

Financial Literacy in Turkey: A field study

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Financial literacy, together with its synonyms and extensions such as financial capability and financial sophistication, has come to be an important item in the things-to-do lists of policy makers and consumer associations. Reflecting this rise in importance, the OECD and the International Network on Financial Education (INFE) have recently supported field studies aimed at measuring financial literacy in 14 countries, namely, Albania, Armenia, British Virgin Islands, Czech Republic, Estonia, Germany, Hungary, Ireland, Malaysia, Norway, Peru, Poland, South Africa and UK. In an effort to make our field study directly comparable to the results in these countries and also to draw upon the experience accumulated in the OECD and the INFE, we used the OECD questionnaire and the methodology guidance developed by the INFE; please see OECD INFE (2011). We also included additional questions of our own and from OECD INFE (2012) to supplement our understanding of the current situation of Turkey with regard to financial literacy.

The methodology implemented by the OECD and the INFE measures financial literacy through its three components: Financial knowledge, financial behavior, and financial attitude. These components are then combined into a single overall measure of financial literacy. In our opinion, this two-step approach has two advantages: 1- Decomposing a concept into its components usually makes the analysis of the concept easier. 2- The components themselves may give valuable insight that could otherwise be missed. In the following, we briefly explain and interpret some of the results in Şahin, Çoşkun, and Berberoğlu (2014).

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Financial Knowledge

We measure financial knowledge by 8 questions that test the knowledge of basic financial concepts and skills such as basic numeracy, time-value-of-money, calculation of interest, risk-return tradeoff, inflation, and diversification. Specifically, we form a financial knowledge score for each respondent out of these questions by crediting a respondent with 1 point for each correct answer and then summing up the points earned. Our sample average for this score is 5.03 whereas the sample averages for the 14 countries range from 4.6 to 6.1. This comparison, supported by additional statistics, implies that the financial knowledge of the Turkish population, as measured by our sample and methodology, is in the low-mid range of the other 14 countries.

Financial Behavior

We quantify financial behavior by 8 questions that test whether the individual is behaving in a financially responsible way. These questions are about spending responsibly, paying bills on time, taking care of financial affairs, pursuing long-term financial goals, having budget as a household, saving money, making informed purchases of financial products, and avoiding debt when running out of money. We form a financial behavior score with a maximum of 9 out of these questions by crediting a respondent with 0 or 1 or 2 points for each question based on the answer recorded on a Likert scale. Our sample average for this score is 4.74 whereas the sample averages for the 14 countries range from 4.5 to 6.1. Supported by additional statistics, this result suggests that the financial behavior of the Turkish population, as measured by our sample and methodology, is at the lower end of the range of the other 14 countries.

Financial Attitude

Financial attitude questions aim to measure an individual's preferences towards enjoying the moment with the money that is available now versus planning for the future and spending the money responsibly. We ask the respondents 3 questions for this purpose. The responses to these questions are also taken on a Likert scale.

We form a financial attitude score out of the responses to these 3 questions, with the maximum score of 5 indicating strongly positive financial attitude. Our sample average for this score is 3.38 while the sample averages for the 14 countries range from 2.3 to 3.7. This result and additional statistical analysis suggest that the financial attitude of the Turkish population, as measured by our sample and methodology, is better than average of the other 14 countries.

Financial Literacy

We add up the three scores reported above to obtain the overall financial literacy score. Our sample average is 13.17, with the sample averages for the 14 countries ranging from 12.4 to 15.1. The overall financial score of our sample is close to the lower end of the range for the 14 countries.

As a policy implication, we note that there is a lot of room for improving the level of the financial knowledge and financial behavior and a sizeable room for improving the financial attitude in Turkey.

Lastly, an interesting finding is that the level of economic development does not predict the level of financial knowledge, financial behavior, and financial attitude, and financial literacy well; the score rankings and the income per capita rankings among the 15 countries (including Turkey) are not in line.

References

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Considering the developments in global equity markets over the last two decades and the dramatic loss of confidence in public equity markets, it is vitally important today to remember once again the very basic functions of equity markets and convince both policy makers and also market players of the critical role of capital markets in economic growth and efficient allocation of resources globally. In this regard, Center for Research in Corporate Governance and Financial Regulation (CCG) has been established by Boğaziçi University in order to contribute to the research that augments the legal / regulatory content of corporate governance models with more economic / financial content. During the next couple of years, while positioning itself as a bridge between research in developed markets and in emerging markets, the Center will mainly emphasize designing "economic models" of corporate governance, that go beyond mere fiduciary rules and that try to link "rational" applications of good governance leading to increased economic value for corporations in the long-run. The Center is lead by Professor Vedat Akgiray. Professor Akgiray is the former Chairman of IOSCO Emerging Markets Committee and Capital Markets Board of Turkey. He is currently serving as an Advisory Board Member at the Ira M. Millstein Center for Global Markets and Corporate Ownership, Columbia University, USA.

Financial Literacy and Inclusion Association Turkey

FODER (Financial Literacy and Inclusion Association) is a non-profit organization dedicated to improve financial literacy and inclusion in Turkey. FODER, founded in November 2012 and accredited by OECD, is Turkey's first NGO concerning financial literacy.

Our mission is based on five key points: coordination, measurement, education, awareness and national strategy .