



FINANCIAL LITERACY AND CONDITIONS FOR ITS IMPROVEMENT

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APSTRAKT

U ovom radu objašnjavamo pojam finansijske pismenosti i njegov značaj za građane, finansijske institucije i društvo u cjelini. Nizak nivo finansijske pismenosti i nedovoljno uređen institucionalni okvir može kreirati mnoge probleme za pojedince i finansijske institucije u cjelini. U Bosni i Hercegovini (B&H) je veoma mali broj ljudi finansijski pismen. Ne postoji nikakva strategija podizanja nivoa finansijske pismenosti. Bosna i Hercegovina je zemlja koja u odnosu na svoje okruženje najmanje čini da bi podigla nivo finansijske svijesti i pismenosti građana. Ukoliko nije u mogućnosti da usvoji nacionalnu strategiju podizanja nivoa finansijske pismenosti u B&H bi bilo veoma potrebno u većoj mjeri koristiti postojeće institucionalne kapacitete za podizanje nivoa pismenosti svih struktura i grupa stanovništva.

ABSTRACT

In this paper we explain the notion of financial literacy and its importance for citizens, financial institutions and society as a whole. Low level of financial literacy and insufficiently organized institutional framework can create many problems for individuals and financial institutions as a whole. In Bosnia and Herzegovina, a very small number of people are financially literate. There is no strategy for raising the level of financial literacy. Bosnia and Herzegovina is a country that, in relation to its surroundings, at least strives to raise the level of financial awareness and literacy of citizens. If it is not possible to adopt a national strategy for raising the level of financial literacy in B&H, it would be necessary to use the existing institutional capacity to increase the level of literacy of all structures and groups of the population.

Introduction

Financial literacy is a broad term. It can be observed at several levels and characteristics of the examined structures of the population. There are several levels of financial literacy. Specific aspects related to financial literacy are behavioral decisions in financial decision-making and financial intelligence. There are big differences in the level of financial literacy across countries. This is easily linked to the general level of development of individual countries. In this paper we try to define the problem of financial literacy of citizens and special categories such as managers and owners of small and medium enterprises. We are focusing on the situation in Bosnia and Herzegovina (B&H). We particularly highlight the case of Albania and the experiences of its institutions regarding the implementation of financial literacy education. Finally, we suggest certain policies and activities that would help to improve the general level of financial literacy of citizens and SME managers in B&H.

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1. The phenomenon of financial literacy

There is an abundant literature that investigates the phenomenon of financial literacy in both developed and developing countries. There is relatively small number of investigations in B&H. We are not aware of any investigation of this topic in B&H. There are only a few papers by some authors who refer to this significant problem and the works of Plakalovic (2011) in which the level of financial literacy of students and managers/owners of SMEs is being investigated.

Financial literacy can be defined as 'ability to obtain, understand and evaluate the relevant information necessary to make decision with an awareness of the likely financial consequences' (Bartlett & Chandler, 1997). Here is one definition of financial literacy (Vitt et al., 2005): "Personal financial literacy is the ability to read, analyze, manage and write about personal financial conditions that affect material well being. It includes ability to discern financial choices, discuss money and financial issues without (or despite) discomfort, plan for the future, and respond competently to life events that affect everyday financial decisions, including events in the general economy".

Financial literacy can be seen within the population as a whole or some subgroups related to the age and education structure, as well as the literacy of entrepreneurs and managers. Financial literacy is also linked to the problem of accessing individuals to the formal sector of financial institutions and the protection of consumers of financial services.

Surveys on the level of financial literacy carried out by the world famous rating agency Standard & Poor's (Klapper et al., 2015) on the global level show us very important differences in financial literacy in the countries of the developed world and countries of emerging economies. The questions asked by respondents are related to the understanding of risk diversification, awareness of inflation, understanding of interest and simple calculation of interest. Among the financially most relevant are citizens of Denmark, Sweden and Norway (71% of the population). In B&H, only 27% of citizens are financially literate, in Albania 14% , Macedonia 21%, Serbia 38%, and Croatia 44%. In many African countries, over 40% of the population is financially literate (Zambia, Zimbabwe, Tanzania ...).

Low income countries and middle income countries display a number of common and idiosyncratic characteristics that will have an influence on financial *behavior* which is different than in high income countries with regard to measurement of financial capability and effectiveness of financial education and alternative intervention (Holzmann, 2010:13). In poor countries high percentage of population is financially illiterate and outside financial sector. A study conducted in Ghana (Nunoo & Andoh, 2011) shows insufficient financial literacy amongst small and middle entrepreneurs because of which 44% of them does not have access to financial services.

Financial literacy should be linked to the concept of financial intelligence. This is a set of skills that must be held by all those who want to run their business successfully and to be able to follow and understand the financial world (Berman & Knight, 2006:9). They must be able to read balance sheets and financial statements of companies and financial institutions and to understand their mutual relations and influences.

Financial literacy is most broadly defined as the capacity to analyze. Its content is now being shifted from financial knowledge and understanding to the inclusion of financial skills and competencies, attitudes and behavior. Nowadays there is consensus that this broader concept is more relevant. It is still of topical interest how best to define, measure and influence. Holzmann (2010:4) states that there is a great number of interventions with the aim to improve financial literacy but rigorous monitoring and evaluation of such intervention is still exception not the rule, particularly with regard to the measurement of impact (Holzmann, 2010:6).

Some of recent research shows that financial literacy (although financial literacy is in relation to income) does not affect participation in financial market and the decisions until they found that cognitive ability is important (Cole & Shastry, 2008:31). A doubt about the justification and the actual effects of significant investment in financial literacy courses indicate the need for rigorous testing to measure their effectiveness. In our conditions, such investments must be viewed as a long-term investment in economic development.

The author believes that financial literacy, as understood in the broader sense that includes not only the client-bank relationships, but also more productive use of available financial resources, is of great importance to poor countries such as Bosnia, because it helps the efficient allocation of the already very

modest financial and other resources in the country. Increasing levels of financial literacy in a broader sense will improve general and economic culture of citizens and entrepreneurs¹.

Entrepreneurial endeavors ranging from real estate business to debt management require the ability to perform calculation which are often more complicated. Research and other insights in the US show that the level of numeracy required for such calculations is very low (Lusardi, 2012). Disney and Gathergood (2011) find that financially illiterate households in Great Britain have lower net worth, use more expensive loans and have more difficulties with debt servicing. At the same time, they find that financially more literate households have liquid savings and revolving loans which is result of more rational financial behavior. Lusardi and Tufano (2009) show similar results in the US. Financial illiteracy of the users of banking loans lead to excessive borrowing and growth of the non-performing loans (Plakalovic, 2011).

Extensive literature survey that tackles the issue of financial literacy can be found in Hustings et al. (2012). Key question is whether financial education improves financial literacy or personal financial result.

The fact that a large percentage of the population is financially illiterate is widely observed in developed countries. The fact is that more educated people are also financially more literate. Financial education is, as pointed out by Bernanke (2006), a very important part of effective financial market but not a *panacea* because it can not replace a wise regulation, clear procedures for closing businesses, and preclude the providers of financial services to engage in unfair or illegal activities. We should not forget that many financial decisions and human behavior in the financial world is not always driven by rational motives and reasoning so it often leads to bad financial decisions. Faced with economic uncertainty behavior is largely driven by behavioral means and raw emotion ("animal spirits") which can rapidly and sharply deviate from the behavior in the past (Akerlof & Shiller, 2009). Psychological factors that lead people in decision-making should be separate from the education of the people because in real life they are constantly faced with rational decisions where financial education can help.

Behavior of people in making financial decisions is a significant aspect of financial literacy observed in the broader sense. In a research by Zsótér et al. (2017) note that in 2015 to compared with 2010, there were fewer persons who entrusted their financial decisions to others, and there is also a lower number of persons struggling with financial problems, but at the same time the number of those preparing budgets and having savings has also decreased. After the personal financial crisis (indebtedness, constraints, unemployment) observed in the year 2010, Hungarians were experiencing a sense of liberation in 2015: delayed consumption was followed by spending. This was not achieved by borrowing, but by the use of increased income.

2. Importance of financial education

The problem of financial education particularly appears with people with less financial strength. This education is necessary for children and adults. In societies where personal savings are neglected financial education has special importance. Thus, for example in the World Bank study it is estimated that many families in Bosnia after a wave of intense borrowing are threatened with bankruptcy. Problem is that B&H has no possibility of personal bankruptcy as U.S. where, for example, there exist credit advisors who advise before bankruptcy or alternatives to bankruptcy. This education needs to provide positive financial behavior of individuals, to direct and provide orientation in a complex financial environment, which includes provision of loans, savings, maintaining adequate levels of insurance and avoiding unscrupulous financial firms (Parrish & Servon, 2006). Researches in the U.S. show a very different financial behavior of households (Hogarth et al., 2003). The only variable which consistently affects the behavior in financial management is financial knowledge and experience. Numerous studies have shown that Americans have inadequate knowledge of personal finance (Chen & Volpe, 1998). They fail to make correct decisions because they have not received a sound personal financial education. Experimental studies show that financial education only is not enough unless it is supported with advice when making financial decisions. Education and consulting are complementary and not substitutes. Over half of employees in the U.S.

¹ Economic and social culture of the society in B&H is traditionally characterized by "poverty syndrome" and a strong need to emphasize welfare by external symbols far from real financial status as one of the forms of unproductive waste of resources and low economic culture.

participate in some programs of financial education. In most cases they learned about the importance of saving and investment from the retirement schemes programs.

The majority of youth consistently receive failing scores on financial literacy tests—even those who have taken courses on personal finance or money management. Some specific programs, however, have demonstrated beneficial effects. In a number of studies, the goal of identifying characteristics of financial education programs which may influence positive changes (Totenhagen et al., 2015).

In the developed world there is always an actual topic is to educate the school-age population for a lifetime of financial decision making and security in a dauntingly complex marketplace. A plan of action is required for integrating financial education into state standards, training teachers, implementing curriculum, verifying behavioral impacts, widening disciplinary expertise and input, and resolving areas of professional disagreement (McCormick, 2009).

The study of Grody at al. (2008) examines the effectiveness of teaching financial literacy to elementary school children and extending such learning into an age-appropriate digital world of online support services. They postulate a role for financial institutions in the reinforcement of the learning experience and, more importantly, in the delivery of age-appropriate financial products and services such as online banking services and socialization websites.

The study of Sherraden at al. (2011) examines an innovative four-year school-based financial education and savings program, called “I Can Save” (ICS). Results suggest that young children increase financial capability when they have access to financial education and it is accompanied by participation in meaningful financial services.

Empirical evidence by Garcia (2011) has offered empirically based insights into how individuals use information in making financial decisions. The importance of information in financial decisions may be reduced or eliminated by psychological aspects of the individual, such as a state of overconfidence that is individual or shared with a group, or by the individual's limited ability to process complex and abundant information.

The study of Mandell and Schmid (2009) examined the differential impact on 79 high school students of a personal financial management course completed 1 to 4 years earlier. The findings indicated that those who took the course were no more financially literate than those who had not. The authors ask if they are the high school financial literacy courses effective in longer-term.

3. Situation in B & H

In B&H many people are functional illiterates. Unemployment rate in post-conflict period is constant at around 40%². These two groups are also the group with the worst financial literacy, according to research in developed countries. It is reasonable to expect that a huge number of population of B&H is financially illiterate. The reasons for the low level of financial literacy of the population are primarily found in an inadequate system of education. That is why Rovčanin et al. (2018) because of very low level of financial literacy in B&H stands for concrete actions in the education sector. In his paper, Puljic (2018:246-247) points out the low level of general and financial literacy in B&H. Tests carried out by Puljic on students of master studies showed that only 20% of students were basically financially literate, 5% of respondents had medium level of correspondence and 2.5% of respondents are at more advanced level of financial literacy.

World Bank study (Rutledge, 2010:10) shows that in each of the studied countries the rights of consumers of financial services were not respected³. Observed in any country and also in Serbia and Bosnia, consumers are not aware of the risks that accompany long-term loans in foreign currency and risk of variable interest rates⁴.

² Research of non-governmental organizations in B&H has been showed that in the population aged 25 to 35 years in urban areas, have not completed primary school (virtually illiterate) 7.7% male and 22.2% women. In the rural areas is 24.7% male and 47.5% of illiterate women. In B&H has the most illiterate, compared with Europe and B&H is also among the Balkans countries with the highest rate of illiteracy.

³ In the case of 9 countries (Bulgaria, Poland, Latvia, Lithuania, Romania, Slovakia, Azerbaijan, Croatia, Russia) shows that in each of the studied countries were not respected the rights of consumers of financial services. For example in Serbia, the bank unilaterally changing bank interest margins (interest rate over EURIBOR). Everywhere is required by central banks to publish the nominal and effective interest rates.

⁴ Surveys were carried out by the experts group of the Ministry of Finance and Treasury of B&H, showed that 21% of respondents underestimated its ability to repay a loan, the contracts were signed mostly unseen, 10% of respondents

In B&H, there is a systematic lack of financial education and this has consequences not only at the individual level, but it has a direct impact on the functioning of the financial system as a whole (Plakalovic, 2012). There is no relevant research on financial literacy of public in B&H. Financial literacy in the broader sense is still not on the agenda for local governments.

Research in the student population realized by Plakalovic (2011) conducted by the students of economics at various locations in the Republic of Srpska (Pale and Bijeljina, Banjaluka) indicated that the vast majority of students, even though they are studying Economics, are practically financially illiterate.

As it might be expected the situation is even worse for students in other degree programs. The universities in BiH do not have a course related to *personal finance*.

People who have already stepped into the business world also have insufficient financial literacy. It is reflected in a priori and non-critical client's accepting of all the conditions offered by banks. There is a lack of informing and researching of conditions offered by competing banks. It can be sometimes explained by the need for credit, and sometimes perhaps the conscious acceptance of adverse conditions following the credit contract because of the need for funds. It is recognized as phenomena "*unconsciousness of costs*" and "*interest insensitivity*".

The programs of financial education organized by the commercial banks are very rare and sporadic. After the problems in the banking sector after global financial crisis of 2008, this needs to be seriously taken into consideration.

At the Expert Meeting of Media and Bankers, organized by the Association of Banks of B&H (2018) on financial literacy, the conclusion was drawn that the cooperation between the media and banks on raising the level of financial literacy was necessary. Senad Softic, Governor of the Central Bank of Bosnia and Herzegovina claimed that financial education and financial inclusion indirectly contributes to financial stability in the country. The Governor also declared that the Central Bank of B&H undertook a lot of activities in that regard (Udruženja banaka BiH, 2018). Based on our personal insights into the website of the Central Bank of BH we have noted that, regarding the education of visitors of the site, there are certain educational contents related to: Factoring, Leasing, Capital Markets, Banks and Banking Services, Exchange rate, Effective interest rate, Variable interest rate, Settlement of disputes-procedure for complaints and credit agreement-important elements. These materials contain useful information but the big question is how much they really correspond to the needs of the users. This can not be learned from the site. It seems that from then on, there have been no innovations. The description of the "current" situation in B&H on the macro-plan ends in 2008 (Central Bank of Bosnia and Herzegovina, 2019).

4. Experiences of some countries in the region

Developed and developing countries are adopting national financial education programs. These are programs that systematically and coordinatedly seek to raise the level of financial literacy of an individual. The provisions of consumer protection law, pension reform and the importance of individual retirement savings impose a need for such a specific form of education. Financial literacy projects are promoted and supported by the European Commission and the OECD. The Expert Group on Financial Education (EGFE) is tasked to coordinate diverse approaches and strategies of financial education among member states and helping them to integrate the OECD's financial education strategy and plan into the accession program of new EU members. For example, Slovenia adopted such a program in 2010. In the same year, the World Bank in its Diagnostic Review of Consumer Protection and Financial Literacy made recommendations for considering the development of financial education programs in the Republic of Croatia. (Hrvatski ured za osiguranje, 2019).

In Serbia and Croatia, public interest and responsible institutions for financial literacy issues only arise with the escalation of the problem of paying off debts of citizens to commercial banks indexed in Swiss francs. The risk of the exchange rate fluctuation has affected the financial situation of a large number of citizens of Croatia, according to one of the rare studies on this topic. (Vehovec et al. 2015). The authors conclude that certain knowledge is acquired through painful personal experiences. Testing the level of financial literacy in Croatia did not exist before the outbreak of an "affair franc".

thought it might be late with payments, 8% takes credit for the return of old loans a large part of the borrower expects the creditor will solve their problem (INTERVJU – Senad Softić, 2018).

The origins and causes of the problems faced by clients debted in Swiss franc were interpreted as insufficient financial literacy of financial service users. In truth, the big question is how much financial literacy would be sufficient to anticipate the global financial crisis and the dramatic change in the Swiss franc exchange rate so that a large number of citizens do not accept such conditions (linking their debt to the Swiss franc exchange). Of course, it was understood that the problem was primarily due to the lack of adequate laws and other regulations that would protect consumers of financial services, which, in the meantime, was eliminated. The positive side of this "excess" with the Swiss franc is that in some way the problem of financial illiteracy of citizens is highlighted. Although there remained an open question whether the problem would be less if the citizens were financially more literate. Financial literacy refers mainly to the ability of citizens to understand some elementary issues related to the phenomena of money, banks and, in general, their personal relationship to the money and their ability for personal money management. Therefore, in the context of inadequate consumer protection system, the National Bank of Serbia (NBS) has initiated some initiatives in the field of initial steps in the financial literacy of citizens. The NBS started with the education of children in elementary schools in 2005 (Narodna Banka Srbije, 2012).

It should be noted that in the whole region, that is in the countries covered in this paper, a very small number of domestic surveys have been completed, which assess the degree of financial literacy of citizens and especially some specific categories of population. For example, IPSOS research in Serbia in September 2012, for the needs of the NBS, showed relatively good results, with an average composite literacy rate of 62%. The questions concerned calculating interest rates and perceptions of citizens in terms of inflation. Citizens are weak in calculating interest on interest and do not understand the concept of diversification. (Narodna Banka Srbije, 2016).

On the other hand, in the Association of Serbian Banks, the "devastating" situation in the financial literacy of the population is pointed out. The association tries to launch all forms of education in cooperation with the Ministry of Education. They are aware of the difficulty of such actions in the country with 60% of functionally illiterate citizens. Withdrawal of cash from payments and the increasing use of mobile phones to make payments impose new standards of financial and technological literacy. The use of e-banking in this region is extremely modest. That is why it is necessary to financially literate at least young people so that they can soon perform almost all banking activities by mobile phone (Srbija boluje od "finansijske nepismenosti", 2018).

Since 2009, the NBS has opened contact points with citizens, and since 2010, it has organized several public forums for the purpose of educating citizens. One of the strategic goals was the financial education of the youngest members of society through the establishment of a financial education curriculum in schools (Jelašić & Erić-Jović, 2008).

The NBS adopted the Financial Education Strategy from 2016 to 2020 and assumed the role of the holder of the strategy in the field of financial education, informing the public about its goals and financial products and services in the country and implementing specific activities in the field of financial education. This implies cooperation with relevant partners in society - domestic and foreign state institutions and professional associations. NBS participates in: development of educational programs and materials, organization of workshops, tribunes and lectures (for all categories of population, farmers, entrepreneurs, small enterprises and potential entrepreneurs), cooperation with the media, supports the increase in financial literacy of pupils (PISA project) and new platforms digital communications (Narodna Banka Srbije, 2016).

The recommendations of UNICEF for Serbia point out the need to raise awareness about the importance of financial literacy, including the promotion of financial risk protection. The target group should be citizenship as a whole, but above all this should be addressed to young people of school age and implemented systematically through educational institutions. Promotion of financial education should be in the domain of a significant number of state, private and academic institutions, and civil society organizations. It is suggested that the umbrella institution responsible for financial education in Serbia should be, the Ministry of Education, Science and Technology development and institutions partners in the realization of the financial literacy assessment in Serbia within the PISA 2018 study. Education for financial literacy should be introduced in teaching as a cross-curricular competence with developed curricula for teaching financial literacy at all levels of education. It is recommended to connect with other inter-sectoral competences (entrepreneurship and orientation towards entrepreneurship, digital competence, problem solving) (UNICEF, 2017).

Since autumn 2018, 34 schools in Serbia should have introduced financial education within already existing courses and not as a new subject. The plan was that around 15,000 children get enrolled in a low-grade financial literacy program with about 1260 teachers involved. Children should learn to save money, time and resources, how payment cards work and how to invest smartly. This is, among other things, important because it is one of the four categories tested on the Pisa test. (Finansijska pismenost uvodi se u škole u Srbiji, 2018).

The National Bank of Croatia (NBC) does not have any special programs for financial literacy of citizens, except for issues related to consumer protection. The only thing that NBC provides to high school students is learning about the role of NBC in the economy.

In 2015, the Government of the Republic of Croatia adopted the National Strategic Framework for Financial Literacy for the period from 2015. to 2020. Since then, they have adopted Action Plans for each year. These activities are coordinated by the Ministry of Finance. Tasks, activities, actors-public bodies and their responsibilities are detailed and precisely defined in the Annual Action Plans (Vlada Republike Hrvatske, 2019).

In this context, "Stedopis", the Institute for Financial Education, is operating in Croatia, focusing on the financial literacy of young people (high school students). "Stedopis" offers on-line educational materials through which young people (high school students and others) can get acquainted with the basic categories of finance, managing their money, saving and financial institutions. The Institute issues teacher manuals. This institute is co-financed by the Ministry of Finance of Croatia. There are still no special subjects in schools related to financial education, but the need for such cases is also publicized. The Institute cooperates with banks and offers joint programs for example, lifelong financial literacy. (Institut za finansijsko obrazovanje - Stedopis, 2019).

Experiences of countries in the environment in terms of promotion and improvement of financial literacy of citizens can be very useful for a more objective assessment of the current situation in B&H. In this respect, the case of Albania, which has already made the first significant steps towards the promotion and financial literacy education seems very inspiring.

According to the Stability Assessment of Financial System, conducted by the IMF in 2005, the Albanian financial system was still on the first stages of development; cash transactions dominated exchanges; The Bank of Albania should promote retail demand for government securities; policy continuity is needed to increase public confidence in the financial sector. Consequently, the Bank of Albania has considered financial education activities as primary since 2006.

In 2010, European Union financed a Twinning Project between the Bank of Albania (BSH) and the National Banks of Italy and France. Regarding the financial culture module, the Bank of Albania accepted the development of a methodology for a national survey to measure the level of financial knowledge of the population grown in Albania. This methodology should be consistent with guidelines provided by the subgroup INFE OECD⁵ for measuring financial literacy. Some of the findings were: Regarding the level of knowledge, the analysis on the level of questions shows that in Albania the level of financial literacy is not very different from that of other countries. For some questions, for example, those related to the ability to understand the links between risk and return, price stability and the benefits of diversification, differences between Albania and other countries are not statistically significant. However, for other questions, that is for those related to the calculation of an interest rate, the differences are greater. For example, while in other countries, the number of people capable of understanding the notion of compound interest is on average 45%, in Albania it is about 10%. Regarding behavioral questions, we can see that Albanians usually (70%) consider whether they can afford a potential purchase and pay bills in time (48%) but they do not set long-term financial goals (only 12%) . Questions about behavior suggest that Albanians are more likely to administer their money on a daily basis than to plan long-term insurance. Regarding the level of knowledge on financial products, about one of three Albanians knows at least five different financial products. As for other questions about knowledge, the group of older people is less knowledgeable about the available opportunities.

⁵ In 2008, the OECD established the International Financial Education Network (INFE) in order to promote and facilitate international co-operation between policymakers and other actors in financial education around the world. The main questionnaire developed by the INFE subgroup focuses on all aspects related to the overall concept of financial culture. In July 2011, the Bank of Albania requested to join the INFE and, with the direction of the Bank of Italy, joined the OECD pilot survey.

Regarding financial literacy in Albania, there have been other studies, too. Each study has prepared the own survey, but the results are almost the same. According to Agalliu (2014), in the Albanian family discussion between parents and children on the topic of managing money is still considered a taboo and most children are not informed on the financial decisions that the family makes. Also, financial culture among Albanian students changes depending on factors such as gender of the students. So, men tend to possess higher financial culture compared to women. Another important result is that students of economy have better financial knowledge compared to students of other fields.

According to Nano, (2014), students in Albania do not have the proper level of financial ability due to the lack of an efficient financial education in the Albanian education system. The financial ability varies based on the field of study and the fact that the student has pursued a course in personal finance. Also, the branch of study and semester subjects in personal finances is the factors that predict the financial ability of students in Albania.

The main institution in Albania that helps to expand the financial literacy and improve the financial knowledge of population is the Bank of Albania. Nowadays, the financial literacy has become a necessity, taking into consideration not only the level of economic, banking and technological development, but also the importance and significance of information in today's global setting. Two are the main goals of the educational programs prepared by the Bank of Albania: Introducing the Central Bank, its functions and role to the public; and Cultivating and strengthening the financial literacy in the Albania society (Bank of Albania, 2017).

The key elements of the financial education initiatives undertaken by the Bank of Albania are: educational activities of the Albanian Bank which are directed mainly to teachers and students of primary and secondary schools, lecturers and students of Albanian and international universities, journalists of print and electronic media, as well as social workers. Among these activities it can be mention: "Global Money Week". It is, an activity for providing an increased level of knowledge and informations about the concept of money and the functions of the Bank of Albania This is realized through a training seminar for print and electronic journalists. The teaching package "1, 2, 3" piggy Cufo learns to save", is dedicated to the financial education of pupils attending grade I, II and III of the nine-year school. For students The Governor of the Bank of Albania often visits university auditors, inside and outside the country to give lectures on topics related to Bank of Albania activities⁶ (Bank of Albania, 2017).

In some countries in the region, central banks deal with savings, loans, payment accounts and credit cards, or elementary categories of personal finance. This is explained on the basis of brochures and educational matrices that enhance the financial literacy of the broadest layers of the population. For now, financial literacy in our country can only be promoted through the education system, basic secondary and higher education (Puljic, 2018: 249).

5. Challenges of digitization

Although, according to their logic, banks belong to more conservative institutions, today they have adjusted their business with changes in the business environment to a very significant extent. This means that they have adopted and applied certain processes imposed by digitization. Creating new services and jobs directly related to digitization tells us that banks have found a source of new competitive advantages and better market positions. In the future, the banks will work with traditional clients who will use standard banking services, as well as clients who will not use digital banking services in the long run. Banks will seek out the optimum in terms of transformation of their business units and the introduction of digital branches in which people will not work. The process of digitization, besides the great advantages for banks and their clients, brings with it certain challenges.

⁶ The governor's award competition for the best diploma is also organized. There are a number of educational publications on personal finances as "Bank Card", "International Bank Account Number (IBAN)", "Guide about your first account", "Student's Guide", "Banks in the Internet Era", "Electronic Money: The Future of Money?" etc. The Bank of Albania is responsible for running its website, which is considered as a very important tool of interactive communication. In order to achieve these objectives, the Bank of Albania is in partnership with Ministry of Education and Science in Albania on the basis of a Memorandum of Understanding.

Digital economy is a much wider concept of e-commerce, e-banking and other everyday services that are offered. It is a global network of economic activities based on information communication digital technology (TechTarget, 2018). At the core of this network is information, knowledge, ideas and innovations. The banking digitization process opens up opportunities for the expansion and introduction of new banking services. There are broader opportunities for better interaction with the bank's clients, a more detailed and more accurate insight into their needs, habits and opportunities.

The strategies of banks in the future related to the digital economy are quite predictable. In the world, these processes have moved much further than is the case with us. In all this, it is clear that higher level of technological literacy is expected from clients as well. This is not about financial literacy, but about "informatics" or perhaps "digital" literacy, which presupposes that the individual has minimal knowledge of how to use modern information technologies. These skills are strongly linked to financial services and financial transactions. It will soon be time many financial transactions will not be possible without the use of the Internet. Simply many transactions will not be completed by simply going to the bank counter. That is why, with financial literacy, computer literacy are necessary, which enables the transactor to become involved in the world of digital economy. Therefore, financial literacy should be followed by learning about the use of electronic applications and mobile telephony, because simple information and banking services and services from other financial institutions will not be able to be consumed without access to networks and databases. So, every individual will need minimal IT knowledge so that he can qualify at all to become an active player in the world of finance. It is clear that it will mostly enable regular education and special education. Of course, sometimes it will be good to get courses and various types of short training that will enable interested individuals to get involved in the digital banking world more easily. For this, the banks would have the greatest interest, and their activities in this plan could have an impact on faster training of individuals to more easily and quickly accept new banking services and maximize the opportunities offered by digital and mobile banking.

In his research, Bajić (2018) points out the fact that at this moment, when clients choosing a bank, for them is the least important is whether the bank provides e-banking services. Namely, only 56% of respondents said that it is important for them to bank provide e-bank services. With higher education is more appreciated this e-banking service. This is interpreted by a higher degree of their financial and computer literacy (Bajić, 2018:161).

6. What to do in B&H?

A key step to start solving the problem of financial illiteracy of the population in B&H is recognition and diagnosis of problems which would make those who concerns with the public interest become aware of the problems and damages resulting from its failure to solve. Since it is unlikely that in B&H, initiated and implemented a national strategy for financial literacy that would be very important to investigate the problem and suggest the relevant policy makers concrete policies and actions to solve this problem⁷.

In B&H it is a particular problem because the policy makers generally rely too much on the side of foreign initiative and foreign technical assistance. There are very few domestic initiatives in solving even more important economic and social problems. Since the long term need to address this problem are at the beginning of the necessary activities to educate the youngest population and students. Institutional infrastructure provides conditions for education in financial literacy and does not require significant additional costs. Then to be able to choose a specific target group within the framework of the borrower (the general public, owners and managers of small and medium-sized companies) which would encourage the central bank and financial institutions (banks and insurance companies and investment funds). Financial literacy can be an effective form of consumer protection, which helps to understand the terms offered by banks and other institutions, and consumers make decisions based on knowledge. Financial literacy can not replace regulation but may be supplemented by an effective legal and regulatory basis for financial protection of consumers (Rutledge, 2010:31).

Central activities related to education of a wider population could be handled by the Central Bank that would provide incentives for commercial banks to engage in these activities, ranging from the

⁷ The role of financial education in financial inclusion, OECD/INFE evidence, policies and illustrative case studie can be found on <https://www.microfinancegateway.org/sites/default/files/mfg-en-paper-the-role-of-financial-education-in-financial-inclusion-oecdinfe-evidence-policies-and-illustrative-case-studies-jun-2013.pdf>

introduction of courses for children up to the wide form of activity. In this way it would be ensured that over time people become aware of the increased costs of using credit cards, problems arising from excessive debt, they would take care of their own retirement (the introduction of private insurance) and the importance of insurance schemes. This should raise awareness on the importance of savings and what it promotes. It should help them in investing their savings and have protection against risk. It concerns the wider public interest and the efficient protection of the domestic financial system which would be less exposed to volatility resulting from incompetency and irrational behavior of consumers of banking and financial services. It is true that the Central Bank pays particular attention to education and training of its employees, however, it misses its engagement in the broader education of the population where it could have a catalyst role to guide and encourage financial institutions to engage in the education system and inform the population about financial services and opportunities, risks, savings and various forms of investments that are offered on the domestic market. On the other side, the Central Bank would have to have a greater impact on decision rules and regulations that to a large extent protect the rights of consumers and consumers of financial services because they are sometimes exposed to inadequate offering of banking services.

Conclusions

Higher level of financial literacy of the population of each country is crucial for the financial wellbeing of every person and the well-functioning of the financial system and thereby the economy as a whole. Situation in this field in B&H is very bad. It is especially emphasized by the sudden entry of people into the financial system with market rules with inadequate institutional environment. Financial literacy is the primary interest of the customers of banks because efforts by banks to switch the risk to the users of banking services can ultimately lead to the spread of problems of the borrower as a boomerang back to banks. Financial literacy of the population is the public interest because the adequate behavior of users of financial services increases the stability of the entire financial system and economy as a whole. Mass errors in any personal financial management or finance companies ultimately undermine the financial system and economy. There is ample room for financial education of the population and financial managers in which it is easy to find place for professional educators, banks and international financial institutions. We tried only discreetly to address the topic of financial education of wider groups of people whose lack of education and financial incompetence can lead to significant problems in their personal level as well as problems in the financial sector as a whole. There is a largely unexplored area of this problem that has not yet been adequately perceived or investigated by the management structure and policy makers and other interested parties in the country and it have to be devoted much more attention in the future. Financial literacy and education is the interest of educators, community groups, businesses, government agencies, organizations and policy makers. The experiences of the countries from the region, (Serbia, Croatia and Albania), which we have described in this paper, say that there is a lot of space that can be used productively to raise the level of financial literacy of citizens. In doing so, it is primarily necessary to be aware of the need to raise the level of financial literacy among all actors and a collective action is needed that would promote and implement various forms of financial education for all categories of the population. Policy makers must be targeted on the relevant groups, and ideally provided alongside access to appropriate products. Strategic approaches at the national level reflect the international policy interest in financial inclusion, financial education and financial consumer protection and evidence that financial literacy and financial inclusion are associated. It would be very useful for citizens, financial institutions and the state to prepare and adopt a national strategy for raising the financial literacy of the population. If that is not possible then a financial literacy strategy for a broader category of citizens and economic actors should be adapted to the institutional capacity of the country. The impression is that these existing capacities are not used as would be really possible.

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