



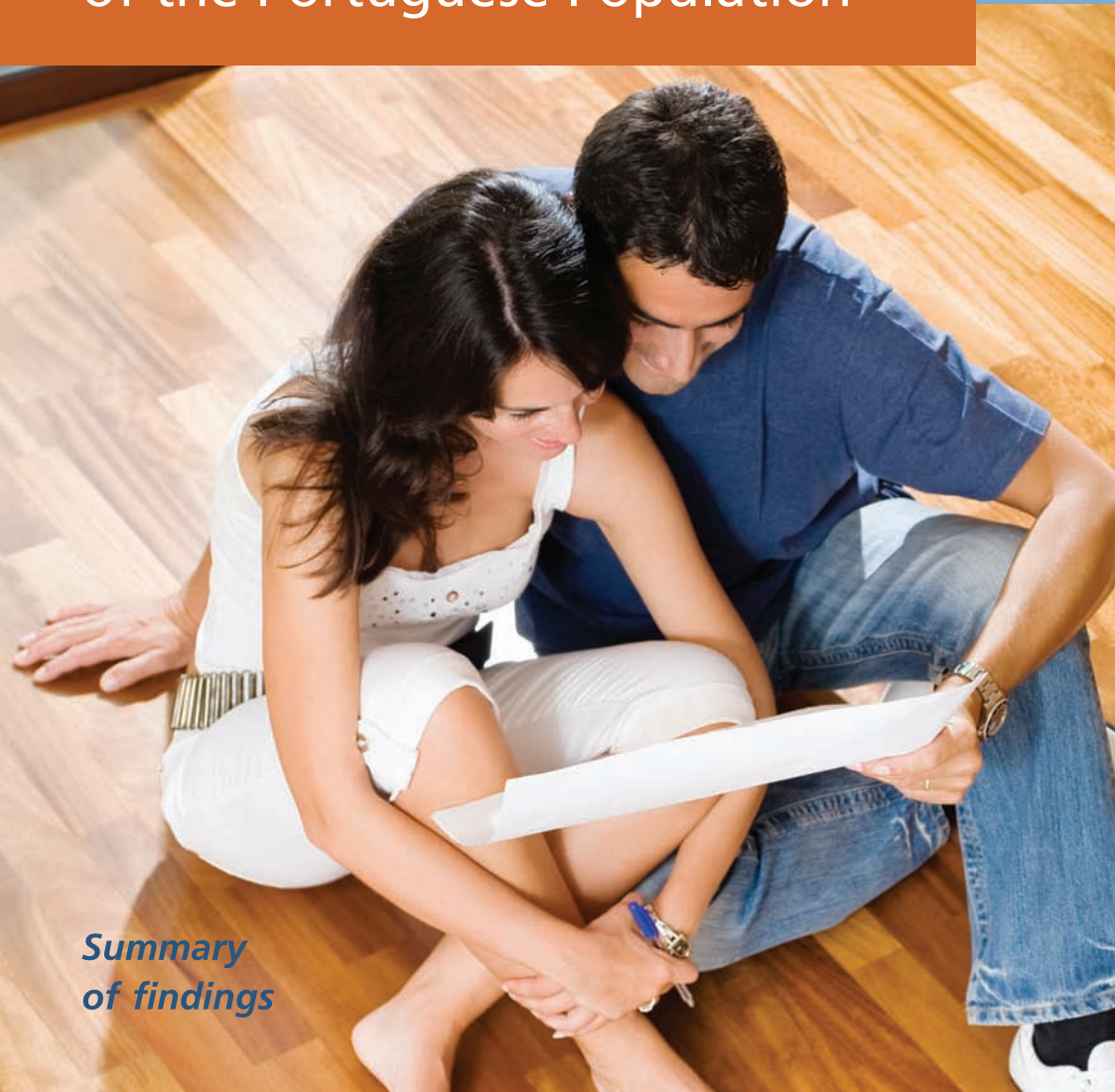
*Banco de Portugal*

EUROSYSTEM

# Survey on the Financial Literacy of the Portuguese Population

2010

*Summary  
of findings*





*Fostering financial education is an important part of Banco de Portugal's strategy within the scope of its supervision of retail markets for banking products and services. This concern has been present since 2008, when the Bank was assigned specific tasks in the regulation of the market conduct of credit institutions. Hence, Banco de Portugal recognizes the importance of informed decision-making by citizens when selecting banking products and services, so that they may evaluate their costs and benefits. A higher level of financial education also allows for sounder decisions with respect to household budget management. Moreover, better informed customers contribute to improve the efficiency of regulation and oversight of credit institutions.*

*In addition to the initiatives developed by Banco de Portugal to disclose clear and updated information on banking products and services (among which, the creation of the Bank Customer Website in April 2008), this survey is also an important tool for other financial education initiatives. Its findings allow for a first diagnosis on the behaviours and attitudes of citizens, on how they manage personal and household finances, on their knowledge of the characteristics of banking products and on the factors they value the most when purchasing them.*

*This survey on financial behaviours, attitudes and knowledge of citizens, groundbreaking in Portugal and conducted according to the best international practices, is essential for defining the appropriate measures to be implemented in the field of financial education. Its elaboration followed the guidelines adopted in the past few years by an international network of regulators, public authorities and experts devoted to financial education issues (INFE – International Network on Financial Education).*

*For Banco de Portugal, the findings of this survey – whose preliminary summary is now released – are an important instrument to identify priority areas of intervention, thereby contributing to a more appropriate design of future regulatory initiatives within the scope of its market conduct supervision. These findings are also an invaluable working tool for the preparation of financial education programmes that will follow and for the subsequent evaluation of their impact.*

*Lisbon, October 2010*

*Carlos Costa  
Governor*





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### Why a financial literacy survey?

Financial decision-making is part of every person's daily life. The simple act of paying bills, managing the household income, selecting a housing loan, are examples of a variety of situations requiring a proper weighing of their financial consequences.

The importance of the population's sound financial behaviour and knowledge is being increasingly recognised, within both the national and international scope. Higher levels of financial literacy allow citizens to make informed decisions, in particular as regards managing the household budget and selecting savings and credit products according to their needs, thereby also contributing to prevent over-indebtedness.

The growing recourse to credit and the decline in savings levels bear consequences, for example, for long-term commitments associated with housing loans and for the accumulation of consumer credit. In turn, the existence of a wide range of savings and credit products on the market hinders the evaluation and comparison among products, and consequently bank customers are not always fully aware of the costs, benefits and risks of their choices. Correct decision-making has benefits not only at the individual level, but also translate into advantages for the society and the economy as a whole.

Banco de Portugal, within the scope of its market conduct supervision, acts not only to reinforce transparency and information duties of credit institutions but also seeks to foster the financial literacy of bank customers. Hence, in line with internationally adopted principles and best practices, Banco de Portugal has launched a survey on the financial literacy of the Portuguese population, with the purpose of better understanding its financial behaviour and identifying areas where there is a wider gap in financial information, understanding and education.

## Methodological aspects

The financial literacy survey adopted a comprehensive approach in terms of subjects and the population involved, following the methodology summarised below.

Eurosondagem was hired to conduct the fieldwork for this survey.

### • Questionnaire

- Included 94 multiple-choice questions.
- Covered five major subject areas: financial inclusion, budget planning and savings, bank account management, selection of banking products and financial understanding.

### • Interviews

- Face-to-face interviews across the whole national territory.
- Conducted in February and March 2010.
- Average duration of 45 minutes.

### • Sample

- 2,000 respondents aged 16 and over.
- Sample stratification according to five criteria: gender, age, NUTS 2 region, employment situation and level of education.
- Average error margin of the sample of 2.2% for a 95% probability.

## Main results

### • Financial inclusion

- Around 11% of respondents report not having a bank account.
- Of respondents with no bank account, 10% are wage earners and more than half is aged 16 to 24 or over 70.
- 29% of those with a bank account do not own any other financial product.

### • Budget planning and savings

- Half of the respondents considers “very important” to plan the household budget and only 11% see it as “not very important” or “not important at all”.
- Around 48% of respondents report they do not save; of those, 88% refer that their income is insufficient and 7% that they do not consider it a priority.
- Only approximately a fifth of respondents report saving in a medium or long-term perspective.

- **Bank account management habits**

- Around 7% of respondents report not knowing the balance of their account and 11% not reading bank statements.
- Around 40% of respondents report not being acquainted with the fees charged by the bank on their accounts.
- Around 35% of respondents select their bank based on recommendations from relatives or friends and 23% due to its proximity to their home or workplace.

- **Selection of banking products**

- For around 54% of respondents, the advice given at branches is the main reason for selecting the banking products they own; only around 8% report comparing the terms of the products.
- Around 22% of respondents do not know the interest rate they are paying on their loans.
- Around 15% report not reading the pre-contractual information provided by institutions.

- **Financial understanding**

- 73% of respondents correctly identify the account balance on a bank statement.
- Only 9% of respondents know how the Euribor is calculated; around 45% indicate that it is a rate defined by the European Central Bank.

- Only 17% of respondents understand the concept of spread.
- Around 57% of respondents reveal understanding the relationship between the interest rate and the inflation rate.



## 1. FINANCIAL INCLUSION

*Holding a bank account is a key requirement for accessing specific goods and services, and an indicator of social integration. However, even in developed countries, a considerable part of the population continues to be excluded from the financial system, with no access to basic banking products, such as a current account.*



In Portugal around 11% of respondents have no bank account, of which:

- 10% are wage earners.
- More than half is aged 16 to 24 or 70 and over.
- 74% are non-workers.

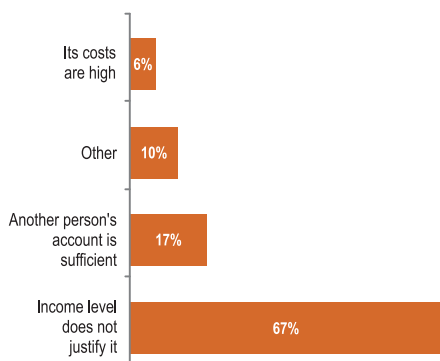


**Around 11% of the population do not use the banking system and do not have a bank account.**



As a reason for not having a bank account, 67% report that their income level does not justify it and 17% that another person's bank account is sufficient. Of respondents with a bank account, 29% report not owning any other banking product.

#### Why don't you have a bank account?



## 2. BUDGET PLANNING AND SAVINGS

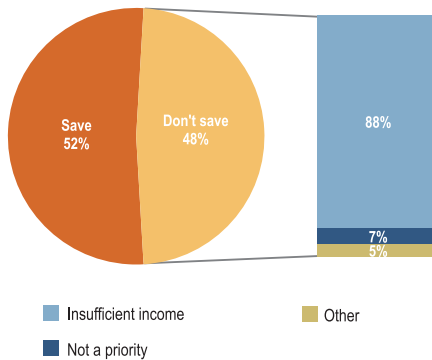
*Identifying and carefully planning income and daily expenses are key tasks for a proper management of the household budget. Saving is also important for sound management, as it allows households, for example, to deal with unexpected situations such as a temporary drop in income.*

When questioned on the importance of budget planning, 51% of respondents consider it to be a "very important" task and an additional 38% found it "important", there being a positive relationship between this perception and the level of education. However, 11% consider such planning "not very important" or "not important at all".

Respondents aged 25 to 39 show greater concern about budget planning, given that around 59% consider it “very important”. With respect to saving habits, around 48% of respondents report not saving. Of those, an overwhelming majority (88%) indicate insufficient income as the main reason; 7% do not consider saving as a priority.

Do you usually save? If not, for what reason?

Saving habits ▼ Reason for not saving ▼



Of respondents claiming to save, 56% admit doing so on a regular basis and 44% on an irregular basis (e.g. using the holiday or Christmas allowances). However, only around a fifth of respondents report saving with a medium or long term perspective, given that the majority of those claiming to save place their savings in a current account to spend at a later stage (54%) or spend it rapidly (3%).



### 3. BANK ACCOUNT MANAGEMENT HABITS

*Monitoring the balance and movements of the bank account is instrumental to make current expenses according to planned, without exceeding the balance available on the bank account. This monitoring can be conducted through the (paper) statement of account sent by the bank, the ATM machine (Multibanco), the caderneta (bank book) or the bank's website.*



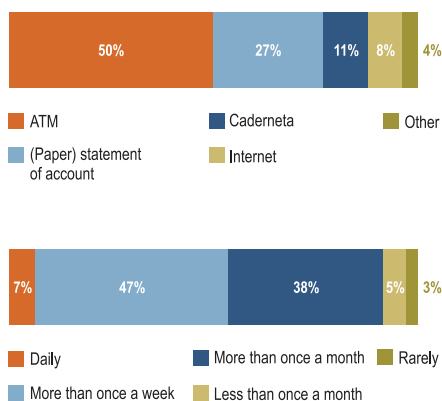
**Young adults (aged 25 to 29) are the group that assigns the most importance to household budget planning.**



## 40% of respondents do not know the fees associated with the current account.

For respondents with regular movements on their bank account, the ATM machine is the preferred means to monitor the balance and movements on the current account, followed by the bank statement of account. Moreover, 54% of respondents monitor their bank account more than once a week.

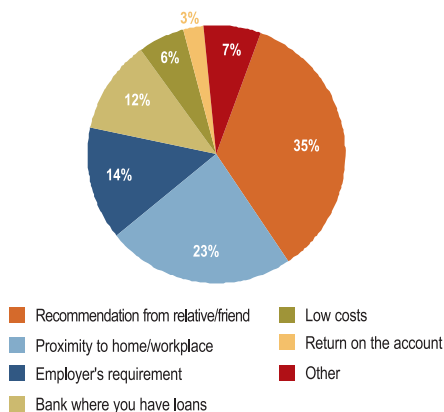
### Which is the main means you use to monitor the movements and the balance of your account? How often?



Around 86% of respondents report knowing the value of their bank account balance with an error of less than 50 euros, but 7% admit not knowing the balance of their main account. Although around 89% of respondents claim reading the bank statement of account, 40% admit not knowing the fees charged by the bank on the account and 34% report knowing only the approximate value of such fees.

When asked about the main reason for selecting the bank where they have an account, around 35% of respondents mention recommendations from relatives or friends and 23% the bank's proximity to their home or workplace. The return on the account or the associated costs are the reasons pointed out by only 9% of respondents.

### What was the main reason for selecting the bank where you have your account?





#### 4. SELECTION OF BANKING PRODUCTS

*Saving and resorting to credit imply a process of selection from among various products on the market. In this process, it is important to match the selected products to the customer profile and needs.*

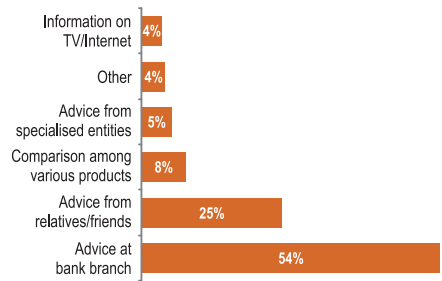
Of respondents with a bank account, 31% report having time deposits; 26% home loans; 32% credit card; 25% access to bank overdrafts; and 16% other loans (e.g. personal, home appliances and car loans, etc.).



**Only 8% of respondents indicate the comparison among various banking products as the main reason for their selection. The most common reason is the advice obtained at the bank branch.**

When questioned on the main reason for selecting the banking products they own, 54% of respondents indicate the advice obtained at the bank branch where they have their account and 25% refer the advice from relatives or friends. Only 8% of respondents mention the comparison among various products as a determinant factor in the selection process.

#### What led you to select the products you own? (1st reason)



#### Knowledge of interest rates

##### Time deposits

Most respondents (66%) report knowing the value of the interest rate on their time deposits (or other savings products), although 50% admit knowing that value only approximately.

Around 19% of respondents report not being aware of the value of interest rates received and 15% claim only getting that information when intending to invest their savings.

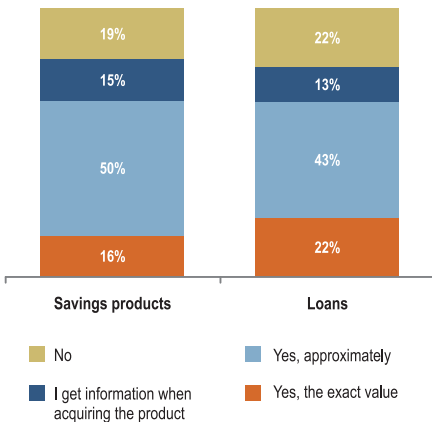


**Of respondents with loans, 22% do not know the interest rate they are paying.**

*Loans*

Most respondents with loans know the interest rate applied: either its exact (22%) or approximate value (43%). However, 22% admit not knowing the interest rates they pay and 13% only get that information when signing the loan contract.

Do you know the value of the interest rates on time deposits or any other savings products owned by you? Do you know the value of the interest rate on the loans owed by you?

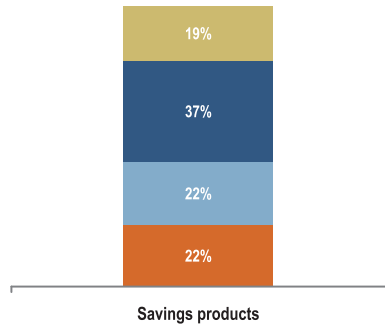


**Interest rate comparison**

*Before making a decision on time deposits (or another savings product) or loans, it is important to compare the alternatives available on the market (shopping around).*

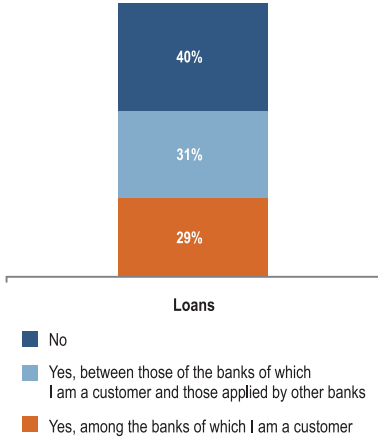
As far as time deposits and other savings products are concerned, 56% of respondents admit not comparing product returns before making a financial investment. As regards loans, the share of those not making comparisons drops to 40%, reflecting a greater concern for seeking solutions more adjusted to their needs.

Do you compare interest rates before making a time deposit?



- No
- No, I always use my bank
- Yes, between those of the banks of which I am a customer and those applied by other banks
- Yes, among the banks of which I am a customer

Do you compare interest rates before taking out a loan?



### Pre-contractual and contractual information

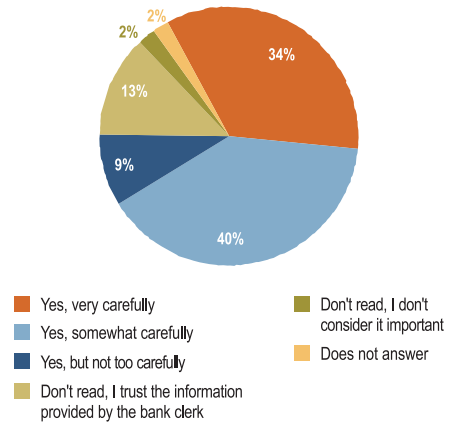
Before purchasing a banking product it is essential that customers have access to standardised information, allowing them to compare the costs and benefits of the different proposals. Pre-contractual information is thus a key factor for customers to make informed and pondered decisions.



**Around 83% of respondents report reading pre-contractual and contractual information.**

The large majority (83%) of respondents with banking products admits reading the pre-contractual information, although only 34% report reading that information very carefully. Still, 15% of respondents report not reading the information provided by credit institutions: 13% for trusting the bank clerk and 2% for not giving it much importance.

Do you read the information provided by the bank before acquiring a savings product or taking out a loan?



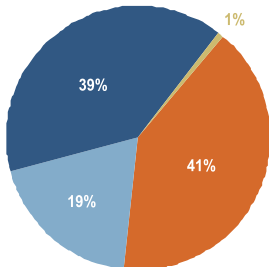
The results are quite similar with regard to the analysis of contracts that will bind the customer to the institution. Bank customers aged 70 and over or with lower levels of education are those who read the information provided by institutions the least.

## Home loans

*The interest rate on a variable rate home loan (the most common form of home loan) is composed of the reference rate and the spread, which is set by the bank, on a contract by contract basis, depending, in particular, on the customer credit risk and on the loan-to-value.*

Around 41% of respondents with home loans admit not knowing the spread applied by the bank and 19% claim to have only an idea of its size. Only 39% report knowing the value of the spread exactly, an answer which is more frequent in respondents with higher levels of education.

Do you know the value of the spread applied by the bank to your home loan?



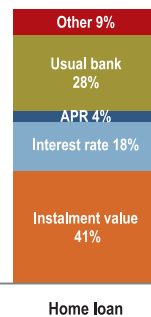
For 41% of respondents, the instalment value is the most important factor when selecting the bank with which they have taken out a home loan. The Annual

Percentage Rate of charge (APR), which reflects, on an annual basis, all loan-related costs, and which should be used to compare alternative proposals with identical terms and conditions, is only referred to as the main criteria by 4% of respondents.



**More than 50% of respondents with home loans do not know the exact value of the spread applied to them by the bank.**

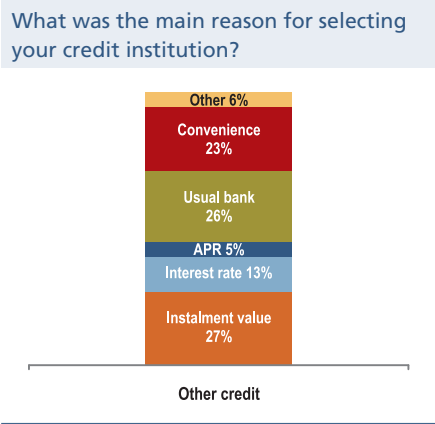
What was the main reason for selecting your home loan?



## Other credit

For 27% of respondents, the instalment value is the most important factor when taking out other credit (excluding home loans, credit cards and bank overdrafts).

For 23% of respondents, the convenience of taking out a loan through the point of sale is the main reason for selecting the credit institution. Only 5% of respondents refer the Annual Percentage Rate of charge, which reflects, on an annual basis, all loan-related costs, as the main factor behind their selection.



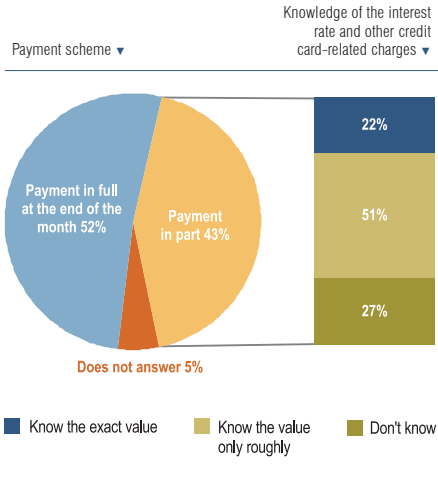
### Credit cards

Credit cards are a banking product owned by 32% of respondents with a bank account. These cards have relatively higher interest rates than other types of credit, but only 26% of respondents report knowing exactly the value of the interest rate associated with their card; 45% know it “roughly” and 29% recognise not knowing.

With regard to the adopted payment scheme, only 52% of credit card holders report paying off its balance in full at the end of the month. Of respondents paying off the balance in part (43%), only 22% know the exact value of the associated charges.

**Only 22% of those not paying the full balance of their credit card at the end of the month know the exact value of the associated charges.**

**Which payment scheme do you normally use for the credit card? Do you know the interest rate and other credit card-related charges?**



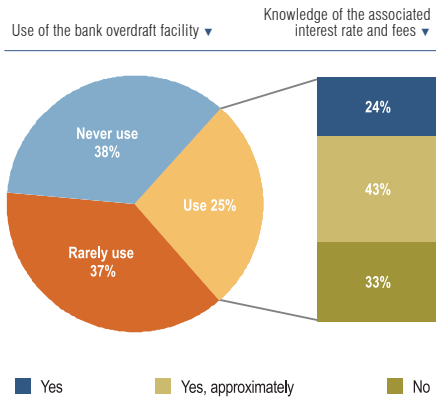


### Bank overdrafts

The bank overdraft facility is a credit contract through which the bank allows debit movements on the account to exceed the available balance, up to a maximum limit of use.

Of respondents with a bank account, 25% report that their account allows bank overdrafts and 19% admit not knowing about this possibility. Of those using bank overdrafts, 33% do not know the value of interest rates and fees charged by the bank.

How often do you use bank overdrafts?  
Do you know the associated interest rates and fees?



Approximately 25% of those who have a bank overdraft facility use this type of credit; however, of those, 33% admit not knowing the value of the associated interest rates and fees.



### 5. FINANCIAL UNDERSTANDING

The decision to select financial products depends, inter alia, on understanding basic financial concepts. Hence, in addition to analysing behaviours, the survey evaluated the financial knowledge of respondents.

	Correct	Incorrect	Don't know
Identification of the balance of the current account	73%	9%	18%
Relationship between the inflation rate and the interest rate	57%	14%	29%
Evaluation of the time deposit degree of risk	49%	32%	19%
Definition of Euribor	9%	53%	38%
Definition of spread	17%	22%	61%
Assessment of responsibility in the payment of a joint loan	78%	13%	9%

### What people know best

The best results are obtained with respect to the understanding of the responsibility for a loan taken out jointly with another person: 78% answer that both are responsible for the whole debt.

Respondents also reveal capability of interpreting a bank statement of account: around 73% correctly identify the balance of the account.

Most respondents shows that they understand the impact of inflation on the real value of a time deposit over time: 57% answer the question on the real interest rate correctly.

When evaluating the degree of risk of various financial products, many respondents (32%) assign an average/high risk to time deposits.

The number of incorrect answers from respondents – instead of admitting not to know – may show that they overestimate their own financial knowledge.

### What people know worse

Results are less positive concerning questions related to the interest rate usually applied to loans.

When asked the question “do you know what a spread is?”, 61% of respondents answer that they do not know.

When questioned about the concept of Euribor, 53% of respondents give an incorrect answer, and 45% of them refer that it is a rate defined by the European Central Bank; 38% admit not knowing.



