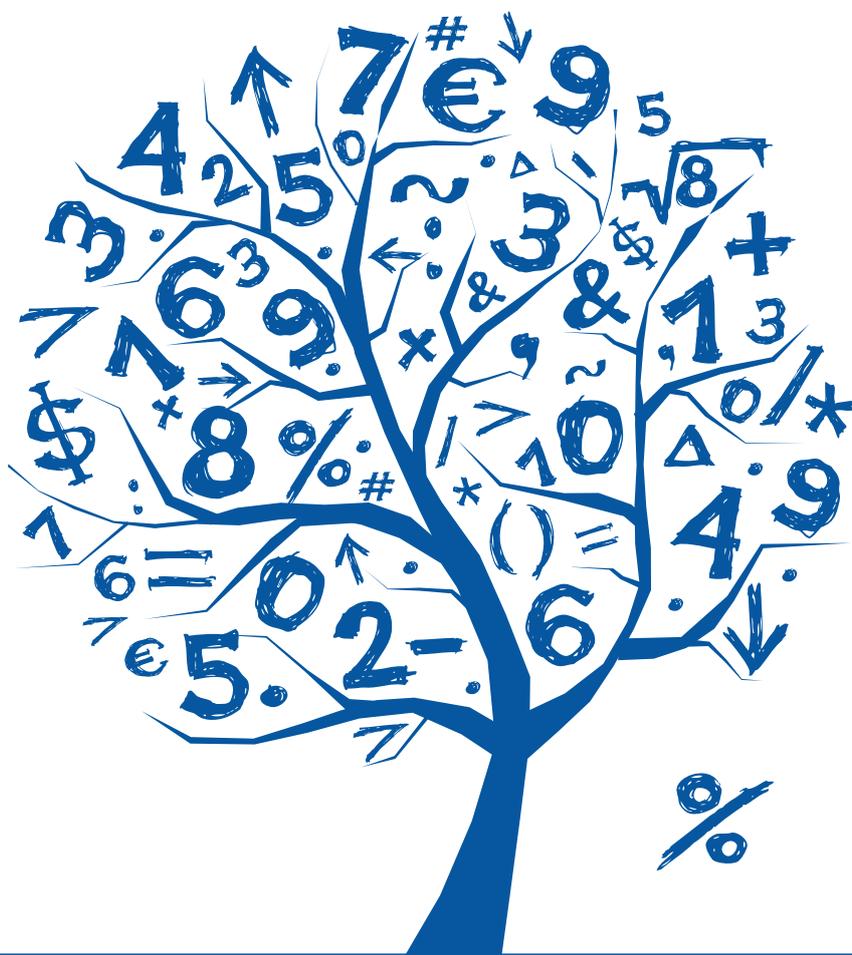


Financial Awareness



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Within Turkey's private sector, Visa Europe has become established as one of the leading players in the field of financial awareness. Since 2006, the company has hosted a series of financial literacy conferences, which have drawn attention to the issue and provided a forum for discussion amongst related stakeholders. The most recent was held in Ankara in 2011, where the participants included several government bodies, banks, consumer groups and academics. This paper summarises some of the perspectives and insights.

A More Complex Financial World

It is now widely believed that, in order to protect the long-term sustainability of any economy, it is important for consumers to be equipped with the necessary financial knowledge and skills to make informed, sound decisions.

Over the past two decades, Turkish consumers have been faced with a dramatic increase in the number of new financial products and services available to them, ranging from defined contribution private pension schemes to new types of loans, alternative investment instruments and a wide selection of innovative electronic payment instruments. In general these new financial choices have met with a remarkable level of interest.

For example, since the 'Individual Pension System' was introduced in late 2003, almost 2.5 million Turkish citizens have signed up. Also, since 2003, around one million consumers have taken out a mortgage to finance their property purchases. At the same time, people are using online banking services to invest in various types of fund and to trade in stocks and bonds (even though,

just a short time ago, the only such investment option available to most people was a fixed-term savings account).

But, of all the new financial products now available, the most widely held and frequently used is surely the electronic payment card. Thanks largely to the innovative loyalty programmes and benefits packages developed by Turkish banks, the number of credit cards grew from 14 million in 2001 to 47 million in 2010 - making Turkey one of the largest electronic payment markets in Europe.

Yet against this backdrop, there is the question of whether individuals have a sufficient understanding of these products, and whether they are truly capable of managing the inherent risks or taking advantage of the related opportunities. Indeed, the global financial

crisis has probably encouraged all consumers to reassess their own understanding of economic principles and reconsider the type of risks that can be associated with major financial decisions.

It is now widely believed that, in order to protect the long-term sustainability of any economy (and maybe even the global economy), it is important for consumers to be equipped with the necessary financial knowledge and skills to make informed, sound decisions. It is therefore no surprise that the concepts of 'financial education' and 'financial capability' are gaining momentum. Internationally, the OECD is leading the way, monitoring global trends and finding ways to share best practice. And such concepts are also attracting more attention in Turkey.

Financial Education: What is it?

The OECD defines financial education as “The process by which financial consumers/investors improve their understanding of financial products and concepts and, through information, instruction and/or objective advice, develop the skills and confidence to become aware of (financial) risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being and protection”¹

Under the terms of this definition, the type of training and information typically provided by either banks or government agencies cannot really be considered as financial education – and nor can the marketing campaigns or consumer information that generally accompanies a financial product.

Instead, it is thought that a complete and effective financial education programme should cover three basic areas:

- **Budgeting:** Skills to monitor/track individual income and spending, to ensure that one has sufficient funds to spend and to save.
- **Credit and borrowing:** The ability to understand and differentiate between different types of loan, (including knowledge of the respective costs and the relevant concepts/terms), to ensure that one is able to choose the most appropriate product, and to borrow a manageable amount.
- **Saving and investing for retirement:** Knowledge of different investment options, in order to plan for retirement, and to ensure that one does not experience a material reduction in living standards upon retiring.



A Brief History Of Financial Education in Turkey

Visa Europe Turkey has been organising financial literacy conferences since 2006. This series of events has helped to draw the attention of Visa Europe's member banks, along with the academic community and various government agencies.

The concepts of financial education and financial literacy are relatively new to Turkey and, consequently, activities to date have typically focussed on awareness building.

Some consumer groups do, as part of their responsibilities, inform consumers about various financial topics. But they tend to do so from an issue-specific perspective, and rarely emphasise the need for comprehensive or in-depth financial education. Government organisations are also quite new to the concept, but the Central Bank of the Republic of Turkey has led the way. For example, it partnered with the Capital Markets Board to host an international conference in March 2011, titled "Financial Education and Financial Awareness: Challenges, Opportunities and Strategies". The event was a success, attracting broad participation from various authorities and experts from Turkey and overseas. In his closing remarks, the then-Governor Mr Durmuş Yılmaz drew attention to the fact that there is still a lot of work to do to build awareness about the issue and its importance.

Visa Europe has been campaigning on the issue for several years. The company has consistently emphasised the importance of financial education, and has put considerable effort and resources behind its related activity. As Berna Ülman, Visa Europe Senior Vice President and Regional General Manager: "As the leading player in the electronic payments industry, we have been encouraging our sector and our stakeholders to engage in the subjects of financial literacy and financial awareness. And, in total, Visa Europe has invested more than 7 million in this area."

For example, Visa Europe Turkey has been organising financial literacy conferences since 2006. This series of events has helped to draw the attention of Visa Europe's member banks, along with the academic community and various government agencies. The company has also supported various consumer groups with their financial education activities, and has collaborated on certain initiatives.

In 2009, Visa Europe then launched an entirely new type of initiative in partnership with the United Nations Development Programme (UNDP), the Ministry of Development and Habitat Center for Development and Governance. Called 'I Can Manage My Money', this public training programme is based on an innovative peer-education model, and aims to improve the budgeting skills of people aged between 15 and 30 years. So far, more than 7,600 trainees have benefited from the training.

A recent research study commissioned by Visa Europe in Turkey² came up with some interesting findings. According to this study, 97 per cent of young people make important financial decisions without consulting an expert. 87 per cent of them are not saving for near-term financial needs such as education, transportation and housing. And, among those who do save, only a very small minority keep their money in the banking system. This suggests that the level of financial awareness among the youth is very low.

Visa Europe Initiatives in Turkey: Education Makes a Difference

Visa Europe's experience indicates that education can make a real difference. Research has been conducted to measure the effectiveness of 'I Can Manage My Money', and this has revealed some interesting results.

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Whilst this is encouraging in its own right, the real measure of success is in any behavioural change. As Mr Erdogan points out, 'I Can Manage My Money' scored positively in this respect too: "After the training, the proportion of people who do not have a personal budget reduced by 50 per cent. In other words, participants became more financially-disciplined."

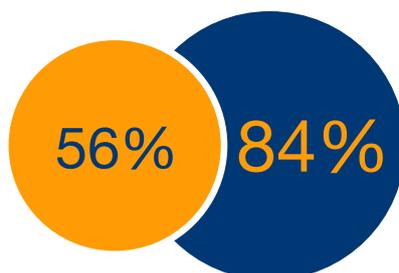
Part of the success of this modest programme is certainly due to the know-how, the resources and the effort that each partner puts into the project. As Hansin Dogan, Director of Private Sector Projects at UNDP, explains, "Aside from being the first financial awareness project in Turkey, 'I Can Manage My Money' is being carried out through the partnership of a private sector entity, an NGO, a government agency and an international organisation."

At the outset, project partners decided that "one of the main targets of the project is to come up with a policy proposal so that financial education is included in national schools' curriculum."

Creating shared value and ensuring that solutions are sustainable are key factors of such a partnership. As Fiona Wilkinson, Senior Vice President at Visa Europe explains: "Financial education is a core life skill that all young people need. It benefits society as a whole as

well as the individual. We believe that programmes like this should become a sustainable and integral part of youth education, and that they should be supported by a wide range of bodies in civil society, not just the private sector."

The preliminary results of the project are certainly encouraging and suggest that a more in-depth financial education programme, with a wider participation of stakeholders, could produce even greater impact. The OECD recommends that "Government and all concerned stakeholders should promote unbiased, fair financial education"⁴. It goes on to emphasise the need for cooperation between government, consumer groups and the financial services sector in order to develop and implement a sustainable financial education strategy.



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The Road Ahead

The most recent Visa Europe conference on financial literacy aimed to provide a platform for various stakeholders in Turkey to discuss how this could be achieved, and to help open the way for wider cooperation in the field. Held in Ankara in 2011, the participants included several government bodies, consumer groups and academics, as well as a range of Visa Europe's member banks.

The consumer is, of course, at the centre of this debate. Explaining the findings of the 'Country Economic Memorandum on Domestic Savings', jointly prepared by the World Bank and Turkey's Ministry of Development, Ms Kamer Karakurum-Özdemir, senior economist at World Bank, described the ways in which low financial literacy levels affect consumer behaviour and, ultimately, the wider economy: "Our research has shown that households do not generally have a habit of planning their savings, and a considerable proportion of them keep their savings outside of the formal financial system. Close to 30 per cent prefer investing in gold or other such assets, with the ultimate goal of buying a house". But, when savings are kept outside of the financial system, they cannot be funnelled back into the economy to finance investments. This, combined with a decreasing trend in household savings, exacerbates Turkey's current account problem, she explains.

Insufficient and/or irregular income can, of course, be one of the reasons why so many consumers do not have a formal saving plan. Yet, Ms Karakurum-Özdemir continues, the joint research from the World Bank and the Ministry of Development shows that some consumers simply do not have enough knowledge of the financial instruments available to them, nor do they know where to go to get objective advice.

Ms Engin Basaran, then-President of the Consumers' Association, one of the leading consumer NGOs in Turkey, suggests that banks may be partly responsible for this outcome. She says that, due to what they see as 'unfairly high banking fees', some consumers feel that they are being taken advantage of and therefore avoid financial institutions. Still, she also acknowledges the important role that banks play in Turkey's economy and calls for closer cooperation with financial institution and other stakeholders, insisting that consumer education is too big a task to be left to consumer groups alone.

Mr Soner Canko, then-Executive Vice President at Ziraat Bank, Turkey's largest and state-owned bank, says that, in general, banks are placing great importance on financial education and putting a lot more effort into informing their customers about their products through multiple communication channels. Mr Canko also

acknowledges the need for closer cooperation among stakeholders and offered to hold meetings with NGOs to identify ways to improve cooperation.

As the Audit Director of the General Directorate of Consumer and Competition Protection, Turkey's primary government agency responsible for consumer affairs, Mr Yakup Güzel sees an equally important role for all stakeholders in educating the consumer. Mr Güzel says that the government had three main responsibilities, namely regulating, auditing and creating awareness about the issue. But, he also called on other parties to assist in the education effort. In particular, he suggests that the media and financial institutions should do more to inform consumers. He also feels that the Ministry of Education has a duty to include financial topics in the national curriculum.

Assistant Professor Hüsne Demirel, an academic at Gazi University Faculty of Vocational Education, agrees. As an educator, she sees financial education as a critical life skill that should be taught in all primary and secondary schools, in order for students to be equipped with the necessary knowledge to make informed financial decision as adults. Citing some such curriculum changes that had been made in other countries, she stresses the urgency and importance of making financial topics a part of formal education.

An International Perspective

This view is certainly in line with OECD's recommendation that "Financial education should start at school, for people to be educated as early as possible."

This view is certainly in line with OECD's recommendation that "Financial education should start at school, for people to be educated as early as possible."⁵ The Ministry of Education is reportedly working on developing a financial education curriculum. Yet, integrating new topics, especially those that are fairly new, like financial awareness, into the formal education is not necessarily an easy task.

Ideally, an entirely new educational programme should be created from scratch, and should take into account feedback from all stakeholders; and then educators must be trained to ensure effective implementation. Both of these steps take time, even when there

is strong political support. Experience from the United Kingdom is indicative of the challenges ahead, but also offers some best practice. Wendy Van den Hende, CEO of the Personal Finance Education Group (PFEG), has been involved in financial education for 15 years, and the programmes in which she has been involved have reached an estimated 1.8 million students, via programmes in 4,250 schools. Ms Van den Hende emphasises the importance of involving the teachers in the process and ensuring that they are equipped with the necessary knowledge: "If we want long-term, sustainable financial education, we should go directly to the teachers in the schools, educate them in this

aspect, and develop courses together. It is they, after all, who spend the most time with the children and have the best understanding of them." Ms Van den Hende is also a strong believer that financial education should be adopted as a government policy. For a considerable time, she has lobbied for financial education to be included in the national curriculum. However, as the political landscape changes, so too do the political priorities, and an anticipated legislative change on the issue has now been delayed. Yet, she emphasises the need to carry on despite temporary setbacks and argues that, by taking leadership, individual parties can keep the debate alive.



What Next?

National Financial Education Strategy

Mr Cihan Aktaş, Executive Deputy Director of the Banking and Financial Institutions Department at the Central Bank of the Republic of Turkey, confirms this view. He explained that the Central Bank has been putting considerable effort into the issue. For example, the two-day conference which it organised in partnership with the Capital Markets Board was the most far-reaching initiative from any government agency. The

Bank also represents Turkey at the OECD's International Network on Financial Education (INFE) National Strategy for Financial Education Subgroup. Considering that Turkey is the only country among the fifteen member countries of this subgroup which does not have a national strategy for financial education, Mr Aktaş suggests that the situation needs to be urgently addressed. To achieve this, he says, the Central

Bank aims to create awareness about financial education among relevant stakeholders and rally them towards creating a national strategy. Mr Aktaş also underlines the importance of government support and guidance. He suggests that government agencies should take primary ownership of this issue but, in doing so, it is also important for them to have political support.

Conclusion

It is encouraging that financial education is starting to get the attention it deserves in Turkey. Although the country is not late in the process when compared to other emerging economies, it is imperative that the necessary steps are taken quickly. After all, Turkey is growing fast – both

in terms of its economy and its population – and, as the global crisis demonstrates, financially educated citizens contribute to a country's wider economic well-being. The conference has shown that stakeholders are well aware of the importance of the subject and ready for closer cooperation.

They also agree that more political support is required in order to take things to the next level. Developing a national strategy for financial education, led by the government but with the input of all stakeholders, would probably be the right next step.

Berna Ülman

Visa Europe Senior Vice President and Regional Manager

“As the leader in the electronic payment industry, we have been encouraging our entire sector to engage in financial literacy and financial awareness subjects.”

Cihan Aktaş

Vice President for Banks and Financial Institutions, Central Bank of the Republic of Turkey

“Our biggest expectation [from stakeholders] is to create awareness through platforms such as the Visa Europe initiatives.”

Soner Canko

Assistant General Manager for Banking Operations, Ziraat Bank (now General Manager, Interbank Card Centre)

“We inform consumers through modern communication techniques as well as marketing and media channels. We realise that we have a responsibility to act before problems become chronic.”

Yakup Güzel

Audit Unit Coordinator, Customs and Commerce Ministry, Directorate General for Consumer Protection and Market Monitoring

“State has three main functions in this regard: Legislation, monitoring and building awareness. Yet, all stakeholders need to participate in educating the consumer”

Kamer Karakurum Özdemir

Senior Economist, World Bank Turkey Office

“Households do not plan their savings. We see that keeping savings outside of the formal financial system is fairly common.”

Hansin Doğan

Programme Manager, United Nations Development Programme Turkey

“We, as the United Nations, aim to bring a standard to corporate responsibility projects. We think the ‘I Can Manage My Money’ project is an excellent programme that meets those standards.”

Engin Başaran

President, Consumers’ Association (now Honorary President, Consumers’ Association)

“We need to ensure that consumers have the awareness to act responsibly and also have the necessary financial skills”

Yrd. Doç. Dr. Hüsne Demirel

Assistant Professor at Faculty of Vocational Education, Gazi University

“Financial literacy levels are well below average for those with low levels of formal education and low income groups.”



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