

FINANCIAL LITERACY AND AWARENESS IN UKRAINE: FACTS AND FINDINGS

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Kyiv, Ukraine





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Financial Sector Development Project

Financial Literacy and Awareness in Ukraine: Facts and Findings

December, 2010
Kyiv, Ukraine

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1 Executive Summary

The world has seen a fabulously sophisticated financial market develop over the past thirty years. What was once straight-forward, plain vanilla corporate or mortgage debt was transformed, as if by alchemy, into “financial instruments.” The securitization of assets and the creation of collateralized debt obligations of various kinds by major financial institutions created a vast money-making machine, churning out an alphabet soup of CDO, CMOs, synthetic CDOs, credit default swaps, and other complex financial products. However, the basis of that money machine was household and consumer debt: installment loans, such as mortgages, personal and car loans, and student loans; revolving credit, such as credit cards, home equity lines, or bank overdrafts; and riskier forms of consumer debt, such as sub-prime mortgages and payday loans. The resulting financial market was built on leverage and risk, with that risk being imperfectly understood even by the Ph.D mathematicians who created the products, let alone by traders, buyers, rating agencies, and regulators.

Simultaneous with the creation and trading of sophisticated financial instruments, ordinary credit products became more elaborate and difficult to understand. Innovative financial products flooded the market, designed to increase access to credit and to entice borrowers to take on debt. The consumer was presented with an array of new choices and options for managing credit. These included variable interest rate loans, interest-only mortgages, balloon mortgage payments, credit card balance transfers, no-documentation loans, and teaser loans of multiple types (e.g., no money down, no payments for six months), not to mention the sub-prime mortgage products. Unfortunately, as the Organization for Economic Cooperation and Development (OECD) notes, “Innovations and increasing complexity in the credit markets transferred additional financial risks to individuals, who [had] difficulty understanding the terms and conditions of their credit products. ...The consequences of uninformed credit decisions can be disastrous.”¹

Surveys show that even in highly developed economies, most individuals have modest levels of financial literacy and often over estimate their knowledge and skills when it comes to consumer credit products². Simply put, most consumers worldwide are ill-prepared to understand or manage their debt obligations. This is a weak base upon which to build a complex financial architecture.

The OECD and the World Bank have taken stands in support of financial literacy and consumer protection. The OECD argues persuasively that financial education for consumers is a fundamental underpinning of smooth functioning capital markets and of the economy as a whole. The World Bank contends that financial literacy and empowering consumers is a prerequisite for efficient and transparent financial markets, especially in countries that have moved from central planning to market economies.³ As a result of the global financial crisis of 2008, confidence in the formal financial system has

¹ OECD, “Financial Literacy and Consumer Protection: Overlooked Aspects of the Crisis,” June 2009, p.1.

² Financial Capability in the United States, National Survey – Executive Summary. FINRA, December 2009.

³ Susan L. Rutledge, “Consumer Protection and Financial Literacy: Lessons from Nine Country Studies,” The World Bank, June 2010, p. 1.

been shaken, and it can be fully restored only on the basis of a more educated consumer of credit products.

Governments worldwide are taking steps to promote financial literacy and to find effective ways to improve consumer protection in financial services. The United States has created its first ever independent agency for consumer financial protection. The World Bank has conducted financial literacy assessments in several formerly centrally planned economies, including Russia, Azerbaijan, Bulgaria, and Slovakia. It is championing the need for adequate institutional frameworks for financial consumer protection. The OECD has developed a set of recommended good practices on financial education and awareness relating to credit.

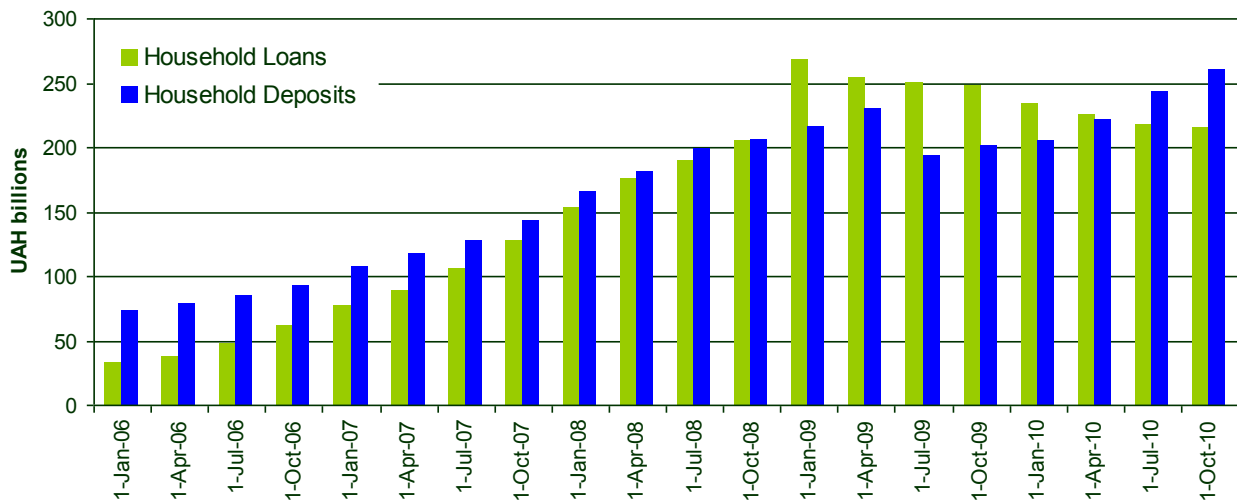
1.1 The Consumer and Financial Services in Ukraine

Ukrainian financial markets are underdeveloped. It is no exaggeration to say that the banking sector *is* the financial sector, since the 179 existing banks account for almost 96% of total financial sector assets. The lack of a diversified non-bank financial institutions sector limits the savings options for most Ukrainians to cash, bank deposits, and real estate. Thus, it is not surprising that the general population is not especially knowledgeable or interested in more sophisticated financial products (stocks, bonds, investment funds, etc.) because they do not use them.

In Ukraine, the movement toward financial literacy and consumer protection is nascent. There is no effective, central consumer protection agency, no *ombudsman* for financial services consumers, no non-governmental organization specializing in consumer protection and financial education, no commercial bank that is championing the importance of an educated consumer, no government fund at the central bank or a financial ministry dedicated to financial literacy. Additionally, there is no formal, approved curriculum in the school system to teach young adults the basics of finance in a market economy. Unfortunately, the lack of financial awareness and consumer protection in Ukraine goes hand-in-hand with increasing individual indebtedness (Chart 1). In 2008, household debt in Ukraine stood at around 30% of GDP, notably higher than the debt levels of neighboring countries such as Poland, Russia, Romania, and Belarus. Much of this debt is thought to be concentrated in the emerging middle class in Ukraine's major cities. Moreover, it is fairly clear that Ukrainians took out mortgages in the 2006-2008 period in foreign currencies and at floating rates, exposing themselves to financial risks that they did not fully understand.

Not surprisingly, Ukrainians exhibit very low levels of trust in financial institutions. In a 2010 survey of public opinion on pension reform, only 15% of respondents trusted private banks, followed by 11% for insurance companies, 6% for investment funds, and 5% for non-state pension funds. Only the Pension Fund of Ukraine received an approval rating above 50% on the indicator for level of trust in financial institutions.⁴

⁴ USAID/CMP/FINREP, "Pension Reform in Ukraine: Public Opinion Survey 2010," July 2010, p. 20.

Chart 1. Household Loans and Deposits in Ukrainian Banks*(data reported by the National Bank of Ukraine)*

1.2 The National Survey: A Portrait of Ukraine

As a first step toward developing a national program in Ukraine for financial education and consumer protection, the USAID/FINREP project conducted a national survey of financial literacy. In September 2010, 64 questions were asked of over 2,000 respondents, aged 20 to 60, about personal finance and consumer protection. The survey respondents were drawn from cities across Ukraine. A random sampling method was used, and face-to-face interviews were conducted. Many of the questions asked were adapted from World Bank surveys conducted in neighboring countries. To supplement knowledge from the survey questionnaire, focus group interviews were also conducted in six large Ukrainian cities from different regions.

The purposes of the survey were:

- to learn the level of financial literacy of Ukrainians (self-estimation and answers to financial questions);
- to understand financial behavior of Ukrainians in terms of family budgeting, saving, and credit/debt management;
- to discover the types of financial services most frequently used by Ukrainians;
- to understand the degree of awareness by Ukrainians of consumer protection rights; and
- to explore regional, age, and gender differences regarding financial literacy and consumer protection issues.

The data presented elsewhere in this paper provides answers to these questions.

The portrait of the Ukrainian financial services consumer that emerges from the national survey is not encouraging (albeit one which is highly comparable to neighboring countries). The average Ukrainian is not very knowledgeable about finance, is a user mainly of simple bank services, is largely unaware of his/her consumer rights, and is distrustful of financial institutions. The survey found that over 60% of the respondents consider themselves to be financially literate (good to excellent skills, 22%; satisfactory skills, 41%). However,

only 22% of respondents could give at least five correct answers to seven simple mathematical questions necessary to be able to manage one's finances. More than half (51%) of those surveyed answered three or fewer questions correctly.

Compounding the problem of a low level of mathematical proficiency to simple financial questions is a generally low level of knowledge about finance and about legal/consumer financial rights. For example, only 7% of the population knew the maximum amount of depositor funds in a commercial bank that are guaranteed by the state, and only 3% could explain what a floating rate of interest is. More encouragingly, 39% knew the difference between a credit and debit card, and 40% could identify the difference between a share and a bond. Overall, out of fifteen questions asked about financial knowledge and consumer rights, only 2% could answer ten or more questions correctly. Over 80% of the population could answer correctly six or fewer questions.

There is very weak trust in the Ukrainian financial sector. Ukrainians use a very limited array of financial services, with the leading categories being public utility payments, bank account/plastic card, and ATM transactions. About 13% of Ukrainians are savers. Of consumers who do not save, 14% gave a lack of trust in financial institutions as the reason (interestingly, the comparable figure for Russia was 9%). Approximately 7% of Ukrainians have life insurance, but 21% say that they do not purchase insurance because they do not believe the insurance company will pay the claim in case of death (again, the corresponding figures for Russia are 11% and 21%, respectively).

One in every four consumers has had a bad experience with a financial transaction, with the three leading problems being a bank deposit, a consumer loan, and a bank credit card (29%, 28%, and 23%, respectively, of bad experience accidents). If a dispute arises between a consumer and a financial institution, only 16.5% believe that the conflict will be resolved to their satisfaction. Survey results also suggest that most Ukrainians have no idea who to turn to for information or assistance in the event of a consumer dispute. When asked which organization they could appeal to for help in resolving a dispute with a financial organization, 31% of the population said the courts, 24% said the office of ombudsman (which is not chartered to deal with such appeals), 22% could not answer the question, and 31% said a government regulator (National Bank of Ukraine 11%, State Committee on Consumer Standards 11%, FSR 8%).

Many Ukrainians are struggling financially. About 56% of respondents assessed their family financial situation as satisfactory, with 32% stating that it was bad or very bad. In this case, satisfactory means having sufficient income to buy food, clothing, and consumer durables, with the latter purchase sometimes problematic. Most Ukrainians do not rely on credit, with 77% saying they have no debt (and 19% acknowledging indebtedness). Of those who have debt, most estimate that the percentage of monthly income dedicated to repayment is between 20% and 30%.

As one would expect in a country with underdeveloped financial markets, Ukrainians are not very interested in news about the financial sector. The three "financial" issues the population follows most are changes in the inflation rate (20%), changes in pension benefits (10%), and changes in the property market (10%). However,

over 43% of respondents stated that they do not follow financial news at all. The three most frequently cited sources of information were newspapers, magazines and television (66%), friends (19%), and specialized websites (17%). But when it comes to making a decision about choosing a company to purchase a financial service from, one in every two respondent seeks the advice of family or friends.

Subsequent sections of this report provide additional, more in-depth information on and analysis of the Ukrainian population and its use of financial services. The primary focus is on financial literacy and consumer knowledge, but there is also data presented on financial behavior, family budgeting, debt management, and related topics. Where meaningful, results are also presented by region and age. Interestingly, there was little or no statistical difference based on gender.

1.3 Next Steps

The premise behind this study is that a stable, resilient financial sector should be based on an educated consumer. Its purpose is to stimulate a dialogue on the measures Ukraine needs to take to (1) develop the capabilities required of its citizens to understand the financial products and services that are offered, and (2) enable them to exercise their rights as financial consumers. The World Bank rightly concludes that a financial sector should provide consumers with:

- *Transparency* by providing full, plain, adequate and comparable information about the prices, terms, and inherent risks of financial products;
- *Choice* by ensuring fair, non-coercive and reasonable practices in the selling and advertising of financial services and of collection of payments;
- *Redress* by providing inexpensive and speedy mechanisms to address complaints and resolve disputes; and
- *Privacy* by ensuring control over collection and access to personal financial data.⁵

Training in financial literacy and adequate consumer regulation go hand-in-hand as key elements to empower consumers. Based on the results of this national survey, Ukraine needs to focus on consumer literacy and consumer protection as a means to buttress and further develop its financial markets. The next step is to conduct a diagnosis of the legal/regulatory and institutional framework for consumer protection and financial education.

Ukraine's policymakers, regulators, private financial institutions, and consumers also need to understand that financial literacy and consumer protection is not a zero sum game, with clear winners and losers. There are definite areas where the interests of government, financial service providers, and consumers overlap and are mutually beneficial. As the developed markets are just beginning to understand fully, informed consumers are a prerequisite for a sound, stable, and competitive financial system. Enhanced education and consumer protection are needed to gain and inspire confidence in the financial sector, and to bring more Ukrainians into the formal financial system.

⁵ World Bank "Consumer Protection and Financial Literacy," p.13.

2 Methodology

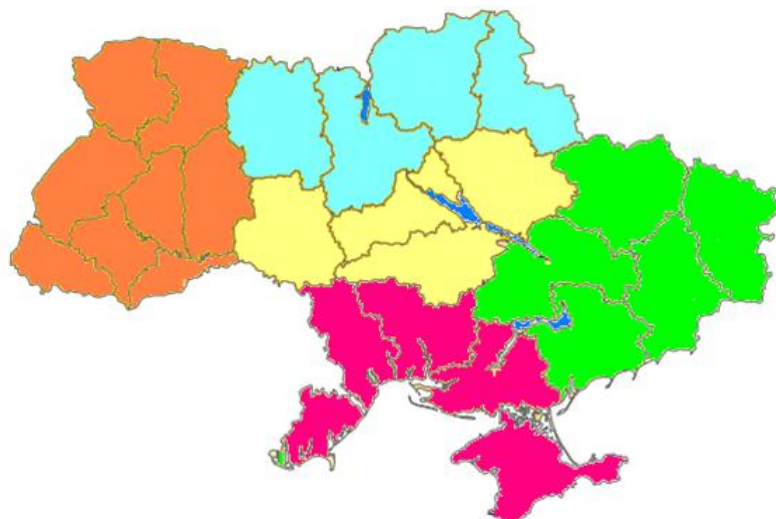
A Kyiv-based survey research firm, InMind, conducted a nationally representative survey on financial literacy, knowledge and use of financial services, and public awareness of consumer rights and protection, between September 24 and October 5, 2010. Face-to-face interviews were conducted with 2014 adult age (20-60) current users of financial services, with the average interview lasting 30 minutes. A total of 64 questions were asked, many of them adapted directly from similar financial literacy surveys conducted by the World Bank in nearby countries such as Russia and Azerbaijan. At the national level, surveying 2,000 respondents is considered the standard in Ukraine for reliable statistical analysis.

The questionnaire is divided into five sections. Section 1 contains questions regarding the respondent's self-estimation of his/her financial literacy. The meaning of the term "financial literacy" was defined and read out to the respondents ("Financial literacy means having the knowledge, skills and abilities to undertake responsible economic and financial decisions and actions with a requisite level of competence"). Section 2 is composed of relatively basic test-questions of financial mathematical capability. Section 3 is composed of questions related to knowledge of financial terminology and legal rights regarding financial products. Section 4 asks questions about the use of financial services and about financial behavior by individuals and/or households. Section 5 questions are designed to provide a social-demographic profile of the respondent.

For a nationwide sample, InMind applies an internationally approved random sampling procedure that ensures random selection at each stage and allows calculation of sample errors. The sample design consists of the following steps:

1. The sample is derived using the "probability proportional to size principle," where each oblast and each settlement type is proportionally represented. In Ukraine, there are three types of settlements: cities, "settlements of town of significance" (PGTs), and villages. With few exceptions, the type of a settlement correlates with its size. Primary sample units (PSU) are settlements for urban population (cities, towns, PGT) and rajons for rural population. This survey was limited to sampling the urban population.
2. The next step in defining the sample is selection of postal districts. Postal districts are small areas with clear boundaries. Within each primary sample unit, a list of residential postal districts is constructed. Then, a few postal districts are randomly chosen to serve as points of further selection of a street, building, and apartment.
3. The final stage is selection of the household and the resident respondent. After the selection of the postal districts, a street, a building, and an apartment in a chain are randomly selected. Starting from the first apartment/building, the interviewer selects representatives of the target audience – consumers of financial services between the ages of 20 and 60. If there were several prospective respondents, the primary household decision maker was selected.

This survey included all 24 oblasts and Crimea, Kyiv and Sevastopol.



For purposes of data analysis, all oblasts were divided into 5 regions: Central (Kirovograd, Cherkassy, Poltava, Vinnitsa oblasts), North (Zhitomir, Kyiv, Chernigiv, Sumy oblasts), South (Odessa, Mykolaiv, Kherson oblasts and Crimea), West (Volyn, Zakarpattia, L'viv, Ivano-Frankivsk, Khmelnytsky, Rivne, Ternopil, Chernivtsi oblasts) and East (Donetsk, Kharkiv, Zaporizhzhia, Lugansk, Dnipropetrovsk oblasts).

Statistical error does not exceed 2%.

As part of the survey, information was collected on social-demographic characteristics to permit analysis of significant differences based on gender, age, region, and education. The tables below provide information based on the sample.

Table 1. Age and Gender Distribution

Age	Total	Gender	
		Male	Female
20-24	12%	13%	11%
25-34	28%	30%	27%
35-44	23%	24%	22%
45-60	37%	34%	40%
Total	100%	100%	100%

Table 2. Region and Gender Distribution

Region	Total	Gender	
		Male	Female
Central	9%	9%	9%
North	19%	17%	20%
South	15%	14%	15%
West	18%	19%	17%
East	40%	41%	39%
Total	100%	100%	100%

The relatively greater concentration of respondents in the East is explained in part by the fact that the region contains a greater percentage of the population and is also more urbanized.

Quality control was done according to the standard requirements for each of three stages:

- Field-work control includes verification of the respondents' selection procedure, accuracy of the recordings in diaries of interviewers, repeated short interviews with respondents, and 100% visual control of questionnaires on the data processing stage.
- Logical control is done using special software that checks the consistency of the data and verifies data processing accuracy.
- Analytical control is the final stage which is executed by the project manager, based on the dispersion analysis.

3 Use of Financial Services

3.1 Existing Penetration of Financial Services

Financial service coverage in Ukraine is low, especially when compared to European countries. The survey data indicates that 39% of Ukrainians do not have a bank account and most of the population uses only basic financial services.

As Chart 2 shows, the most commonly used financial services are the payment of utility bills through a bank (78%), use of a bank account and a plastic card (61%), making payments through payment system terminals (38%), and currency exchange (31%). About 30% of respondents are indebted (have taken out a loan), and about 20% use money transfer services. The fact that only 11% of people have bank savings deposits suggests that Ukrainians may not have much income to save. However, it is also possibly an indicator of unfamiliarity with the financial system generally, or perhaps a low level of confidence in financial service providers.

Ukrainians essentially do not use so-called investment services. Fewer than 2% of respondents own shares, bonds, or investments in NPFs and investment funds.

Over 72% of respondents say they do not have any outstanding loans. Of the 28% who do have loans, the loan breakdown is 24% consumer loan, 2% car loan, and 2% a mortgage. Consumer loans are characteristic of all education levels, but mortgage loans are more characteristic of people who have specialized secondary and higher education.

3.2 Future Use of Financial Services

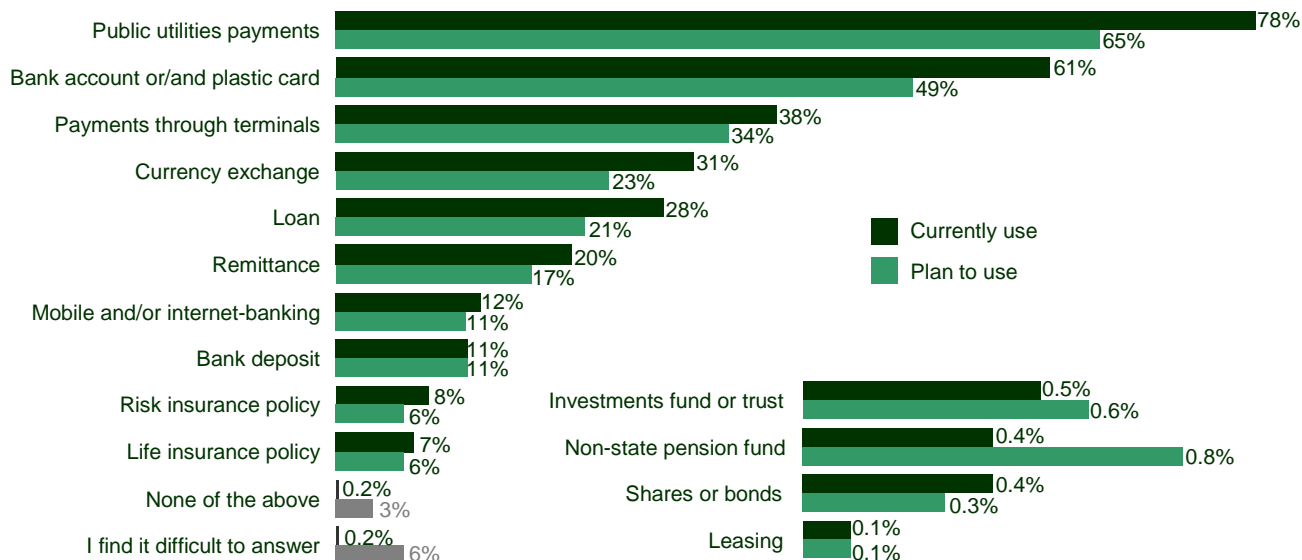
The survey asked respondents about their expected use of financial services over the next two years. The results suggest that there will be a decline in the use of financial services, even from the present, modest level. The demand for such bank services as the payment of utility bills through a bank is expected to decline by over 13%, and for a bank account/plastic card by about 12%. There will also be a decrease in demand for currency exchanges and loans, by about 7% each. All these numbers are above the statistical margin of error and therefore are worrisome. The only two categories where there might be an increase in use are advanced financial products such as investments into pension funds and investment companies. Noticeably, many respondents were not sure how to answer this question (6%) or would like not to use any financial service at all (3%). This is evidence that Ukrainians are not sure about their financial future. Full data for consumer demand for financial services is provided in the Chart 2.

Ukrainians are interested in receiving more information on financial products. Data in Chart 3 shows that 29% of respondents would like additional information on a consumer loan, 16% on a bank savings account, 14% on a bank plastic card, and 13% on a current bank account. The survey revealed there is interest among respondents in learning more about such financial services as non-state pension

funds – 15% of all respondents, and 20% among people aged 40 to 65 would like to get information on NPFs. Another 13% is interested in details on the use of a mortgage loan and insurance policies.

Chart 2. Use of Financial Services

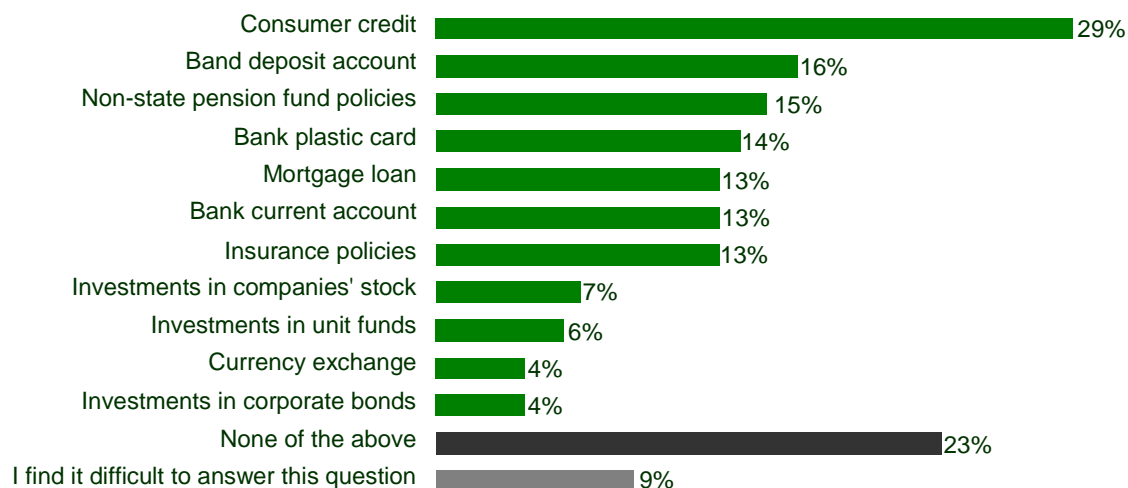
**What financial services from those listed below do you or your family members use?
What financial services do you personally plan to use in the next 2 years?**
(percent of all respondents)



Nevertheless 23% of respondents are not interested in receiving any information on financial services, with older people (aged 45 to 60) being the least interested – 28% of older people are not interested in any financial services.

Chart 3. Demand for Additional Information on Financial Services

What financial services would you like to get additional information about?
(percent of all respondents)



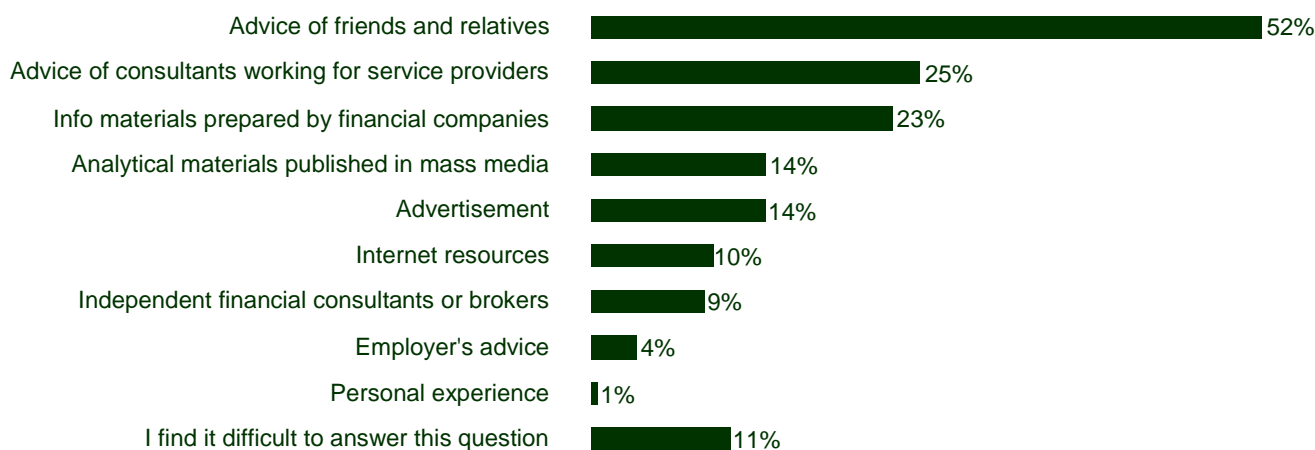
This lack of interest in financial services can be attributed to a variety of possible reasons, such as lack of income to make investments, a lack of confidence in the financial system generally, or simple lack of understanding of use of financial services. Approximately one third of the country's population is outside of the formal financial system – they have no deposit accounts, no loans, and their only link to banks is perhaps a debit card that they obtained through their employer for payment of salary.

Respondents were also asked about the information sources they rely on when they open an account or buy a financial service. 52% of respondents choose a financial institution based on the advice of his or her friends and relatives, 25% of respondents talk to consultants who work for these financial companies, and 23% of respondents read promotional materials of these companies about their services. Advertising and/or recommendations of independent financial consultants do not seem to be important factors.

Chart 4. Sources of Information Used When Choosing a Financial Service Provider

What sources of information do you pay attention to when choosing a company to buy a service from?

(percent of all respondents)



3.3 Satisfaction and Expectations

Respondents were asked whether they had a negative experience in using financial services. The results revealed that 24% of respondents experienced problems in their interactions with a financial institution. Geographically, Ukrainians living in the Central and Western parts of Ukraine reported more incidences of bad experiences (35% and 34%, respectively), especially when compared to respondents in the Eastern and Northern parts (19% and 20%, respectively).

As Chart 5 shows, the most common problem involved bank deposits and consumer loans, respectively 29% and 28% of those who reported a bad experience with financial services. 23% faced a problem in using a bank credit card. These results tend to confirm the fact that Ukrainian consumers are essentially users of basic banking services.

At the regional level, problems with credit cards are more frequent in Eastern Ukraine (29% of those who have had a bad experience), with consumer loans in the South (42%), and with bank deposits in the North and West (39% and 38%, respectively).

Many of the problems people faced in using financial services were probably related to the financial crisis. Many people could not withdraw their deposits from troubled banks, and others fell behind on their mortgage payments, consumer loan repayments, and credit card debt. Problems likely also arose when using financial services because of poor efforts by banks to properly explain services, low levels of awareness of customer services, and lack of understanding of the real risks of borrowing.

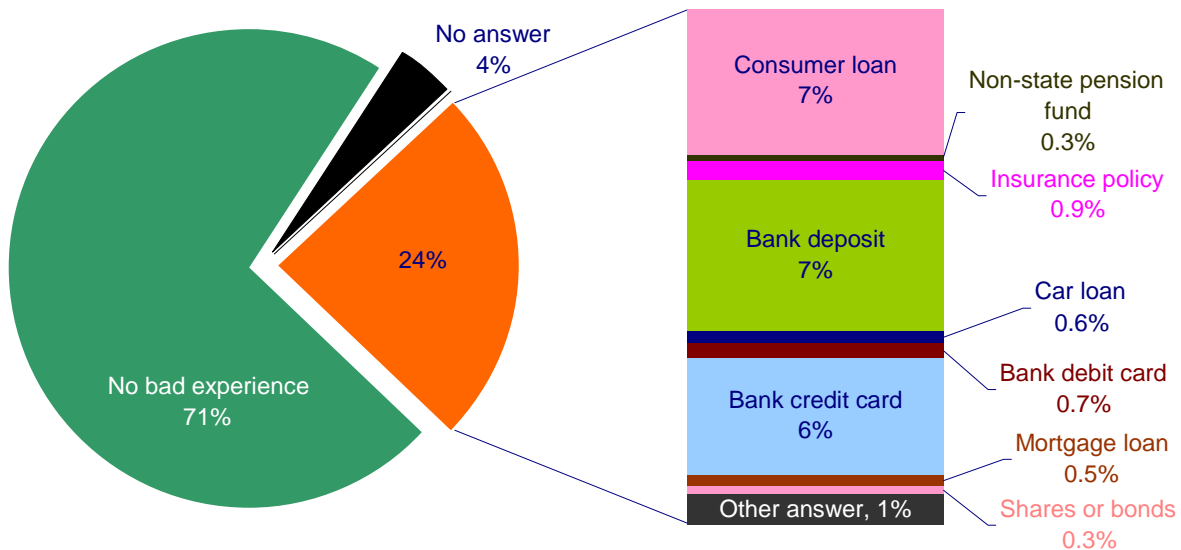
Chart 5. Bad Experience Using Financial Services

Have you had a negative experience in purchasing a financial service?

(percent of all respondents)

If yes, what kind of service was it?

(percent of respondents experienced bad financial service)

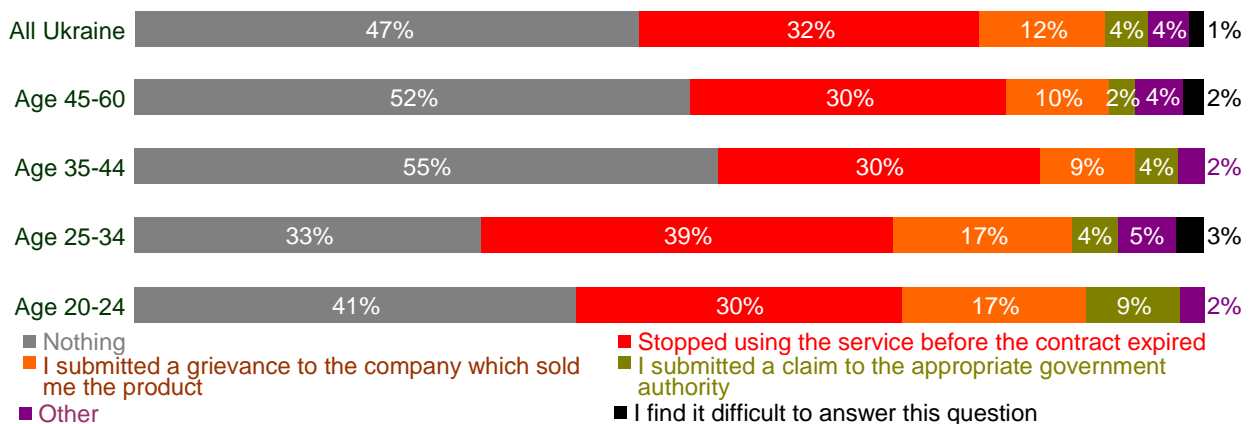


Of those encountering a problem in using a financial service, most ignored the problem or stopped using this service before the end of the contract with the financial institution (closed a savings account or checking account, sold shares in the investment fund, terminated an insurance contract, etc.). Few respondents submitted a grievance to the company that sold the service. Moreover, an insignificant percentage of respondents asserted their rights and filed a complaint with a government regulatory agency. Younger consumers (aged 20 to 24) are typically the most active in responding to a problem with financial services. Almost 9% of this age group filed complaints with the relevant government agency, which is the highest percentage among all age groups of respondents.

Chart 6. Responses to Bad Financial Services by Age Groups

What did you do after you discovered the problem?

(percent of respondents experienced bad financial service)



In general, almost half of respondents (44%) believe that if a conflict arises it will be resolved in favor of the financial institution. Less than 20% of respondents believe that the conflict will be resolved

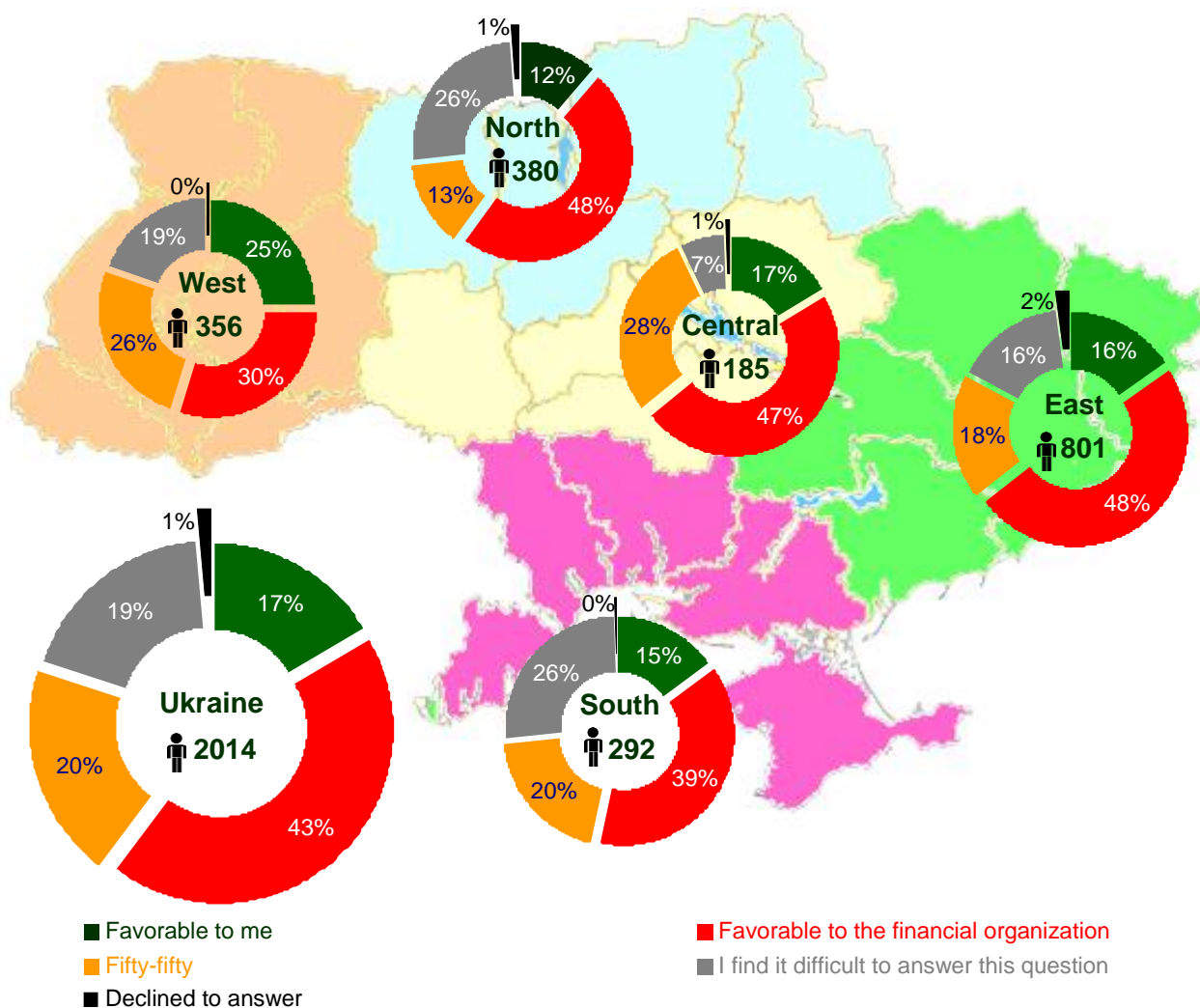
amicably. Only 17% of respondents believe that they will be able to make their case and the conflict will be resolved in their favor. The most likely explanation for these essentially negative expectations concerning the resolution of a problem with a financial institution is lack of knowledge of the requirements and procedures to assert one's rights. This is probably combined with a general lack of confidence in conflict resolution mechanisms in Ukraine (e.g., the court system, the bureaucracy).

Results suggest that, in comparison to other parts of the country, people in the West are more confident in having a conflict resolved in their favor (25%).

Chart 7. Expectations of Conflict Resolution with Financial Company

If a conflict with a financial company arises regarding the provision of financial services to you, on what terms do you expect it to be resolved?

(percent of all respondents, percent of respondents in the regions)



4 Financial Literacy and Awareness

One of the research findings on financial literacy from cross national studies is that most consumers overestimate their ability to understand finance. Typically more than 50% of the respondents in surveys rate their own financial skills as satisfactory to excellent, but the reality is different. When asked, for example, relatively simple math questions about interest rates or inflation, most respondents do poorly. Accordingly, a gap exists between the development of more complex financial products and the ability of the consumer to understand them. Moreover, this gap is widening, especially in middle income countries.

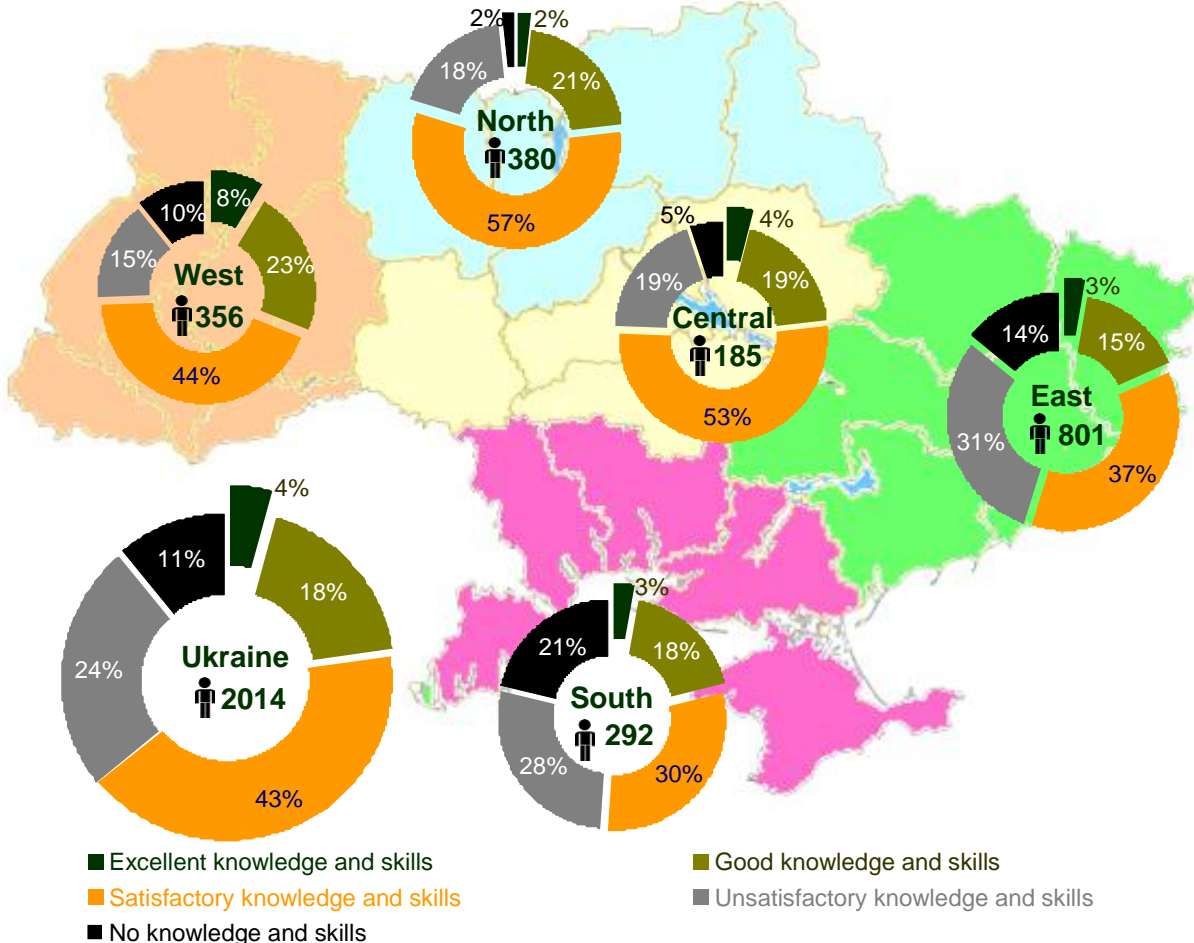
This survey asked questions designed to compare and contrast Ukrainian self-assessments of financial literacy with the real levels of knowledge and skills. Seven questions on financial math were asked, six of which were drawn directly from similar surveys in other countries. The survey also asked respondents to complete 15 questions designed to learn the actual level of knowledge regarding financial consumer protection and their ability to resolve disputes arising in dealing with financial institutions.

4.1 Self-Assessment of Financial Literacy

Chart 8. Self-Assessment of Financial Knowledge and Skills

Do you consider yourself a financially literate person?

(percent of all respondents, percent of respondents by regions)



Ukrainian respondents were asked to assess their financial literacy skills by estimating where they rank on a scale from essentially no skills to excellent capabilities. As Chart 8 shows, 22% of Ukrainians rated their skills as good (18%) to excellent (4%), and an additional 41% said that they had satisfactory knowledge and skills. In contrast, 24% of the survey thought their skills were unsatisfactory, and 11% said that they possessed no knowledge or skills of finance (2% refused to respond). Interestingly, the financial literacy self-assessments of men and women respondents were essentially identical.

One of the particularly significant results of the survey was a discrepancy in the financial literacy self-assessment in different regions of Ukraine: residents of Western Ukraine feel much more certain of themselves in the area of finance than residents of Southern and Eastern Ukraine.

4.2 Financial Mathematics Test

In order to measure the actual level of financial knowledge, the respondents were asked seven mathematical questions related to finance. Six questions came directly from World Bank studies in other countries, and one was developed specially for this survey.

Table 3. Financial Mathematics Test Questions

Name	Question	Answer Options*
Simple Interest	Let's assume that you deposited 100,000 UAH in a bank account for 2 years at 8% annual interest rate. How much money will you have in your account in 2 years if you do not withdraw from or add to this account any money?	More than 108,000 UAH Exactly 108,000 UAH Less than 108,000 UAH I cannot come up with even a rough number
Compound Interest	Let's assume that you deposited 100,000 UAH in a bank account for 5 years at 10% annual interest rate. The interest will be earned at the end of each year and will be added to the principal. How much money will you have in your account in 5 years if you do not withdraw either the principal or the interest?	More than 150,000 UAH Exactly 150,000 UAH Less than 150,000 UAH I cannot come up with even a rough number
Inflation	Imagine that you deposited the money in a bank account at 8% annual interest rate, while the annual inflation rate was 10%. Do you think the money from your account can buy more or less, or the same amount of goods and services on average now as a year ago?	More than a year ago The same Less than a year ago I cannot estimate it even roughly
Purchase Power	Let's assume that in 2011 your income is twice as now, and the consumer prices also grow twofold. Do you think that in 2011 you will be able to buy more, less, or the same amount of goods and services as today?	More than today Exactly the same Less than today I cannot estimate it even roughly
Sales	Let's assume that you saw a TV-set of the same model on sale in two different shops. The initial retail price of it was 10,000 UAH. One shop offered a discount of 1,500 UAH, while the other one offered a 10% discount. Which one is a better bargain – a discount of 1,500 UAH or 10%?	A discount of 1,500 UAH A 10% discount I cannot estimate it even roughly
Loan with Prepaid Interest	Let's assume that you took a bank credit of 10,000 UAH to be paid back during a year in equal monthly payments. The credit charge is 600 UAH. Give a rough estimate of the annual interest rate on your credit.	3% 6% 9% 12% I cannot estimate it even roughly
Bond Yield	Let's assume you have purchased a bond with face value of 1,000 UAH for 900 UAH. The bond would expire in a year and bring you a coupon of 150 UAH. If you would hold the bond till maturity, can you estimate what return you would enjoy on your investment?	Below 15% Exactly 15% Above 15% Above 20% I cannot estimate it even roughly

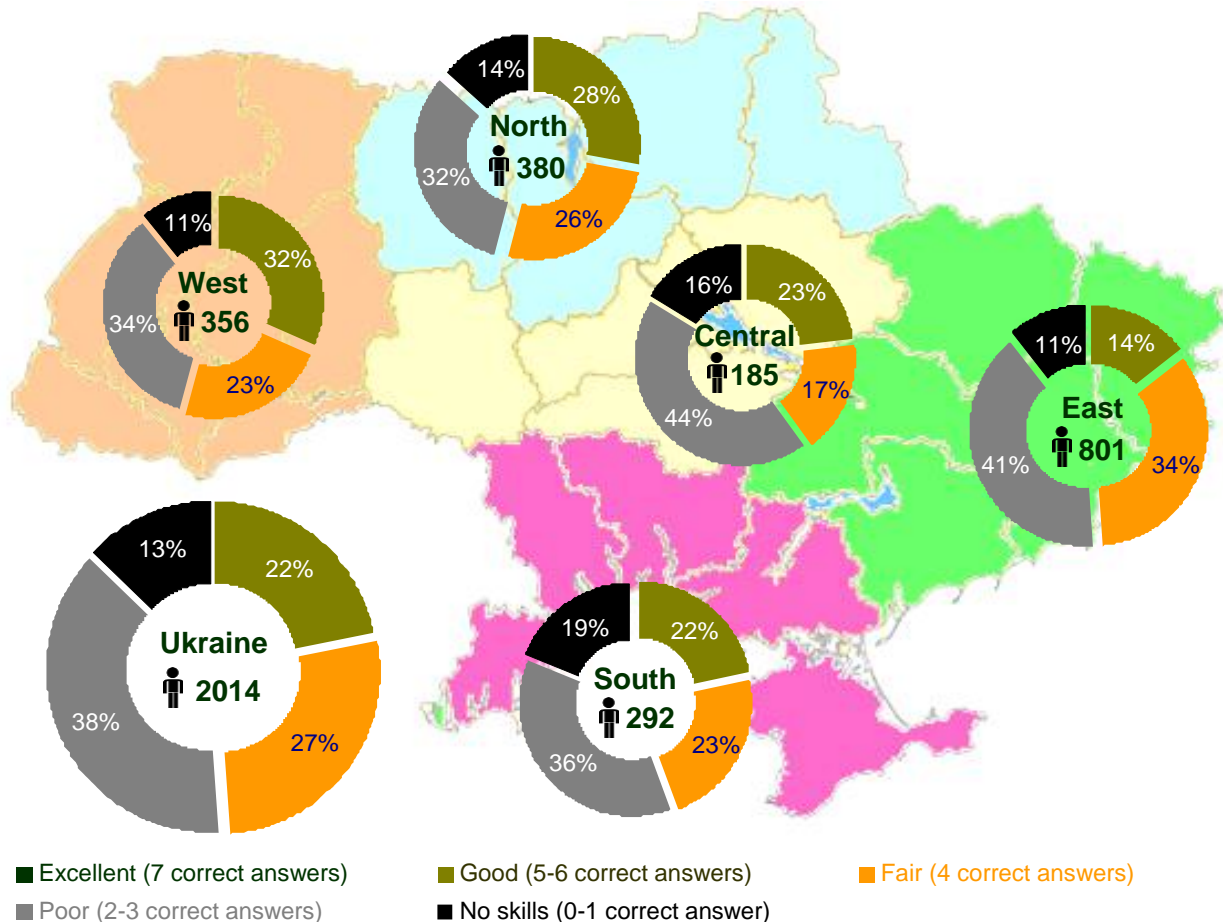
* Correct answers can be found at www.finrep.kiev.ua

The survey results indicate that skills in financial mathematics of Ukrainians are low compared to their modest self-evaluation. Only very few individuals were able to answer correctly all seven questions, and they were less than 1% in total. Only 13% gave no more than one correct answer, while most Ukrainians – 38% – have unsatisfactory knowledge and skills. Good skills (defined as the ability to answer 5 or 6 questions correctly) were found in 22% of respondents – this matches self-assessment.

Chart 9. Test of Financial-Mathematical Skills

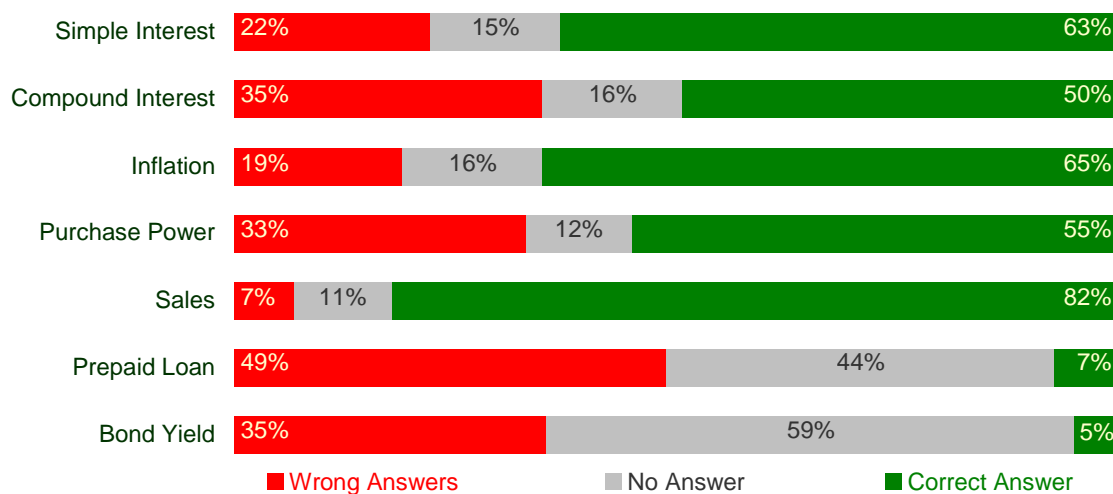
Seven questions on financial mathematics

(percent of all respondents, percent of respondents by regions)



Ukrainian responses were strongest to the question on the selection of sale options, as this is something that relates to their day-to-day life. They also understand generally inflation and simple interest, which can also be probably accounted for by practical experience. About half the respondents understand compound interest and time value of money in terms of purchasing power. The most difficult questions to answer were about the evaluation of the cost of a loan with advance interest payment and the effective yield of a coupon-bearing bond purchased with a discount. Just 5-7% of the respondents gave correct answers to these questions.

The most literate group of respondents proved to be those with unfinished higher education (i.e. those who now are university students). Men generally gave more correct answers than women, whereas women more frequently refused to provide an answer.

Chart 10. Answers to Financial Mathematic Questions**Seven questions on financial mathematics***(percent of all respondents)***4.3 Financial Awareness Test**

The financial awareness test included four groups of questions: general terminology, financial products, responsibilities of financial institutions, and consumer protection vehicles. Each group consisted of three to five questions. The overall consumer awareness score was based on responses to 15 questions. Some of the questions were borrowed from similar surveys conducted by the World Bank, but most of the questions were designed specifically to suit the objectives of the current poll and take fully into account the specifics of Ukraine's financial market.

As was the case in the block on mathematical skills, few respondents could answer correctly all questions, and they are less than 1% in total. The discrepancies in the self-assessment of financial literacy proved even more dramatic than in the case of financial mathematics. Four out of five Ukrainians demonstrated an extremely low level of knowledge, answering correctly fewer than six questions.

With regard to financial terminology, most respondents refused to answer the questions posed. Traditionally, women had a higher percentage of refusals than men.

Ukrainians have mastered plastic cards as a financial product, and this is only to be expected, given their active use nationwide. But even in the case of this question, 26% of respondents confused credit and debit cards, and 35% gave no answer to the question. The lowest number of correct answers was in response to questions about types of insurance. This is not surprising, given the low market penetration of these services in Ukraine. A surprise was an extremely low level of knowledge of the term "franchise", given the fact that mandatory civil liability insurance for car owners was introduced in Ukraine years ago, and 'franchise' is the core term for this financial product.

As to the responsibilities of financial market institutions, the results are mixed. On the one hand, most Ukrainians (57%) are aware that banks have a responsibility to disclose the total cost of a loan and the

effective rate of interest to the borrower. However, almost the same number of respondents (43%) had no idea about this requirement. Almost 26% of respondents are certain that the bank can apply compound interest to a loan, if included in the terms of the loan contract. Only one respondent out of ten knew this is illegal and explicitly prohibited by the legislation.

Table 4. Financial Awareness Test Questions

Name	Question	Answer Options*
Financial Terminology		
Insurance Franchise	Do you know what is "franchise"?	Yes, it is the sum of money one has to pay to insurance company to purchase insurance
		Yes, it is the sum of money the insurance beneficiary is going to receive if risk event occurs
		Yes, it is the sum of money the insurance company would deduct from coverage when it has to pay off the claim
		No, I never heard this term before
Credit History	Do you know what is a "credit history"?	This is the information about performance of loans in individual bank that can be found in bank's financial statement
		This is the information about performance of individual borrower that can be retrieved from credit bureaus
		This is the information about previous defaults of a security issuer that can be found in state registry of security issues
		This is the information about Ukraine's sovereign debt performance that is collected by institutional lenders
		All of the above
		None of the above
		I find it difficult to answer this question
Floating Rate of Interest	Do you know what is a "floating rate of interest"? You can choose several answers	It is a rate of interest that can be altered during the life of a financial instrument
		It is a rate that is indexed to a commonly used rate referred to as "base rate"
		It is a rate that parties of transaction can reset without asking each other for any conceal
		It is a rate that is opposite to "fixed rate of interest"
		All of the above
		None of the above
I find it difficult to answer this question		
Financial Products		
Insurance Types	Do you know the difference between life and risk insurance?	Yes, life insurance covers my life and risk insurance covers my risks, and any insurance company can sell both products
		Yes, life insurance covers life and health, and risk insurance covers accidents, and one insurance company can sell only one type of product
		No, there is no difference
		I find it difficult to answer this question
Plastic Card Types	Do you know the difference between credit and debit card?	Yes, debit card allows you to cash more money than you have on your balance, whereas credit card only allows you to cash what you have
		Yes, credit card allows you to cash more money than you have on your balance, whereas debit card only allows you to cash what you have
		No, there is no difference
		I find it difficult to answer this question
Security Types	Which from the below explains the difference between a share and a bond. You can choose several answers	Share represents an investment into statutory fund, whereas bond does not
		Bond can be bought back by the issuer, whereas share can not
		Common share has no guaranteed level of income, whereas bonds can have fixed and variable returns
		Bonds can be sold at the secondary market, whereas some shares can not
		Bonds can be held by individuals and companies, whereas shares only by corporate investors
		Shares can be pledged as collateral, whereas bonds can not
		There is no difference between shares and bonds; these are just different names for the same instruments
I find it difficult to answer this question		

* Correct answers can be found at www.finrep.kiev.ua

Table 4. Financial Awareness Test Questions (cont'd)

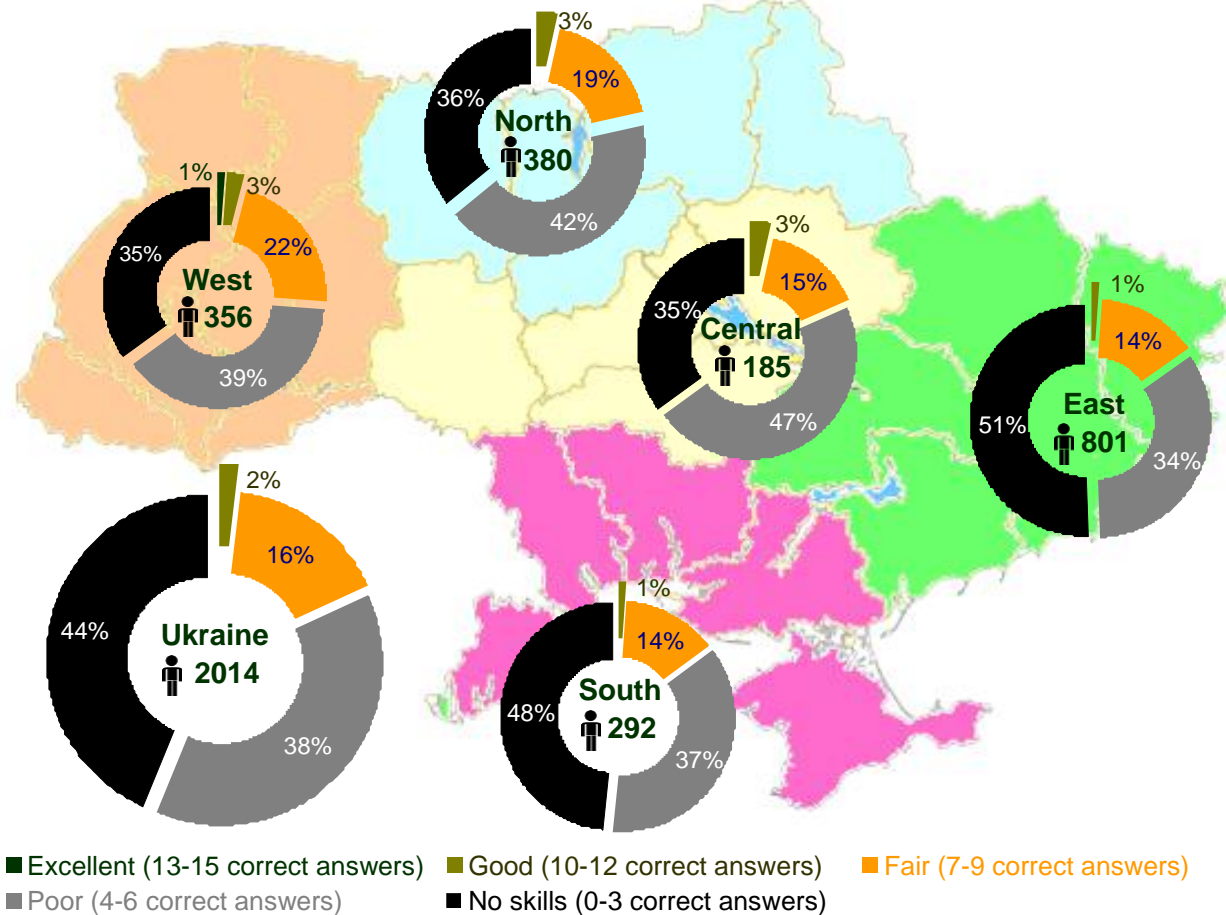
Name	Question	Answer Options
Responsibilities at Financial Institutions		
Responsibility of Banks	What should the banks do under the current Ukrainian legislation? Choose a phrase most compliant with the Ukrainian law from the options given	Charge the same annual interest rate on all credits Charge the same annual interest rates on all similar credits (credit cards, car purchase credits, mortgage loans, etc.) Inform borrower of total credit cost and effective rate of interest They should not do anything of the above I find it difficult to answer this question
Compound Interest on Loans	Does Ukrainian legislation allow a bank or any other lender to charge you compound interest on your loan?	No, this is against the law Yes, but only if this is explicitly stated in the loan agreement Yes, at bank's discretion I do not know what is 'compound interest' I find it difficult to answer this question
Compound Interest on Deposit	Does Ukrainian legislation allow a bank or any other deposit institution to pay you compound interest on your deposit?	No, this is against the law Yes, but only if this is explicitly stated in the deposit agreement Yes, at bank's discretion I do not know what is 'compound interest' I find it difficult to answer this question
Acting as Guarantor	If your friend asked you to be a guarantor on his or her loan, and you have agreed to this proposal, what kind of liability you might encounter?	There is no financial liability attached to this, I will just make a gesture to my friend There is a financial liability attached to this in case my friend fails to pay off the loan There are both financial and criminal liabilities attached in case my friend fails to pay off the loan I find it difficult to answer this question
Consumer Protection Vehicles		
Conflict Resolution	In case of a dispute with a financial institution concerning a financial product you have purchased from this institution, which organization you can appeal to for help to protect your consumer rights? You can choose several answers	The National Bank of Ukraine The State Commission on Regulation Financial Services Markets The State Committee on Consumer Standards The Office of Ombudsman Any court of general jurisdiction It depends on the type of financial institution and/or financial product I find it difficult to answer this question
Bank Deposit Insurance	If a citizen has a deposit in a regular Ukrainian commercial bank and this bank becomes bankrupt, do you know what maximum level of a deposit is entirely guaranteed?	There is no guarantee on bank deposits 15,000 UAH 100,000 UAH 150,000 UAH 1 million UAH No limits, all deposits in any bank are guaranteed in full amount I find it difficult to answer this question
Investment Insurance	If a citizen has invested into an investment fund or assets management company, and the value of investment plummeted because of a large scale financial crisis, what is an approximate level of losses covered by the state?	There is no guarantee on investments into investment funds or assets management company 15,000 UAH 100,000 UAH 150,000 UAH 1 million UAH No limits, the state guarantees all investments in full amounts I find it difficult to answer this question
Credit Union Deposit Insurance	If a citizen has deposit in a credit union, and this union becomes bankrupt, do you know what maximum level of a deposit is entirely guaranteed by the state?	There is no guarantee on credit union deposits 15,000 UAH 100,000 UAH 150,000 UAH 1 million UAH No limits, all deposits in any CU are guaranteed in full amount I find it difficult to answer this question
Insurance Validity	If a citizen has risk insurance (other than third-party motor responsibility) from an insurance company, and this company goes bankrupt, do you know what happens to the purchased insurance?	It is void, or no longer valid It is assumed by other insurance company, most likely government-owned It is assumed directly by the state, but with 150,000 threshold It is assumed directly by the state with the original condition I find it difficult to answer this question

From a regional standpoint, on average respondents from the West are much better aware compared to their peers in Central and South regions, who provided the worst average results.

Chart 11. Test of Financial Awareness

Fifteen questions on financial awareness

(percent of all respondents, percent of respondents by regions)



An absolute majority of Ukrainians have no idea what to do and whom to engage to assist in dispute resolution with a financial company. Only one of five respondents (20%) answered that it depends on the type of the financial service. This compares with 22% of respondents who answered “I do not know”. The most trusted institutions appear to be courts of law (31%) and the Ombudsman (24%). State regulators have been mentioned by only one in ten respondents (NBU – 11%, State Consumer Standards Committee – 11%, and Financial Services Regulator – 8%)⁶. Surprisingly, very few Ukrainians (7%) are aware that starting from October 2008, the guaranteed amount for bank deposits is UAH 150,000 per depositor. 10% of respondents are sure that deposit insurance is unlimited, whereas 25% believe, on the contrary, that no guarantees exist whatsoever.

As in the financial mathematics block, the most literate were those who currently are university students. However, the youngest age group (20-24 years) in general proved to be the least financially

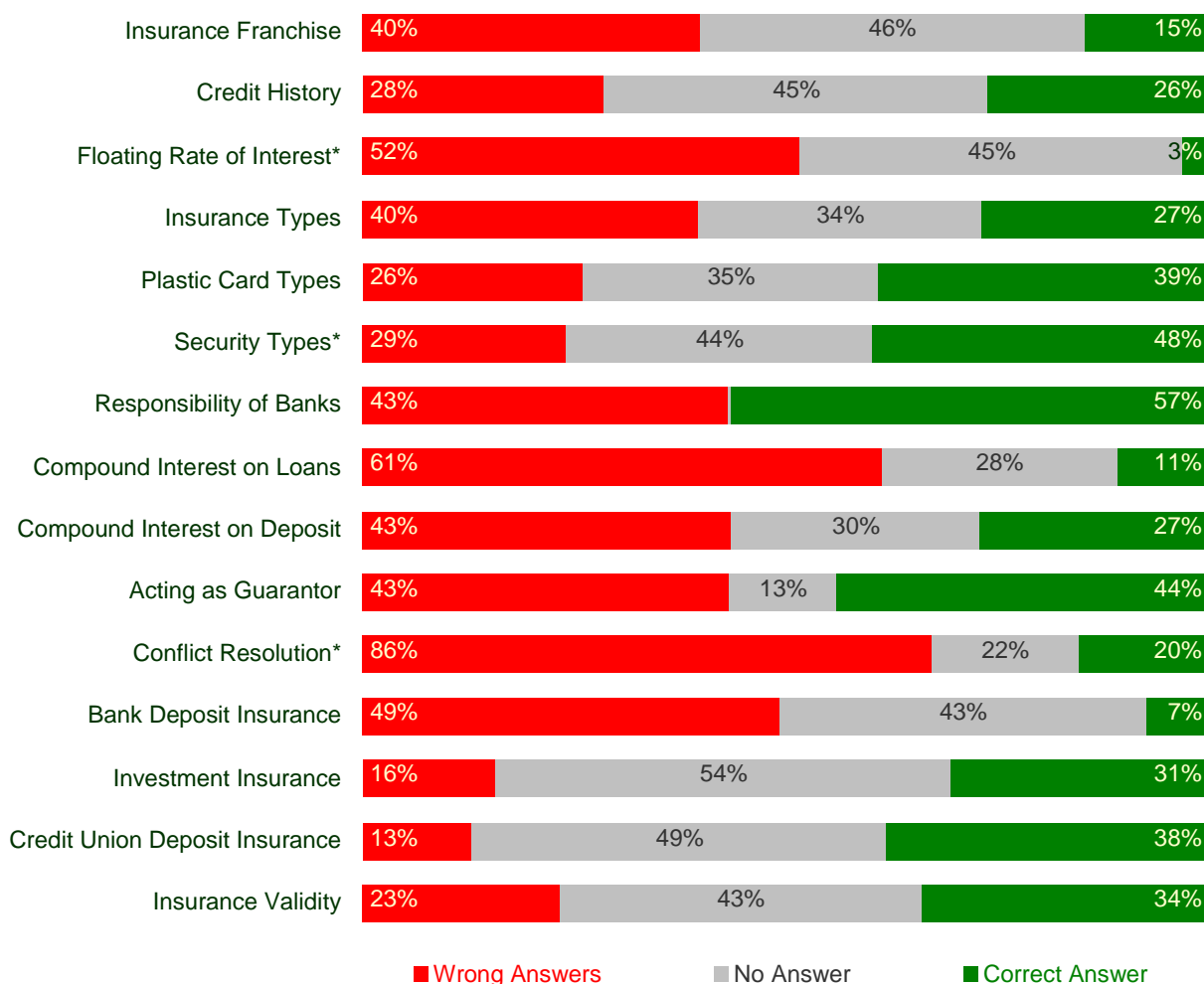
⁶ Respondents were not limited in their choice of the answer to this question to only one option; this is why the total proves to be more than 100%.

aware. These facts suggest low homogeneity in this age group with the education to be the divider.

Chart 12. Answers to Financial Awareness Questions

Fifteen questions on financial awareness

(percent of all respondents, * stands for multiple correct answers question)



* Answer scored as 'correct answer' if the respondent pointed to at least one option from those several that were correct.

5 Financial Behavior

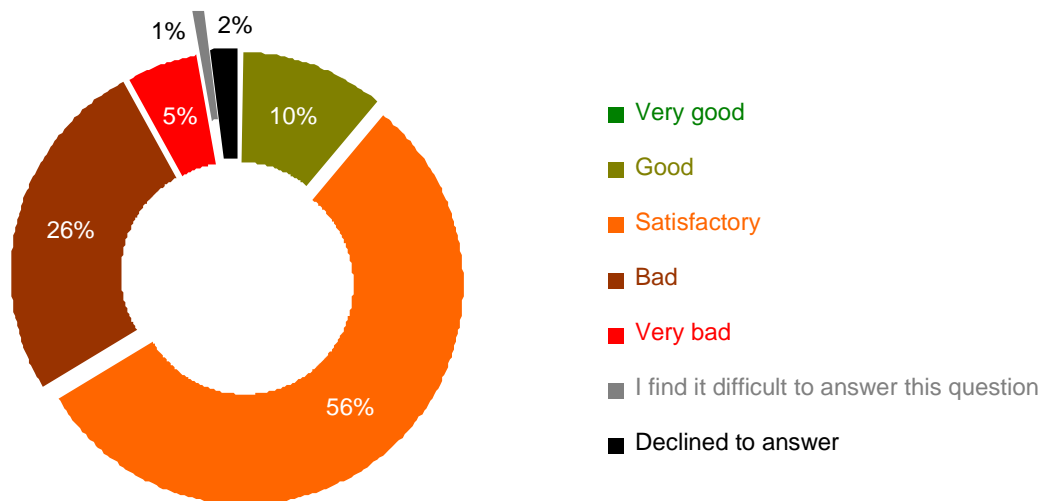
In order to better understand how Ukrainian consumers manage their finances, the survey obtained information on consumer practices in family budgeting, borrowing, and savings. Questions were also asked to ascertain the financial condition of Ukrainian families, in order to provide a context in which to analyze answers to financial behavior. Finally, questions were also asked to learn the sources of information about finance and financial services that Ukrainians reliably use.

5.1 Financial Health

Respondents were asked to assess their overall family financial situation, with five possible answers ranging from very good to very bad. Chart 13 provides the results of this self-assessment of family financial health. About 66% of Ukrainians consider their financial situation in the range of good (10%) to satisfactory (56%). Only 0.4% describes their situation as very good. In contrast, the categories “bad” and “very bad” accounted for 31% of respondents.

Chart 13. Self-Assessment of Financial Well-Being

How do you assess the financial situation in your family?
(percent of all respondents)

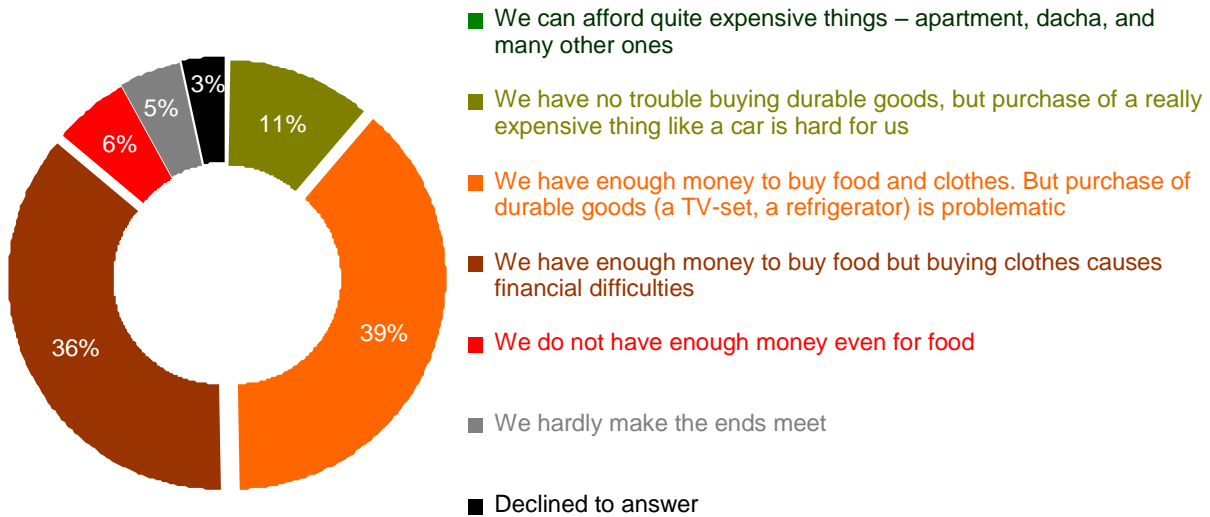


In order to gain a fuller understanding of what this self-assessment of financial health meant for Ukrainians, respondents were also asked to place themselves in one of six groups, ranging from those barely able to feed and clothe themselves to those able to buy expensive items. The data, which are presented in Chart 14, suggest that Ukrainians have limited disposable income. About 39% of respondents have no difficulty in buying food and clothing, but durable goods purchases are problematic for them. An additional 36% experience no difficulty buying food, but the purchase of clothing is more difficult. At the bottom of the scale, 11% are having difficulty buying food and/or making ends meet. The wealthier respondents are those that do not worry about most purchases except for very expensive items (11%), and those who have no financial problems at all (0.4%).

The survey also sought information about the possible impact of the financial and economic crisis of 2008-09 on Ukrainian families and how it affected their financial behavior. 55% of respondents reported an unexpected, significant drop in income within the last three years. Most of the respondents experiencing this decrease in purchasing power indicated it was because of unemployment or salary reduction.

Chart 14. Real Household Financial Situation

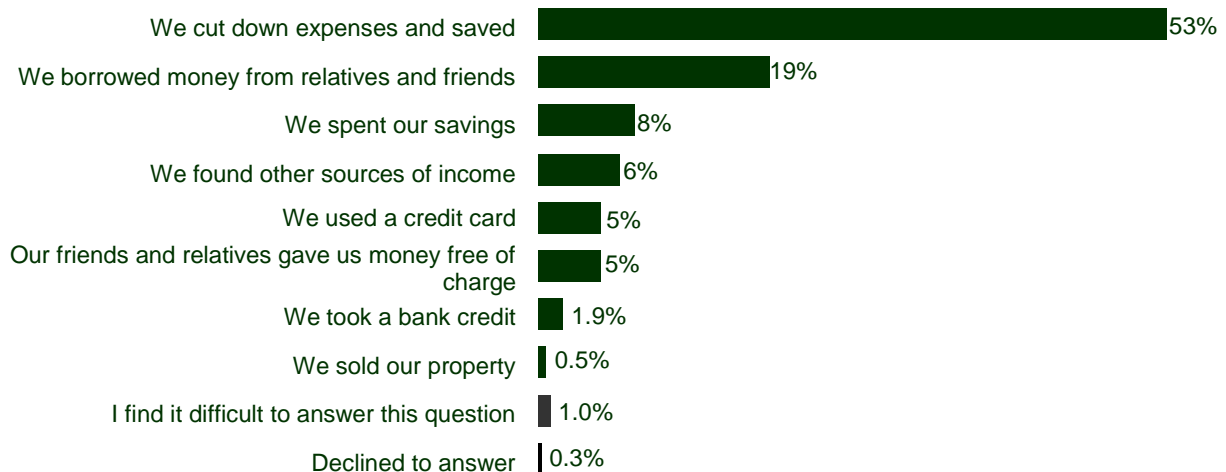
Which statement from provided below best characterizes situation in your family? (percent of all respondents)



In the event of an unexpected drop in income, respondents relied mostly on themselves, using internal family resources to make ends meet. Ukrainian households cut costs, used up savings (53%) or borrowed from friends and relatives (19%). Older people were more likely to reduce their expenses, whereas younger people were more likely to borrow money from friends and relatives. In general, Ukrainians do not go into debt to financial institutions when they experience an economic hardship, with only 5.3% resorting to a credit card and only 1.9% saying they took out a loan from a bank.

Chart 15. Household Behavior in Case of Income Reduction

How did you (your family) manage to make the ends meet when your income suddenly dropped? (percent of respondents who indicated they had significant reduction in income)



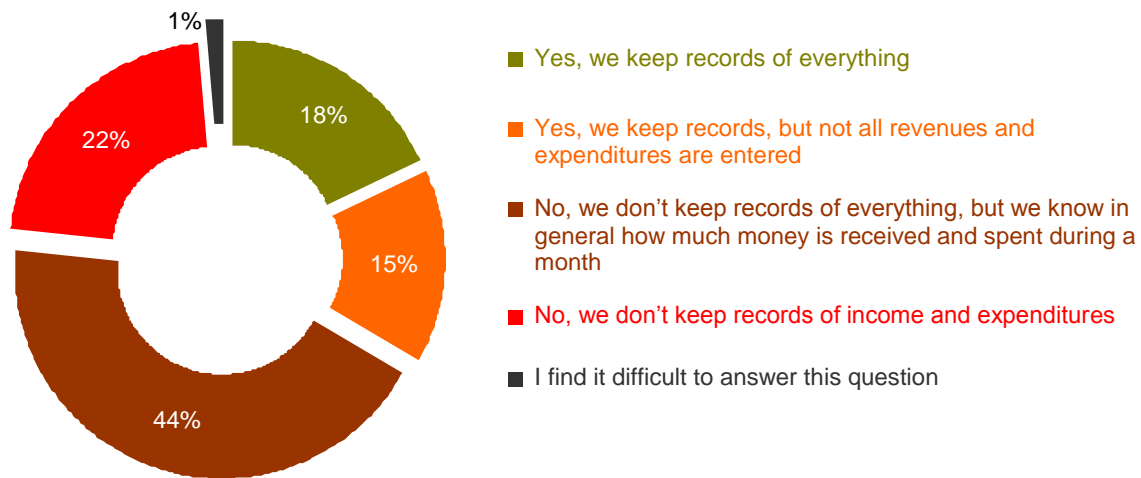
5.2 Household Budgeting

Respondents were asked a series of questions on income and expenditures, savings, credit, debt and related issues.

The survey indicates that most Ukrainians are not accustomed to keeping detailed household budget records. 18% of households record all income and expenses, an additional 15% of households keep partial records, and 44% of households have just a general idea of how much they earn and spend.

Chart 16. Record Keeping of Household Incomes and Expenses

Is your family used to keeping records of income and expenditures?
(percent of all respondents)



Respondents were also asked about their consumption patterns and how they (or their household) usually manage monthly income and expenditures. Since most Ukrainian households are managing budgets based on limited resources, it is not surprising that the major expenditures are on food and everyday essentials. 27% of respondents say they are not able to save anything.

Chart 17. Managing Household Everyday Revenues

How do you (your family) usually manage your everyday revenues?
(percent of all respondents)



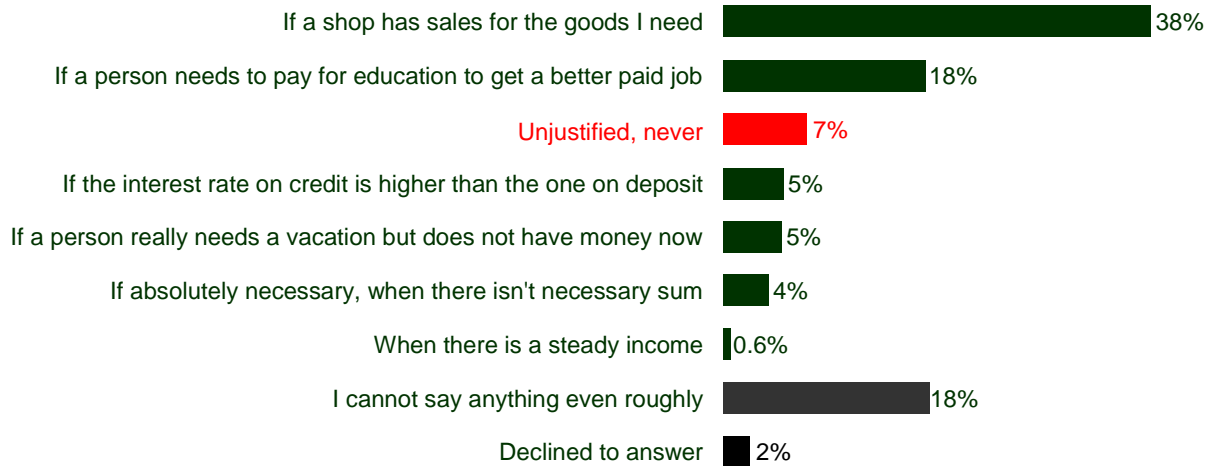
Of special interest is the attitude of Ukrainians toward taking on debt. More than a third of respondents (38%) believe that it is justified to

buy goods on credit if the goods are on sale or a bargain. About 18% of respondents are willing to borrow to invest in their education. However, about 12% stated that buying on credit was never justified or only in a financial emergency. Interestingly, fully 18% said they could not respond to this question.

Chart 18. Anticipation of Buying on Credit

When do you think buying on credit is justified?

(percent of all respondents)



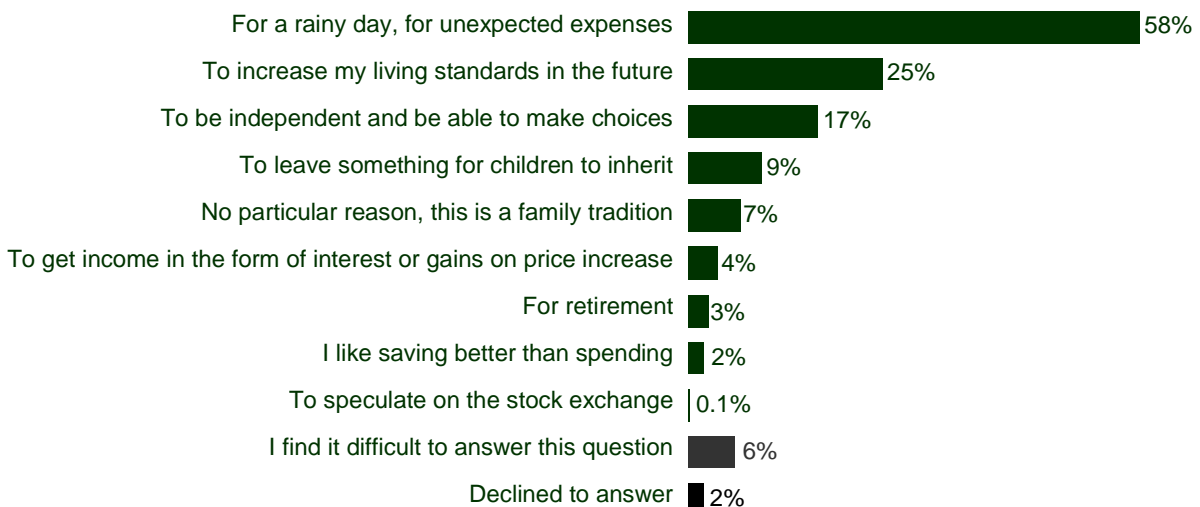
5.3 Savings Behavior

As mentioned above, 27% of households do not have any savings. Low income is the reason given by most respondents to explain a lack of savings (76%). A significant percentage of respondents (14%) say they do not save because of lack of confidence in financial institutions.

Chart 19. Anticipation of Savings and Investments

What are your (your family's) personal reasons to have made savings or investments?

(percent of respondents who indicated making savings while answering everyday revenues question, multiple answers accepted)



Those who do save do so for several different reasons. Some respondents cited the need for savings in case of “a rainy day” (58%). Other reasons included to secure a better future (25%), to be

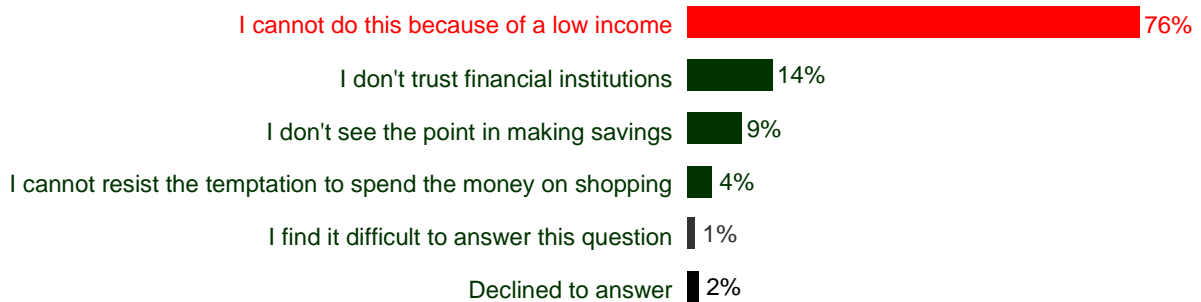
independent and be able to make a choice (17%), and to pass on money in an inheritance. Older respondents were more afraid of unforeseen circumstances and therefore more likely to save for a rainy day (about 60%) than were younger respondents (about 50%).

Just 14% of respondents indicated that they had money available at the end of the month, after expenses, for savings. However, this money (savings) is mainly in cash (49%), rather than invested. Almost a third of respondents (30%) use the surplus money to buy consumer goods. Only 10% of respondents put money on deposit with a bank, and less than 1% of respondents invest in equity instruments.

Chart 20. Impediments to Make Savings

If you (your family) do/does not make any savings, what is the reason?

(percent of respondents who indicated not making any savings while answering everyday revenues question, multiple answers accepted)



The inclination to keep savings in cash confirms that consumers are generally detached from services offered by financial institutions and that their confidence in such institutions is low. A habit of keeping money under one's mattress is, to a certain extent, a legacy of the "Soviet" experience. Older people remember very well how the government did not pay out money from their saving accounts at the time of the collapse of the Soviet Union, and most savings in Soviet currency lost their value. During the years of Ukrainian independence, several banks, including systemic banks, failed and were liquidated, further eroding public confidence in the financial sector. But the main reason for lack of savings is not a lack of confidence in the banking system. Rather, most people simply do not have enough money for savings after paying for basic goods from their monthly income.

Geographically, there are some interesting variations in savings behavior. People in the South are inclined to keep extra funds in cash (59%), whereas people in the Central, Northern and Eastern regions (34%, 35%, and 31%, respectively) are more likely to spend extra funds to buy consumer goods. Depositing money into bank accounts is more characteristic of the Western region (14%).

Chart 21. Managing Household Extra Money

If you (your family) have / has any money left right before the next revenue arrives, what would you usually do with it?
(percent of all respondents)



5.4 Debt Behavior

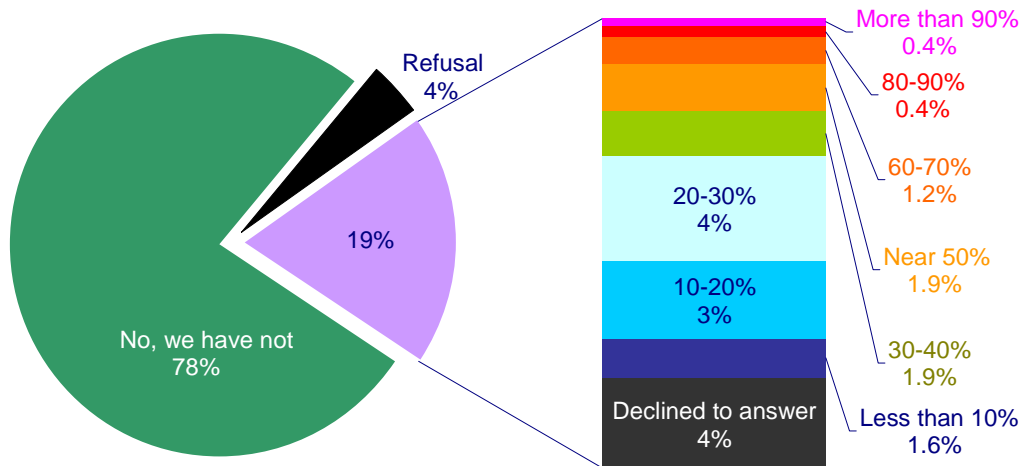
The average Ukrainian is averse to debt. Most Ukrainians rely solely on themselves and not on borrowing. 77% of respondents said that they have no debts and just 19% acknowledged having loans or other consumer payables.

The most indebted households are in the Central (27%) and Western (24%) regions, whereas the least indebted are in the North of the country (13%).

Chart 22. Household Debts and Debt Servicing Ratio

Do you (or other family members) have any debts?
(percent of all respondents)

What part of family income is spent each month on paying back debt?
(percent of respondents who affirmatively answered previous question)



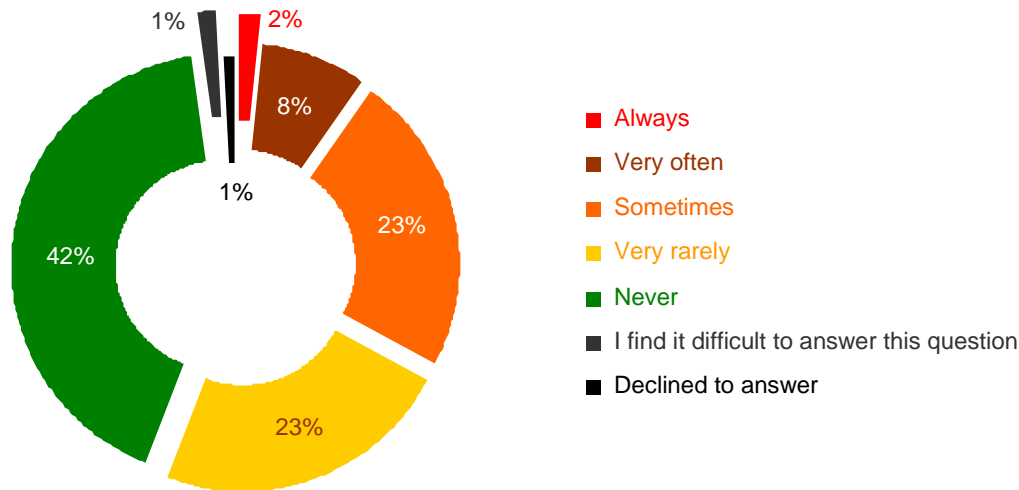
Those respondents who have debts usually spend from 10% to 30% of their family budget every month to repay them.

56% of respondents acknowledged that, at least some of the time, they had to borrow to repay other debts. Respondents who described their financial situation as poor and very poor had to borrow more frequently.

Chart 23. Borrowing to Pay Existing Debts

How often during the last year you (your family members) had to borrow money to pay back your other debts?

(percent of respondents acknowledged to have debts)

**5.5 Sources of information**

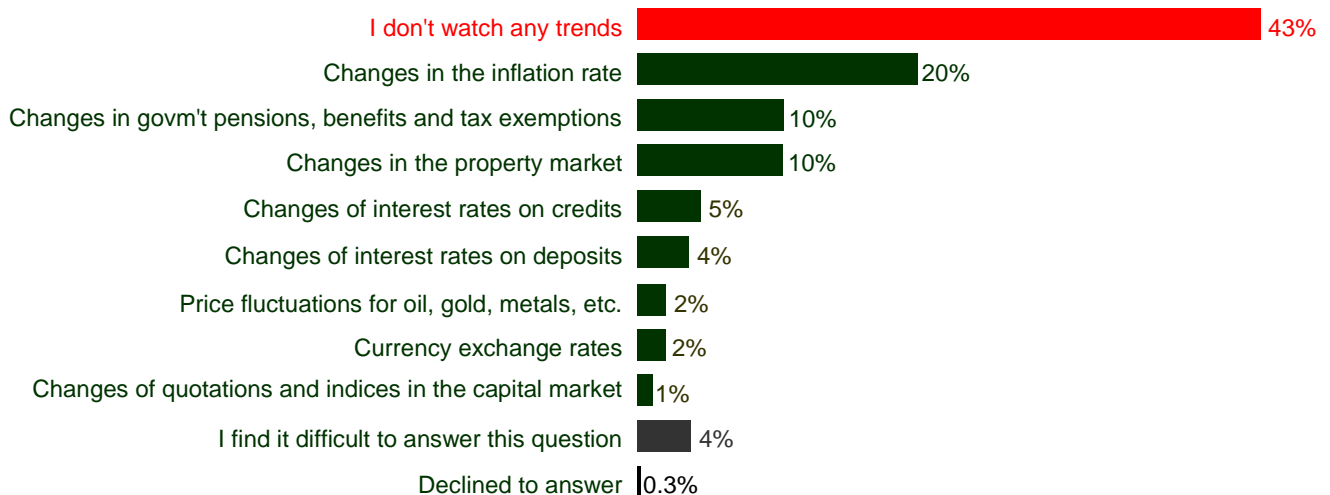
Respondents were asked two interrelated questions about their interest in financial news and their sources of information about financial issues.

Survey results indicate that Ukrainians show little interest in financial news: 43% of respondents do not keep track of any trends in financial markets at all, with older people (in the age group of 46 to 60) being the least interested. The most popular financial topics that consumers follow include changes in the inflation rate (20%), changes in the amount of pension benefits, social benefits, and tax benefits (10%), and changes in the real estate market (10%).

Chart 24. Changes at Financial Markets Followed by Households

What changes in the financial markets do you follow personally on a regular basis?

(percent of all respondents)



The survey indicates that there are subtle differences in information needs of different age groups of respondents. Not surprisingly, older people (aged 46 to 60) are more interested in the amount of pension benefits, while younger people (aged 20 to 34) take more interest in news about changes in the property market. Interestingly, very few people (just 2%) show an interest in foreign exchange rates, even though every third respondent says that he or she uses currency exchange services.

Most respondents who show an interest in financial news receive their information from the traditional mass media – printed periodicals and television (67%). Word of mouth is the second most important source of information – 19% of respondents learn of financial markets news from friends and acquaintances. The third most common source of information is Internet, in particular, specialized web sites. It should be noted that men tend to use the internet to follow financial news more than women, by 22% to 12%. The internet is also used more frequently by younger respondents: 25% of the 20-24 age group, and 24% of the 25-34 age group go on-line for news, compared to 16% of the 35-44 age group and only 9% of the 45-60 age group. Advertising ranks fourth by popularity as a source of financial information.

Chart 25. Sources of Financial Information for Households

What sources do you use to get information about the trends in the financial markets?
(percent of respondents who do follow any financial market developments,
multiple answers accepted)



6 Attachment – Questionnaire Used

SECTION 1: Self-Assessment on Financial Literacy and Expectations⁷

“Financial literacy means having the knowledge, skills and abilities to undertake responsible economic and financial decisions and actions with a requisite level of competence”

A1. Do you consider yourself a financially literate person? Please evaluate your knowledge and skills using a five-point system, as the one at school, where 1 stands for the complete absence of knowledge and skills in management of personal finances and 5 stands for excellent command of the subject in question.

1. No knowledge and skills
2. Unsatisfactory knowledge and skills
3. Satisfactory knowledge and skills
4. Good knowledge and skills
5. Excellent knowledge and skills

A2. What is your primary consideration in choosing a bank from which to borrow?

- Bank’s reputation (fame) and its reliability
- View of the bank office and its equipment
- Qualifications of its personnel
- Relatives or friends positive experience with the bank
- Credit interest rate and the credit cost
- Gifts and advertising campaigns

A3. What is your primary consideration in choosing a bank in which to keep a current account or savings account?

- Bank’s reputation (fame) and its reliability
- View of the bank office and its equipment
- Qualifications of its personnel
- Relatives or friends positive experience with the bank
- Advertised interest rates
- Gifts and advertising campaigns

A4. When do you think buying on credit is justified?

- If a shop has sales for the goods I need
- If the interest rate on credit is higher than the one on deposit
- If a person needs to pay for education which would allow to get a better paid job
- If a person really needs a vacation but does not have money at the moment

A5. Below is a list of topics regarding various aspects of personal finance management. Please specify which are most interesting to learn about in the course of financial training.

- How to form one’s own financial targets and create a personal current financial plan
- What to do not to get up to one’s neck in debt when using credit
- How to plan purchases of durables (car, apartment, dacha) and evaluate one’s abilities to implement them
- How does the pension scheme work and what methods are available to secure one’s old age income
- Banking services – current accounts, saving deposits, and plastic cards
- Consumer credits to purchase goods and services
- Mortgage loans
- Insurance and insurance products
- Private pension funds
- Capital markets, stock and unit fund shares
- Sources of information on financial services, how to interpret the information and how to differentiate the advertising information from the objective one
- What parameters are used to compare the services offered by banks and other financial companies
- What consumer rights protection laws are available and what one needs to do when one’s consumer rights are violated
- What information should a user pay attention to when signing a contract with a bank or another financial company
- I am not interested in any of these topics

⁷ Every question also had three answer options: “Other”, “I find it difficult to answer this question”, and “Declined to answer”.

A6. Several organizations are interested in teaching people about financial literacy. What kind of organization do you think should be conducting financial literacy programs for consumers?"

- A commercial bank
- Pension fund and/or insurance companies
- Investment funds (assets management companies)
- Non-government organizations or public organizations involved in consumer rights protection
- Government entities regulating these markets
- Higher education institutions with economic and/or financial profiles
- Independent financial consultants
- Mass media (journalists and TV presenters)

A7. Which of the above mentioned financial services would you like to know better or get additional information about?

- Consumer credit
- Bank current account
- Bank deposit account
- Currency exchange
- Bank plastic card
- Mortgage loan
- Insurance policies
- Investments in unit funds
- Investments in companies' stock
- Investments in corporate bonds
- Private pension fund policies
- None of the above

SECTION 2: Real Test on Financial Literacy – Financial Math

M1. Let's assume that you deposited 100,000 UAH in a bank account for 2 years at an 8% annual interest rate. How much money will you have in your account in 2 years if you do not withdraw from or add to this account any money?

- More than 108,000 UAH
- Exactly 108,000 UAH
- Less than 108,000 UAH

M2. Let's assume that you deposited 100,000 UAH in a bank account for 5 years at 10% annual interest rate. The interest will be earned at the end of each year and will be added to the principal. How much money will you have in your account in 5 years if you do not withdraw either the principal or the interest?

- More than 150,000 UAH
- Exactly 150,000 UAH
- Less than 150,000 UAH

M3. Imagine that you deposited money in a bank account at 8% annual interest rate, while the annual inflation rate was 10%. Do you think the money from your account can buy more or less, or the same amount of goods and services on average now as a year ago?

- More than a year ago
- The same
- Less than a year ago

M4. Let's assume that in 2011 your income is twice as now, and the consumer prices also grow twofold. Do you think that in 2011 you will be able to buy more, less, or the same amount of goods and services as today?

- More than today
- Exactly the same
- Less than today

M5. Let's assume that you saw a TV-set of the same model on sale in two different shops. The initial retail price of it was 10,000 UAH. One shop offered a discount of 1,500 UAH, while the other one offered a 10% discount. Which one is a better bargain – a discount of 1,500 UAH or 10%?

- A discount of 1,500 UAH
- A 10% discount

M6. Let's assume that you took a bank credit of 10,000 UAH to be paid back during a year in equal monthly payments. The credit charge is 600 UAH. Give a rough estimate of the annual interest rate on your credit.

- 3%
- 6%
- 9%
- 12%

M7. Let's assume you have purchased a bond with face value of 1,000 UAH for 900 UAH. The bond would expire in a year and bring you a coupon of 150 UAH. If you would hold the bond till maturity, can you estimate what return you would enjoy on your investment?

- Below 15%
- Exactly 15%
- Above 15%
- Above 20%

SECTION 3: Real Test of Financial Literacy – Consumer Rights

G1. If a citizen has a deposit in a regular Ukrainian commercial bank and this bank becomes bankrupt, do you know what maximum level of a deposit is entirely guaranteed?

- There is no guarantee on bank deposits
- 15,000 UAH
- 100,000 UAH
- 150,000 UAH
- 1 million UAH
- No limits – all deposits in any bank are guaranteed in their full amount

G2. If a citizen has invested into an investment fund or assets management company, and the value of investment plummeted because of a large scale financial crisis, what is an approximate level of losses covered by the state?

- There is no guarantee on investments into investment funds or assets management company
- 15,000 UAH
- 100,000 UAH
- 150,000 UAH
- 1 million UAH
- No limits – the state guarantees all investments in their full amounts

G3. If a citizen has deposits in a credit union, and this union becomes bankrupt, do you know what maximum level of a deposit is entirely guaranteed by the state?

- There is no guarantee on credit union deposits
- 15,000 UAH
- 100,000 UAH
- 150,000 UAH
- 1 million UAH
- No limits – all deposits in any credit union are guaranteed in their full amount

G4. If a citizen has risk insurance (other than third-party motor responsibility) from an insurance company, and this company goes bankrupt, do you know what happens to the purchased insurance?

- It is void, or no longer valid
- It is assumed by other insurance company, most likely government-owned
- It is assumed directly by the state, but with 150,000 UAH threshold
- It is assumed directly by the state according to the original condition

G5. What should the banks do under the current Ukrainian legislation? Choose a phrase most compliant with the Ukrainian law from the options given on the card

- Charge the same annual interest rate on all credits
- Charge the same annual interest rates on all similar credits (credit cards, car purchase credits, mortgage loans, etc.)
- Inform a borrower of the total credit cost and effective rate of interest

G6. Do you know the difference between life and risk insurance?

- Yes, life insurance covers my life and risk insurance covers my risks, and any insurance company can sell both products
- Yes, life insurance covers life and health, and risk insurance covers accidents, and one insurance company can sell only one type of product

- No, there is no difference

G7. Do you know the difference between credit and debit card?

- Yes, debit card allows you to cash more money than you have on your balance, whereas credit card only allows you to cash what you have
- Yes, credit card allows you to cash more money than you have on your balance, whereas debit card only allows you to cash what you have
- No, there is no difference

G8. Do you know what “franchise” is?

- Yes, it is the sum of money one has to pay to insurance company to purchase insurance
- Yes, it is the sum of money the insurance beneficiary is going to receive if risk event occurs
- Yes, it is the sum of money the insurance company would deduct from coverage when it has to pay off the claim
- No, I never heard this term before

G9. Does Ukrainian legislation allow a bank or any other lender to charge you compound interest on your loan?

- No, this is against the law
- Yes, but only if this is explicitly stated in the loan agreement
- Yes, at bank’s discretion
- I do not know what ‘compound interest’ is

G10. Does Ukrainian legislation allow a bank or any other deposit institution to pay you compound interest on your deposit?

- No, this is against the law
- Yes, but only if this is explicitly stated in the deposit agreement
- Yes, at bank’s discretion
- I do not know what is ‘compound interest’

G11. Which item(s) below explain(s) the difference between a share and a bond? You can choose several answers

- Share represents an investment into statutory fund, whereas bond does not
- Bond can be bought back by the issuer, whereas share cannot
- Common share has no guaranteed level of income, whereas bonds can have fixed and variable returns
- Bonds can be sold in a secondary market, whereas some shares cannot
- Bonds can be held by individuals and companies, whereas shares only by corporate investors
- Shares can be pledged as collateral, whereas bonds cannot
- There is no difference between shares and bonds; these are just different names for the same instruments

SECTION 4: Financial Behavior

F1. Is your family used to keeping records of income and expenditures? Look at the card and say which option is the most accurate description of your (your family’s) practice?

- Yes, we keep records of everything
- Yes, we keep records, but not all revenues and expenditures are entered
- No, we don’t keep records of everything, but we know in general how much money is received and spent during a month
- No, we don’t keep records of income and expenditures

F2. How often during the last year have (has) you (your family) had any money unspent from previous earnings at the time new revenues arrived (wages, pension, scholarship, benefit)?

- Always
- Very often
- Sometimes
- Very rarely
- Never

F3. If you (your family) have (has) any money left right before the next revenue arrives, what would you usually do with it?

- We spend it on consumer goods
- We keep it in cash
- We deposit it or do not withdraw it from the account
- We invest it in the capital market
- We lend it to friends or relatives
- We invest it in our own business

- We invest it in gold and jewelry

F4. How often during the last year did you (your family) run out of money from previous earnings before the new money arrived (wages, pension, scholarship, benefit, etc.)?

- Always
- Very often
- Sometimes
- Very rarely
- Never

F5. What do you usually do when you (your family) run(s) out of money before the next income arrives?

- We cut down expenses and save
- We borrow money from relatives, friends and acquaintances
- We spend our savings
- We use a credit card
- We sell our property
- We borrow cash on bank credit
- Our friends and relatives give us money free of charge
- We work extra hours or do additional jobs
- We withdraw a required amount from our business

F6. Did you (your family) experience an unexpected significant reduction of your income over the last three years?

- No
- Yes, due to the loss of a job by a breadwinner
- Yes, due to the considerable reduction of salary, or delays with salary payment
- Yes, due to the drop in income resulting from breakup, separation or divorce
- Yes, due to the reduction of investment income
- Yes, due to retirement of the main breadwinner
- Yes, due to another reason

F7. How did you (your family) manage to make ends meet when your income suddenly dropped?

- We cut down expenses and saved
- We borrowed money from relatives, friends and acquaintances
- We spent our savings
- We used a credit card
- We sold our property
- We took a bank credit
- Our friends and relatives gave us money free of charge
- We found other sources of income

F8. During the last year, how often did you (your family members) have to borrow to pay back your other debts?

- Always
- Very often
- Sometimes
- Very rarely
- Never

F9. What phrase out of those listed below describes best your individual life insurance situation?

- My life is already insured for the required amount
- My life is insured for some amount but the level is lower than what I believe is necessary
- I need to insure my life but it is too expensive
- I need to insure my life but I don't believe that insurance companies will pay the claim in case of my death
- I don't need life insurance actually

F10. What changes in the financial markets do you follow personally on a regular basis?

- Changes in the property market
- Changes of quotations and indices in the capital market
- Changes of interest rates on deposits
- Changes of interest rates on credits
- Changes in the inflation rate
- Changes in the level of public pensions, benefits and tax exemptions
- Price fluctuations for oil, gold, metals, etc.

- I don't watch any trends

F11. What sources do you use to get information about the above trends?

- Advertising
- Newspapers, magazines, TV programs specializing on financial issues
- Specialized web sites
- Bank officers, employees of insurance and management companies, during a personal visit or by phone
- Independent financial consultants or brokers
- Friends and acquaintances

F12. Did you have a negative experience in using a financial service?

- Yes
- No

F13. What kind of service was it?

- A bank deposit
- A contract with a private pension fund
- A capital market
- A bank credit card
- A bank debit card
- A consumer loan
- An insurance policy
- A car credit
- A mortgage loan

F14. What did you do after you discovered the problem?

- Nothing
- I stopped using the service before the contract expired (closed the deposit, account, sold the shares in investment fund, canceled the insurance contract, etc.)
- I submitted a grievance to the company which sold me the product
- I submitted a claim to the appropriate government authority

F15. If a conflict with a financial organization (bank, insurance company or the like) arises regarding the provision of financial services to you, on what terms do you expect it to be resolved

- Favorable to me
- Favorable to the financial organization
- Fifty-fifty

F16. How do you (does your family) usually manage your monthly income?

- I try to save something and spend the rest of the money on the everyday needs
- I spend money on the everyday needs and save the rest
- I spend all the money on everyday needs and do not save anything

F17. People save or invest for different reasons. What are your (your family's) personal reasons to make savings or investments?

- For a rainy day, for unexpected expenses
- For retirement
- To get income in the form of interest increased market value of assets, etc.
- To leave something for children to inherit
- To increase my living standards in the future
- I like saving rather than spending money
- To be independent and be able to make choices
- To speculate on the stock exchange
- No particular reason, this is a family tradition

F18. If you (your family) do (does) not make savings, what is the reason?

- I don't trust financial institutions
- I cannot do this because of a low income
- I don't see the point in making savings
- I cannot resist the temptation to spend the money on shopping

F19. Which of the financial services given below do or your family members use?

- A loan (consumer, mortgage, car)
- A bank deposit
- Currency exchange
- Bank account or/and a bank plastic card
- A life insurance policy

- A risk insurance policy (including collision insurance)
- Investment into investments found/ or into Asset Management companies
- A contract with a private pension fund
- A stock
- Leasing
- Remittance
- Public utilities payments
- Payments accomplishment through terminals for charge cards (topping-up of plastic cards, mobile phones)
- Mobile and/or internet-banking
- None of the above

F20. Which of the financial services listed above do you personally plan to use in the next 2 years?

- A loan (consumer, mortgage, car)
- A bank deposit
- Currency exchange
- Bank account or/and a bank plastic card
- A life insurance policy
- A risk insurance policy (including collision insurance)
- Investment into investments found/ or into Asset Management companies
- A contract with a private pension fund
- A stock
- Leasing
- Remittance
- Public utilities payments
- Payments accomplishment through terminals for charge cards (topping-up of plastic cards, mobile phones)
- Mobile and/or internet-banking
- None of the above

F21. How often do you compare the terms and conditions for provision of financial services by various companies before you buy such a service?

- Always
- Sometimes
- Rarely
- Never

F22. What sources of information do you pay attention to when choosing a company to buy a service from?

- Advertisements
- Advice of consultants working for providers of a required service
- Information materials of financial companies on their tariffs and services of various types
- Recommendations of independent financial consultants or brokers
- Advice of friends and relatives
- Analytical materials published in mass media
- Employer's advice
- Internet resources

F23. In case of a dispute with a financial institution concerning a financial product you have purchased from an institution, which organization can you appeal to help you to protect your consumer rights?

- The National Bank of Ukraine
- The State Commission on Regulation Financial Services Markets
- The State Committee on Consumer Standards
- The Office of Ombudsman
- Any court of general jurisdiction
- It depends on the type of financial institution and/or financial product

F24. Do you know what a "credit history" is?

- This is the information about performance of loans in individual banks that can be found in the bank's financial statement
- This is the information about performance of an individual borrower that can be retrieved from credit bureaus

- This is the information about previous defaults of a security issuer that can be found in the state registry of security issues
- This is the information about Ukraine's sovereign debt performance that is collected by institutional lenders
- All of the above
- None of the above

F25. Do you know what a “floating rate of interest” is?

- It is a rate of interest that can be altered during the life of a financial instrument
- It is a rate that is indexed to a commonly used rate referred to as ‘base rate’
- It is a rate that parties of transaction can reset without asking each other for any consent
- It is a rate that is opposite to “fixed rate of interest”
- All of the above
- None of the above

F26. If your friend asked you to be a guarantor on his or her loan, and you agreed to this proposal, what kind of liability might you encounter?

- There is no financial liability attached to this, I will just make a gesture to my friend
- There is a financial liability attached to this in case my friend fails to pay off the loan
- There are both financial and criminal liabilities attached in case my friend fails to pay off the loan

SECTION 5: General Information

D1. Respondent's gender

- Male
- Female

D2. How old are you?

D3. Which item below best describes the highest level of education you have completed?

- Primary or lower education
- Incomplete secondary education
- Secondary education (general or vocational school)
- Special vocational education (technical college)
- Incomplete higher education (at least 3 years of higher educational institution)
- Higher education

D4. Which type of employees do you describe yourself as based upon your main job?

- Qualified worker, including agriculture
- Unqualified worker, including agriculture
- Enlisted personnel in the army, interior forces, including police and security force
- Business person, entrepreneur
- Civil servant, public authority officer
- Specialist with higher education in the manufacturing sector
- Specialist with higher education outside the manufacturing sector (science, culture, education)
- Employee without a higher education (secretary, office worker, shop assistant)
- Registered unemployed
- Student
- Pensioner, non-working
- Household worker
- Employed in a service industry

D5. What was the level of your personal monthly earnings, wages/salary in your main job, including bonuses, vacation benefits, and other payments

- up to 2,000 UAH
- 2,001-3,000 UAH
- 3,001-6,000 UAH
- 6,001 UAH and over

D6. What is your monthly income per member of the family? Please divide average income of your family by number of family members.

D7. How many people live in your household including you personally and all children?

D8. How do you assess the financial situation in your family?

- Very good
- Good

- Satisfactory
- Bad
- Very bad

D9. Which of the following groups of people do you think you belong to?

- We hardly make the ends meet.
- We do not have enough money even for food.
- We have enough money to buy food but buying clothes causes financial difficulties
- We have enough money to buy food and clothes. But purchase of durable goods (a TV-set, a refrigerator) is problematic
- We have no trouble buying durable goods, but purchase of a really expensive thing like a car is hard for us
- We can afford quite expensive things – apartment, dacha, and many other ones.

D10. How much money do you save each month?

- less than 1,000 UAH
- between 1,000 and 2,000 UAH
- 2,001-3,000 UAH
- 3,001-5,000 UAH
- more than 5,000 UAH

D12. Do you (or other family members) have any debts?

- Yes, we have debts
- No, we don't have any debts

D13. How much of your family income is left each month after paying back debt?

- less than 900 UAH
- between 900 and 1,500 UAH
- 1,500-2,500 UAH
- 2,500-3,500 UAH
- 4,000-5,000 UAH
- more than 5,000 UAH

D14. How much of your family income is spent each month on paying back debt?

- I spend more than 90%
- more than 80, less than 90%
- more than 60, less than 70%
- about 50%
- more than 30, less than 40%
- more than 20, less than 30%
- more than 10%, less than 20%
- less than 10%

THANK YOU FOR YOUR ANSWERS

