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FINANCIAL LITERACY IN TERMS OF QUALITY OF LIFE

Radoica Luburić, PhD¹

Nikola Fabris, PhD²

Abstract: *This paper deals with the influence of Financial Literacy on the Quality of Life. Bearing in mind that finances and financial literacy are constant and unavoidable companions of our lives, bringing with them numerous challenges, risks and temptations, they inevitably influence all segments of the Quality of Life. When individuals, organizations and society as a whole are financially literate, the conditions for achieving a better Quality of Life become much more favorable. To a certain extent, the Financial Literacy Indicators signal the health of the financial system and the economy as a whole. Unstable finances are a key cause of financial worries for people, which can greatly affect both their health and their Quality of Life. In the times in which we live, characterized as the digital age and with the increasing acceleration of change, a key question is whether, and to what extent, people are sufficiently financially literate, and what is being done to make the situation much better than it is now. Standard macro-economic indicators, traditionally used as measures of the well-being of society, are unable to always give a real and complete picture of the level of Financial Literacy or of the Quality of Life. In this paper, the key Indicators of Financial Literacy are identified and their influence on the Quality of Life is comprehensively examined, not only when seen through the prism of economics, but also through the many other factors that give people overall satisfaction, both in material and spiritual terms.*

Keywords: *Financial Literacy, Financial Literacy Indicators, Quality of Life, Indicators of the Quality of Life, The influence of Financial Literacy on the Quality of Life*

JEL Classification: E40

1. INTRODUCTION

The Quality of Life and money are phenomena which have existed for many centuries. Throughout human history there has been almost nothing that has had more influence than money on the lives of people, their relationships and their way of life. In one way or another, these historical and economic phenomena have not only survived to this day, but their importance for the lives of people has

¹ Radoica Luburić, PhD, Central Bank of Montenegro, Podgorica, Montenegro, radoica.luburic@cbcg.me

² Nikola Fabris, PhD, Central Bank of Montenegro, Podgorica, Montenegro, nikola.fabris@cbcg.me ;
Faculty of Economics, University of Belgrade, Belgrade, Republic of Serbia, fnikola@ekof.bg.ac.rs

increased over time. This is especially true of money. As opposed to other material things which are important for people to have, money is even more important when they do not have it. In today's insecure and turbulent times, however, it is not easy to earn and save enough money for life, just as it is not easy to successfully manage it.

The question is, how is it possible that although people know less about money than they do about many other peripheral things, they almost never separated from it, either physically, or in any other way? In fact, the key question is as follows, to what extent are people sufficiently financially literate to successfully manage money in today's conditions of life and work, and what is being undertaken to improve the situation? Successful money management is not for the layman, but is a very complex challenge that requires both individuals and the whole of society to develop a conscious awareness of finances, a certain level of financial knowledge and skills, as well as to develop an appropriate financial culture and other important related activities and behavior.³

Bearing all this in mind, financial literacy is of great importance to the entire population, which is increasingly living in a more complex and turbulent economic environment. More recently, many countries have been taking significant measures to determine the existing level of financial knowledge of their citizens and to create national financial literacy programs.⁴ An inadequate level of financial literacy can have serious consequences not only for individuals and families and their Quality of Life, but also on the economic stability of the entire society. The role that financial literacy plays in the quality of people's lives is one of the key factors in achieving the success of every individual and therefore society as a whole. This paper examines the key indicators of both Financial Literacy and the Quality of Life, as well as their interactions.

1. FINANCIAL LITERACY INDICATORS

There are many definitions of financial literacy, the one that is the clearest and most comprehensive is that given by the Organization for Economic Co-operation and Development (OECD): „Financial literacy is a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well-being“ (Atkinson & Messy, 2012, p.13).

Financial Literacy is based on three fundamental factors, these are financial knowledge, financial behaviour and attitude towards money.⁵ A financially literate person should have some basic knowledge of key financial issues and the ability to apply certain skills in financial situations. Therefore, they should be able to successfully answer questions in relation to concepts such as simple and compound interest, risk and return on invested funds and the impact of inflation on finances.

Financial behavior is a key factor in financial literacy, and in many ways the most important one. The positive outcomes of financial literacy are driven by behavior such as cost planning and the construction of a financial safety net, thoughtful investment, comprehensive understanding of risk and others. The negative outcomes of financial literacy stem from certain behaviors that are a characteristic of historical heritage and primarily a low level of financial education and culture, such as falling into over-indebtedness, lightly accepting risks, and a lack of understanding of financial products and services, which can all negatively affect financial well-being.

³ To see more about this: Luburić, R.; Fabris, N., (2014). *Umijeće upravljanja novcem*, Podgorica: Medeon, Beograd: Hesperiaedu.

⁴ For more information see: Fabris, N.; Luburić, R., (2016). *Financial Education of Children and Youth*, Journal of Central Banking Theory and Practice, 5(2), pp. 65-79; Fabris, N.; Luburić, R. (2017). *Finansijsko obrazovanje dece i omladine*, Beograd: HERAedu, Podgorica: Medeon; Luburić, R. (2018). *Financial Education and the Role of Central Banks in Creating an Effective Programme for Children and Youth*, Regional Central Banking Seminar on Communication Why Should Central Banks Care about Economic Education? Central Bank of the Republic of Turkey, September 2018, Istanbul.

⁵ To see more about this: Atkinson, A. & Messy, F.A. (2012). *Measuring Financial Literacy: Results of the OECD / International Network on Financial Education (INFE) Pilot Study*, OECD Working Papers on Finance, Insurance and Private Pensions, No. 15, Paris: OECD Publishing, pp. 2-33.

The attitude towards money is also one of the key factors of financial literacy. Basically, it's the attitude of people to what they earn and other income, and is shown by their spending habits and by their saving for their future. The attitude towards money is best seen by whether users give priority to short-term needs and preferences, or make medium-term and long-term financial plans for a safer future.

The level of financial literacy of an individual and society as a whole is best demonstrated by its indicators. As illustrated in Figure 1, for the purpose of this research, the authors have identified seven key indicators of Financial Literacy: Financial Awareness, Financial Knowledge and Skills, Attitude Towards Finance and Money, Financial Behaviour, Managing Financial Risks, Financial Culture, and the Use of E-finance.



Figure 1. Financial Literacy Indicators

These Financial Literacy Indicators show the level of financial awareness, the level of financial knowledge and skills, as well as the level of financial culture. They also show the relationship towards finances and money, as demonstrated by the financial behavior of people in various life situations. For a complete overview of financial literacy, it is necessary to include an indicator that shows the effectiveness and efficiency of financial risk management.⁶ Bearing in mind the accelerated technical and technological progress and the risks these processes carry with them, as well as the acceleration of changes in all spheres of society, and in that sense in the financial system, the Use of E-finance is an indicator that has rightly found its place right here.⁷ All of these indicators

⁶ For more about Risk Management and its influence on the Quality of Life see: Šarović, D., Perović, M. J. (2018). *Menadžment rizikom u funkciji kvaliteta življenja*, Kvalitet & izvrsnost, Broj 5-6, Beograd: FQCE, pp. 35-39.

⁷ For more about E-finance see: Chuen, D. L. K. and Deng, R. H. (editors), (2017). *Handbook of Blockchain, Digital Finance, and Inclusion, Volume 2: Chinattech, Mobile Security, and Distributed Ledger*, Academic Press.

are mutually interdependent, and only when integrated into a whole, are they able to show the real level of financial literacy.

2. INDICATORS OF THE QUALITY OF LIFE

A number of eminent international institutions previously dealing with this issue were mainly concerned with gross domestic product and some other key economic indicators. However, while these are important, the Quality of Life has to be measured through different economic and non-economic indicators as it actually involves a whole spectrum of factors that affect what people value in life, beyond its purely material aspects.⁸

The quality of a society and the Quality of Life of an individual are fully and directly connected, they relate to the overall well-being of society and are aimed at enabling each member to achieve their goals and aspirations. This means that the life of an individual is connected and interwoven not only with the system of values of the community in which they live, with its culture, customs and tradition, educational and health systems, as well as the system of values of the family in which he or she grew up and was educated.

For the purposes of this paper we have identified seven indicators of the Quality of Life which take into account the above (Luburić & Fabris, 2017, p.24).⁹



Figure 2. Indicators of the Quality of Life

In many ways it is true that the Quality of Life, with all its components, is basically limited by the individual's ability to access material and financial resources. In this sense, the economic conditions

⁸ To see more about this: Luburić, R.; Fabris, N. (2017). *Money and the Quality of Life*, Journal of Central Banking Theory and Practice, 6(3), pp. 17-34.

⁹ This is based on work carried out by the General Directorate of the European Commission, more commonly known as EUROSTAT, that had earlier shaped and developed a set of eight basic indicators. EUROSTAT (2015). *Quality of life, Facts and Views*, Statistical books, 2015 Edition, Luxembourg: European Union, pp. 9-10.

and in particular the material and financial conditions of life, although they do not reflect the Quality of Life in all its dimensions, provide the necessary framework for measuring the potential of not only individuals and households, but also society as a whole. Material and financial conditions are possibly the key indicator and in practice we know very well how much money greatly impacts on them. In the continuation of the text, we will briefly look at the other indicators of the Quality of Life illustrated in Figure 2.

Employment is one of the most important indicators of Quality of Life, either in a positive or negative sense. If a person has a good job and enjoys all the benefits it provides, this primarily ensures his or her material existence, strengthens identity and integrity, refines and provides opportunities for social contacts. Employment enables a person to be creative, learn, improve and acquire skills, as well as engage in activities that give a sense of fulfillment and satisfaction. On the other hand, the Quality of Life can drastically worsen when the spectre of unemployment appears, when work is not adequately rewarded, and especially when a person is left out of work. It is certain that the only way a person can see the value of a job is when they are left without it and the benefits it provides.

The provision of education is essential to both the well-being of an individual and the society in which they live. In today's insecure and turbulent times, education is a basic condition for the survival of every individual, every organization and every culture. Education affects the Quality of Life in many ways, and its overall benefits can hardly be compensated by other means. Education is a process that is not of a short-term or temporary character, but it is a process by which both people and organizations and states have to deal with systematically, thoroughly and continuously, if they want to survive, develop, and be sustainable. Education is one of the greatest values of society, because it provides a better understanding of the world in which we live.

Health is also one of the most important indicators of Quality of Life. Healthy individuals, healthy nations and good health care are the greatest wealth of every society. There is an old saying that a healthy individual has many desires, but a sick one only wants to be healthy again. At the collective level, health contributes to economic and social development, the enrichment of the so-called "human capital" of society, and this also leads to an increase in social wealth. A long and healthy life is not only important as a personal goal, it is also an indication of the well-being and success of the entire society.

Another significant indicator is social life. People must be allowed to enjoy the balance between work and personal interests, to spend leisure time on vacation and in social activities. The social life of people is in direct relation to their satisfaction of life. People can have enough money and even be very rich, but it will not mean much if they are lonely and isolated and socially inactive. For the psychological stability of every human being, it is very important to engage in social activities and to take on social responsibility, as it is very important to build relationships of mutual trust and respect. Without mutual respect and trust, there is no lasting success for the family, at work, or anywhere else. Man is a social being and cannot sustain mental health without socializing in some form.

Personal and family safety, as an indicator of Quality of Life, have always been crucial in people's lives, and in today's uncertain and turbulent times even more so. Predicting, and the timely identification of potential risks, as well as the ability to overcome sudden troubles and threats, greatly contributes to a better Quality of Life. The rule of law and the quality of democratic institutions, as well as the elimination of all forms of discrimination, is an important indicator because without the basic human rights there is no freedom of choice for anyone to be able to live and work. People always needs more freedom, more tolerance, and more respect.

For a good Quality of Life, environmental protection is very important. Man is a part of nature and as such suffers the effects of the world surrounding him. The environment affects all the aspects of people's lives, not only with regard to their health and their personal safety, but also on their overall well-being. Environmental pollution has a direct detrimental effect on our natural resources such as

clean water or air, for example, but it also has an indirect impact on every ecosystem and biodiversity, which can easily lead to unexpected and severe natural disasters.

While indicators such as satisfaction either with employment, the financial situation in the household or living space affect certain areas of life, general satisfaction refers to an individuals evaluation of all relevant subjective aspects of their life, and therefore it is considered to be the overall measure of subjective well-being.

The Quality of Life in the times in which we live is merely a reflection of the overall situation in every individual social community, as well as around the entire world as a complete natural and physical whole. It is natural that a person of the digital age lives a life that is much more demanding than one from a tribal community or in any other period of our historical development, but it is not natural that they are more overworked and worried than ever before, with no time for life as they truly want to live it. Many people are more dissatisfied and under greater stress than just a decade earlier. The reason is not only that people expect much more from life in the digital age, but also that the demands of others towards them are much more pronounced. The employer, the family, the school, society, and who knows else, expect much more from people today and at the same time demand that this all must be completed in the best way and as soon as possible. It all makes life seem much more complicated.

3. THE INFLUENCE OF FINANCIAL LITERACY ON THE QUALITY OF LIFE

Almost all the Financial Literacy Indicators, in a direct or indirect way, significantly affect the Quality of Life. In Figure 3 we show the influence of the indicators of Financial Literacy on the indicators of the Quality of Life.

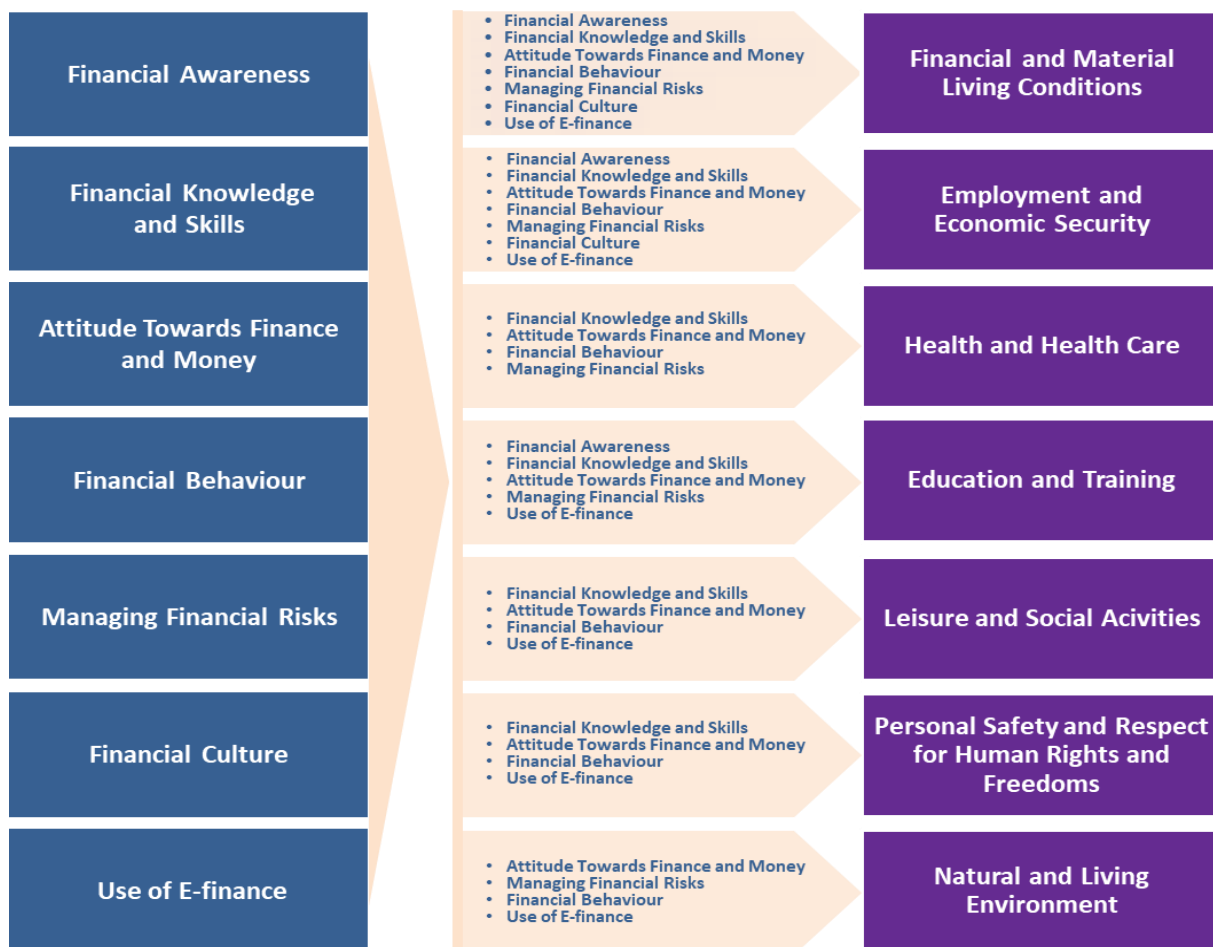


Figure 3. The influence of the Financial Literacy Indicators on the Quality of Life

In order for a person to live well, it is necessary to have adequate financial and material conditions. Therefore, this indicator of the Quality of Life is influenced by all the indicators of financial literacy, because they basically determine the individual's ability to obtain the required financial and material means through hard work to enable a better life.

A large number of studies have shown that the greatest sources of stress for an individual are illness, the loss of someone close, and the loss of a job. Without employment and accordingly adequate economic security, it is difficult to provide for a quality life. As in the previous case, all the indicators of financial literacy impact on this indicator of the Quality of Life. A person who is not sufficiently aware of finances and their importance and does not have an adequate financial culture will hardly be able to provide economic security.

One of the most important factors in the success of each individual is an adequate level of education and training. Specific and highly-skilled knowledge is a prerequisite for many employment opportunities. Today, knowledge can become quickly obsolete and, therefore, the concept of "Lifelong learning" is increasingly being promoted. This means that people need to continuously invest in their knowledge, which often requires the allocation of significant financial resources. A person with adequate financial knowledge and well-managed risks will be able to allocate the funds needed for these purposes. The basic precondition for this is an adequate level of financial awareness and a serious attitude towards money, that is, the awareness of people that investment in education and training is not a cost, but a vital investment and beneficial in the long-term (Luburić, 2016). In today's world, the application of advanced financial electronic platforms also requires adequate training for their proper use.

The indicators of Financial Literacy also affect some indicators of the Quality of Life, such as health and health care, the natural and living environment, personal security and respect for human rights and freedoms, although, perhaps, at first glance, is not easy to see a direct link.

We live in a time when quality health care is no longer entirely free and a significant number of health services require sizeable financial resources. That is why it is of great importance to have the financial knowledge and skills that can enable the acquisition of sufficient funds to meet these essential needs. This relationship between adequate financial knowledge and behavior best demonstrate whether a person is aware of the cost of his good health, and whether money is, in some respects more important than himself. Financial worries resulting from the poor management of financial risks can create such a level of stress that it can seriously endanger an individual's health.

One of the important indicators of quality of life is leisure and social activities. A person who has adequate financial knowledge and skills and who adequately manages financial risks can earn more money, reduce working hours, and thus increase their leisure time. In addition, leisure activities, such as travelling and holidays, the cinema or theatre, shopping, or hanging out with family and friends, are also largely dependent on money and how much someone is ready to set aside for these activities. This means that the relationship between finances and financial behavior often directly influences the quality of life enjoyed by an individual. In the same way, whatever our attitude to the natural and living environment, a lack of available resources for either donation or activism, could well be a determining factor in our relationship with it.

At a time when cyber-crime is becoming a widespread phenomenon, the issues of financial knowledge, financial skills and the use of electronic finance are very important. Under conditions of general uncertainty, and especially insufficient financial literacy, it is easy to become a victim of cyber-crime. This can, for example, remove the human right to privacy, cause the loss of significant funds and savings and even directly endanger personal security.

There is a very important link between the level of Financial Literacy and the Quality of Life enjoyed by individuals and society as a whole, and these two aspects form fundamental parts of our lives.

4. CONCLUSION

Throughout human history there has been almost nothing that has had more influence than money on the overall life of people, their relationships and their way of life. In today's insecure and turbulent times, however, it is not easy to earn and save enough money for life, just as it is not easy to successfully manage it. Consequently, financial literacy is of great importance to the entire population. The role that financial literacy plays in the quality of people's lives is one of the key factors in achieving the success of every individual and therefore society as a whole. The indicators of Financial Literacy and the indicators of the Quality of Life of an individual are fully and directly connected and mutually interdependent and only when integrated into a whole, are they able to show the real situation. In many ways, the Quality of Life, with all its components, is basically limited by the individual's ability to access the required material and financial resources. Almost all the Financial Literacy Indicators, in a direct or indirect way, significantly affect the Quality of Life. The reality is that without an adequate level of finances it is very difficult to enjoy a satisfying Quality of Life. At the same time, without an adequate level of Financial Literacy it is very difficult to ensure this adequate level of finances. The link between them is clear and the consequences of problems in this area lead to problems in all of society.

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