivity and usefulness of a National Strategy for financial education.

Last but not least, a challenge lying ahead is the proper governance structure for the body that will undertake the implementation of the National Strategy on financial literacy. International organisations such as the World Bank² have clearly opined that national strategies should be initiated, developed, and monitored by a credible and unbiased authority with financial education expertise and appropriate flexibility and resources. In many cases it is deemed that Central Banks can play such a role.

Concluding remarks

At this point, I would like to emphasise once again my personal interest and my commitment to assist the Committee's role in achieving its goals. Enhancing the population's financial literacy is an ambitious but needed goal. Through the CBC's

actions over the past years and its coordinating role in the Committee, we have shown that we consider the issue of utmost importance. Moreover, in line with recommendations by international bodies such as the World Bank, I would also like to express the willingness of the CBC to have a leading role in the implementation stage of the National Strategy.

I am positive that both the State and the private stakeholders share my belief that investing in financial literacy undoubtedly means investing in a sound financial future for our country and its people. It is now time for Cyprus to take the bold step in this direction.

I would like to wish you all a fruitful seminar and discussion.

¹ Panayiotis C. Andreou & Dennis Philip, 2018. "Financial knowledge among university students and implications for personal debt and fraudulent investments," Cyprus Economic Policy Review, University of Cyprus, Economics Research Centre, vol. 12(2), pages 3-23, December.

² Financial Education Programs and Strategies Approaches and Available Resources, January 2014, <https://www.worldbank.org>