

Financial literacy of students in the Czech Republic in context with student accounts

ZDENEK HRUSKA, LILIA DVORAKOVA, PAVLA RIHOVA

Faculty of Economics

University of West Bohemia

Husova 11, 306 14 Pilsen

Czech Republic

hruskaz@kfu.zcu.cz, ldvorako@kfu.zcu.cz, divisova@kem.zcu.cz

Abstract: - The paper deals with the current topic of financial literacy of secondary and tertiary level students and it is focused on student accounts. The results of the research performed in 2014 and 2015 are presented in the paper. The main target of the paper is to identify the dependence of the level of education and the financial literacy by the research sample of students. A partial target is to characterize a student account and its advantages over current accounts. Furthermore analysis of student accounts which are offered on the Czech banking market is made and the key criteria of this product are compared. The empiric part of the research includes the survey results analysis and testing of the established hypothesis focused on the relation between the respondents' education and their awareness about student accounts, for which statistic methods were used.

Key-Words: - bank, bank products, current account, education, financial literacy, student account

1 Introduction

The banking area has gone through continuous development since the beginning and the discovery of the first banking operations which can be dated to the period 1000 BC [13]. Since the 20th century the prevailing trend is to adjust banking services to the clients' needs which leads to creating new banking products and services. In the Czech Republic area the banking development was noticed after 1989 when market economy was started and the two-stage banking system was formed, its first stage was formed by the Czech National Bank since 1993 and the second stage by commercial banks. The second stage of the Czech banking system consists mainly of universal banks [11]. Universal banks provide a wide range of banking products and services when the basic banking product can be considered current account or its modifications according to clients (e.g. student accounts). However, in the Czech Republic products from financial area are not offered only by banks but also by other institutions (as an example cooperative savings banks can be mentioned but these will not be researched in this paper). The subject of the research will be banks and their products offered to students (focused on student accounts) which are an inseparable part of the banking system, and as Polouček [10] states they have had an important position in transaction services providing already since the 19th century. There are several approaches to defining the term

bank, e.g. Mejstřík [8] or Polouček [10] characterize a bank as a legal entity with the head office in the Czech Republic, which has a form of a joint-stock company and whose main activity is to receive deposits from public and to provide loans.

In a simplified concept a bank works as an agent between depositors and borrowers, which is confirmed by Jurošková [7] or Heffernan [5], when it gets financial funds from depositors and then it lends these funds further on. Current accounts as well as student accounts are characterized especially by high liquidity of financial funds. Heffernan [5] identifies the liquidity service as one of the basic services which a bank provides to the client at opening a bank account.

The primary target of this paper is the research of the financial literacy of students in the Czech Republic, regarding student accounts offered by banking institutions on the Czech banking market. Partial targets of the research are to check the relations between the level of education and the level of awareness about services and valorization of financial funds in connection with student accounts and also to check the relation between the level of education and the number of acquired products of the financial market. Furthermore in the paper it is researched if students in the Czech Republic use more the products and services of banks or of cooperative savings banks. To complete

the research targets two hypothesis were established:

H0 (1): The estimation of the interest rate level in student accounts is not related to the achieved level of education.

H0 (2): The number of acquired products of the financial market is not related to the achieved level of education.

1.1 Methodology

The research work was based on available domestic and foreign sources, monographic publications, professional magazines and professional internet servers were used. Furthermore a questionnaire survey was performed, it consisted of 9 questions. The questions in the questionnaire were closed (in the questionnaire there were dichotomous, trichotomous and polytomous questions) and semi-open questions when the respondents could select just one of the offered options in some questions and in other questions they could select more options. The survey was performed among students of grammar schools, secondary schools, vocational schools and universities. The targeted group of respondents was aged 15 – 30 years when the bases was the possibility of these subjects to open a student account according to the offer on the Czech banking market. The survey was carried out in the form of personal visits, electronic contact and the snowball method and the questionnaires were completely anonymous. This way of addressing the respondents led to the questionnaire returnability of 93%. There were total of 464 filled in questionnaires obtained for processing. The acquired data were processed in MS Excel with the use of below mentioned statistic methods. Before the questionnaire survey was started, a piloting survey was performed at 20 respondents by which some discrepancies in the wording or structure of the questions were revealed and consequently the correction of the structure and form of the questionnaire could be done.

2 Student account – general bases

Opening a bank account, or a student account, is usually at the beginning of the relation between a bank and its client. In general terms student accounts belong among passive banking transactions because the financial funds deposited on these accounts by the students represent a debt for the bank which is reported in liabilities of the balance sheet of the banking institution. Student

accounts are sometimes called deposits at sight because of their high liquidity [11]. Owners of student accounts have a few possibilities how to withdraw their funds. The most often used are ATM withdrawals, next cash can be withdrawn at a branch of the bank or the cash back service can be used [9]. Services associated with student accounts are still more often electronic, as Polouček [10] says, a bank account should mainly serve for flexible and effective payments. Banking institutions try to acquire young people and offer them preferential student accounts because after opening the student account there usually are other banking products acquired, e.g. savings accounts, fixed-term deposits or student loans. In the long-term horizon clients can later acquire other credit products (e.g. mortgage loans) at the bank where they have their account. In case of student accounts (and also current accounts) the bank gets financial funds which it can use for financing its short-term active banking business and it acquires these funds for a very low price (considering the nearly zero interest rate on student accounts). The disadvantage is the unstable level of financial funds on student accounts and their low volume [13]. Student accounts management for young people is convenient for the bank because there is the possibility of staying at the same banking institution also after the end of studies and of transferring to a current account. The client gets for example the advantage in the form of easier acquiring of a credit product. During a long-term stay of a client the bank gets another advantage which is a more exact prediction of the future financial funds flow on the account [13].

Considering the low valorization of financial funds on student accounts, another product for funds valorization can be recommended. Clients of the bank can base their selection on so-called deposit sediment which is a sum of financial funds under which the daily balance on the account never drops for a given period [11], [13]. In a general concept the primary reasons for opening a bank account are to deposit temporarily free financial funds which are characterized by high liquidity and to perform payments, which was also confirmed by the performed questionnaire survey. In terms of safety of the deposited financial funds a student account represents a conservative product because the money on these deposit products are insured to the limit of 100 000 Euro at one bank, namely the Deposit Insurance Fund [14].

A student account is opened when a client submits an application and a written agreement is prepared. The agreement contains the date which the

account is opened on, the currency, the level and kind of interest, the price of services connected to the account and other items [10]. When an account is being opened, the bank is also given a specimen signature which is a part of the agreement about a current account. The bank is obliged to duties according to the concluded contract, as [15] presents.

Unlike current accounts student accounts are characterized by certain advantages, especially lower fees. Student account users consider the most valuable advantage the free account management. Student account users see disadvantages in high fees when they overdraw the account or in repeated submitting of the certificate of study [2].

In the Czech Republic students or graduates are offered preferential current accounts with the attribute student by a few banks. This kind of accounts is offered by Česká spořitelna, ČSOB, GE Money Bank, Komerční banka, Raiffeisen Bank, UniCredit Bank, Waldviertler Sparkasse a Evropsko-ruská banka. The overview of basic information about selected student accounts is presented in Table 1. Some of the listed banks offer free ATM withdrawals within the ATMs of the given bank, others conversely charge these withdrawals or associate their free charge with other conditions. On the contrary e.g. Raiffeisen Bank offers a service package for a monthly fee 49 CZK. All researched banks have the request to submit the study certificate at least once except UniCredit Bank and Waldviertler Sparkasse which do not request this.

Table 1 - Overview of selected criteria for student accounts in the Czech Republic

Bank	Interest rate (p.a.)	Manag. fee	Age limit (up to)	Study certificate
Česká spořitelna	0,01 %	free	30 years	every year from age of 21
ČSOB	0,01 %	free	30 years	2x at age of 21 and 26
GE Money Bank	0,01 %	free	27 years	1x at age of 20
Komerční banka	0,00 %	free	25 years	2x at age of 20 and 26
Raiffeisen Bank	0,01 %	49 CZK a month	26 years	1x at age of 19
UniCredit Bank	0,01 %	free	26 years	-
Waldviertler Sparkasse	0,03 %	free	26 years	-
Evropsko-ruská banka	0,00 %	free	26 years	every year

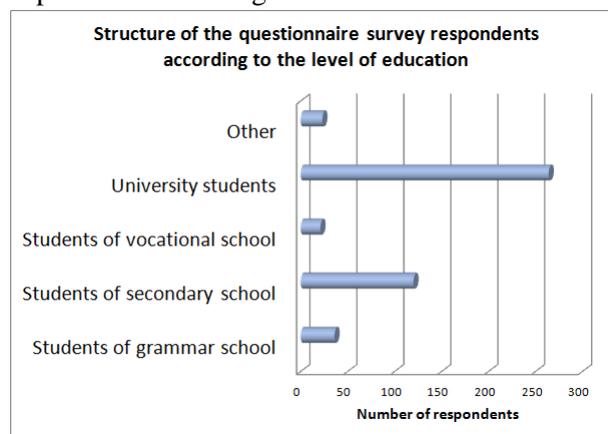
Source: own processing according to information provided by banks, 2015

Within the services provided for a student account some students can require the possibility to draw the overdraft loan in case of lack of financial funds.

3 Research results

The performed research consisted in total of **7 steps**. **The first step** of the research included sorting the respondents according to the completed education and their present place. Respondents were sorted according to their answers to students of grammar schools, secondary schools students, vocational schools students and university students. Overview of the respondents' structure is presented in Figure 1 which clearly shows that in the research sample there were 36 students of grammar schools (7,76 %), 120 students of secondary schools (25,86 %), 21 students of vocational schools (4,53 %) and 264 students of universities (56,90 %). The remaining respondents were mainly employees or self-employed people studying a secondary school or a university in a combined form.

Fig. 1 - Structure of the questionnaire survey respondents according to the level of education

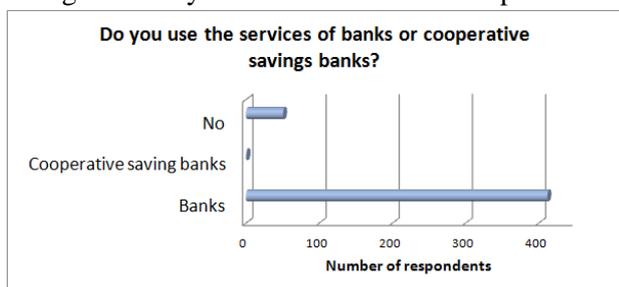


Source: own research, 2015

In the **second step** of the research it was surveyed whether the respondents use services of banks or cooperative savings banks. At this stage of the research a significant conservativeness of students in the Czech Republic was detected because only one respondent (0,22%) stated that he uses the services of cooperative savings banks. This can be caused by the distrust of people in these institutions remaining from the 1990s and also by the problems of some of these institutions in 2013 and 2014. From the total 464 respondents 412 use the banks' services (88,79%) and 51 respondents (10,99%) do not use either the banks' services or the

services of cooperative savings banks. The results of this part of research are documented in Figure 2.

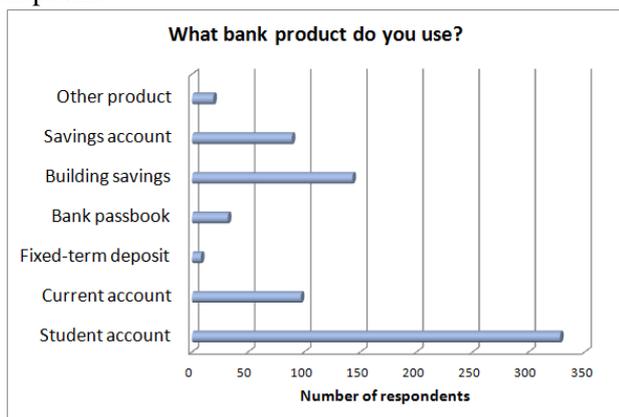
Fig. 2 - The use of services of banks or cooperative savings banks by students in the Czech Republic



Source: own research, 2015

The students who answered that they use bank services were further questioned in **the third step** of the research what products they have acquired at the banking institutions. The obtained results are presented in Figure 3. The majority of students have a student account. These are 328 respondents (79,61% of the respondents using bank services). Total of 97 respondents (23,54 %) have a current account, 8 responding people (1,94 %) have a fixed-term deposit, 143 respondents (34,71 %) building savings and 89 (21,60 %) marked a savings account. The performed research proved persistence of bank passbooks because 32 respondents (7,77%) still use this product despite its decline. Other 19 respondents (4,61%) use another product provided by a bank.

Fig. 3 - Bank products used by students in the Czech Republic

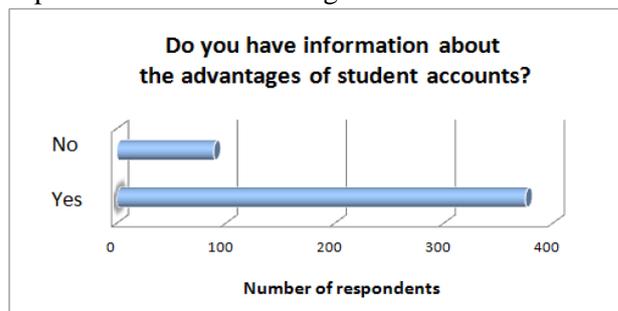


Source: own research, 2015

In the following **fourth step** of the research it was investigated if the respondents are informed about the advantages of student accounts. Prevailing majority of respondents (80,82%) is aware of the advantages of student accounts. It shows the effort of respondents to find out detailed information

about the offered products before they open an account. The obtained results are illustrated in Figure 4.

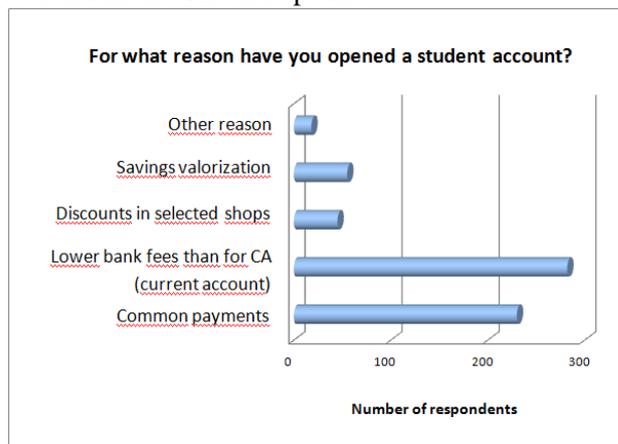
Fig. 4 - Awareness of students in the Czech Republic about the advantages of student accounts



Source: own research, 2015

For respondents the prevailing reasons for opening a student account are traditional factors which was proven by **the fifth step** of the performed research. We can place here lower fees than for current accounts which was the most often answer of the responding students. This reason was given by 60,78% of respondents. For common payments and cash operations the student account was opened by 49,57% of respondents. Surprisingly relatively low percentage of respondents (11,85%) has opened the student account to valorize the savings. This fact shows quite different knowledge of the interest rate on student accounts. Conversely very few respondents (9,70%) use the discounts in shops with the student account. The results of this research step are demonstrated in Figure 5.

Fig. 5 - Reasons to use a student account for students in the Czech Republic

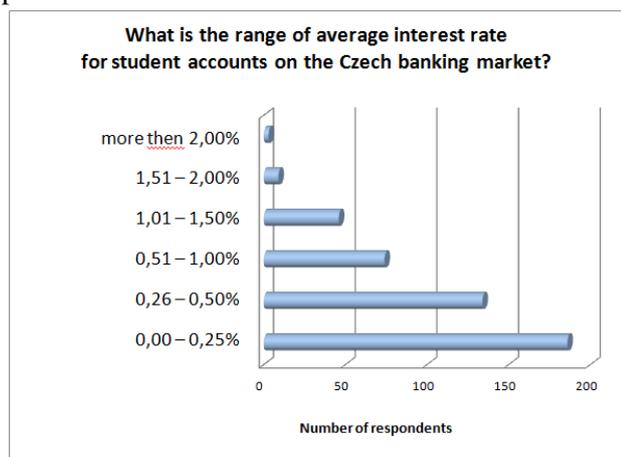


Source: own research, 2015

The last, **sixth step** of the research was about the respondents' awareness about the interest rate level for student accounts. Some respondents did not

answer this question which can show their lack of knowledge. More than a half of respondents think that the interest rates for student accounts are over 0,26 % p.a., out of which 28,45 % of respondents expect the interest rate higher than 0,51 % p.a. Higher values of interest rates are estimated mainly by respondents with lower level of achieved education. More detailed results are illustrated in Figure 6 where all the interest rates are presented in p.a.

Fig. 6 - Awareness of students in the Czech Republic about the average level of interest rate provided for student accounts



Source: own research, 2015

Based on the obtained results two hypothesis were established which were presented in the introduction of this paper. Their rejection or acceptance was subject to statistic processing. For testing the hypothesis and thus investigating the dependence the chi-square test of independence [6] was used. The intensity of dependence was evaluated by Pearson contingency coefficient (C_p), coefficient φ (φ) and Cramér's contingency coefficient V (V) [12].

$$C_p = \sqrt{\frac{\chi_P^2}{\chi_P^2 + n}} \quad (1)$$

$$\varphi = \sqrt{\frac{\chi_P^2}{n}} \quad (2)$$

Based on the performed chi-square test both zero hypothesis were rejected on the importance level 5% as well as on the importance level 1%. Therefore the estimation of interest rate level on student accounts is connected to the achieved level of education. According to the coefficient φ as well as according to Cramér's V the intensity of dependence is not very strong. For hypothesis

$H_0(2)$ there was also detected that with higher achieved education is associated a higher number of acquired products of the financial market. However, according to C_p and Cramér's V also here the intensity of dependence is rather weak. For the second hypothesis the coefficient φ was not calculated because of the quantitative variable.

4 Conclusion

We can see identical services for student accounts which banks provide free for the clients. They are e.g. account management, electronic statements, payment cards, a certain number of free ATM withdrawals or some payments (usually incoming). These features can be identified not only in the Czech Republic but also abroad, when e.g. Deutsche Bank [3] within the offered Das Junge Konto offers free withdrawals from the bank's ATMs, a debit card, free account management etc. Similar advantages are also offered by Erste Bank [4] or Bank Austria (belongs to UniCredit group) [1]. Some banks offer also other advantages such as withdrawal of cash funds in shops or petrol stations (e.g. Deutsche Bank at Shell petrol stations), in the Czech Republic Česká spořitelna offers the program iBOD. Banks usually require the study certificate or the account is limited by age. The study certificate submitting differs at individual banks in frequency and age too.

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