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**Realizing Russia's Potential**  
**BUSINESS AND EDUCATION PROGRAMMES TO IMPROVE FINANCIAL**  
**AWARENESS**  
**Briefing**

**JUNE 22, 2012 — 12:00–12:45, STARBAR**

**St. Petersburg, Russia**  
**2012**

**Moderator:**

**Sergei Guriev**, Rector, New Economic School

**Panelist:**

**Zdenek Turek**, Managing Director, Head of Central and Eastern Europe, Citigroup  
Inc.

**S. Guriev:**

Good afternoon and welcome to our briefing.

Today we would like to discuss our experience working alongside the Citi Foundation on projects to promote financial awareness. My name is Sergei Guriev. I am Rector of the New Economic School in Moscow. Here with me is Zdenek Turek, who is today representing the Citi Foundation and also serves as Citi Chief Country Officer for Russia and CIS. To start the session, I will provide a brief overview of what we have already achieved. I think our experience has been extremely interesting.

Funds from the Russian taxpayer, the World Bank, and the Ministry of Finance—which, of course, represents money that we as taxpayers will pay in the future—are currently being used towards a large-scale campaign to promote financial awareness. We began to work with Citigroup many years ago and so many of our achievements will probably be considered as possible and interesting ideas for the larger national programme. Both Citigroup and the New Economic School are represented on the Expert Council for the National Programme on Financial Awareness and, as is typically the case, the private sector is a pioneer in the generation of national programmes.

I would first like to discuss our achievements. As we just saw in the short video clip, we have conducted a wide range of projects, including the opening of the [www.fgramota.org](http://www.fgramota.org) portal. I hope that you will have the time and the opportunity to visit the portal. Before talking about what we have done, I would like to explain why we did it.

If we look at what is currently going on in Russia, we can see that Russian citizens have a variety of problems and are faced by numerous challenges with respect to financial literacy. Some of the measures that I will discuss today are being carried out by the World Bank, whereas others were performed by ourselves along with Citibank. In reality, Russians do not have a very good understanding of financial instruments. Many hold their money in cash, with people sometimes keeping vast

sums of cash at home. Many of our fellow citizens do not keep records of their personal finances and do not understand the risks involved with some financial instruments. The recent share buyback by VTB showed that, in reality, many Russian investors see shares as identical to bonds, particularly regarding government bonds, and believe that the state should help them manage their risks and losses.

We conducted numerous surveys and polls and discovered that this is becoming an extremely important and expensive problem, for Russia has seen business lending rise sharply amongst its citizens. If you are unable to organize your income and expenses, then there is the risk that you will miss a payment because you will be unable to make the calculations as to when you will pay off your mortgage or consumer loan. We can see that all these figures are relatively high. We are not just talking about one or two percent of the population, but rather several dozen percent. In addition, we measured the financial literacy of students, because the stereotype is that the older generation does not have a grasp of finances, but if the younger generation has a better understanding, then this will bode well for the future. We carried out a poll with students and it turned out, as I will now show you, that neither students nor schoolchildren really understand how to organize their finances, what a financial instrument is, or how to use it. We discovered that students are not that different from the average Russian, yet it is precisely during the years at school and university that we have the chance to have an impact on their level of understanding. I will now show you the results of our survey. We discovered that the overwhelming majority of students, who, generally speaking, are adults, struggle to organize their finances to such an extent that they occasionally run out of money.

What have we done in the last few years as part of this project? The first thing we did was to write two textbooks for students and schoolchildren. There are amusing pictures on the covers of both of the textbooks, as we realized that pictures are very important. Taking this into account, we tried to ensure that the books were enjoyable to hold in your hands and read. As professors of finance, we like to write boring articles with formulas and tables, but this does not help promote financial

awareness. It is very important to produce books that are not overly technical and are easy to read. The books were not organized on the principle that, "We know what we want to say", but rather so as to understand what students and schoolchildren need. This is the distinctive feature of the two textbooks. Based on demand, we discuss what students and schoolchildren need to do in order to organize their own finances and solve their financial issues.

In the books, we provide a lot of examples and case studies. This is all based on real life, as opposed to using examples from America. With regard to the daily use of financial instruments, life in America is entirely different. We really tried to use Russian examples, which was key for the success of the projects.

A further principle underlying our projects was our belief in scale. We know that at the New Economic School we cannot educate all students in Russia. So, together with Citibank and the Citi Foundation, we selected universities in seven cities and then chose about 40 professors in those universities. We trained these professors on how to further the teaching of financial awareness. The figures are of course staggering. We reached out to a thousand individuals, but that is only the beginning, as the professors we educated will continue with their teaching. Together with the Citi Foundation, we believe in metrics, so it was essential for us to measure the level of financial literacy before and after the classes. We tested the students before the classes and then, afterwards, we gave the same students similar tests. We observed that the level of financial literacy was considerably higher. If we take a look at how many students successfully passed the test, we can see that this increased from eight to fifty percent. There is still room for improvement. Nevertheless, the fact that the starting level is so low means that our efforts can be expected to have a significant impact.

What else are we going to do? We are advocates of new technology. On the [www.fgramota.org](http://www.fgramota.org) portal, we have uploaded e-book versions of the textbooks. These are interactive books, which contain interactive glossaries, given how important it is to acquaint readers with the terminology used. We have produced online tests and games, in which we give each user one million virtual roubles and

ask them to try to live for a period of time on this money, trying to invest it and understand the risks involved. What is distinctive about this game? We are striving to ensure that people do not live in an idealised version of reality where they have money that they can choose to invest or not, where there is alpha, beta, and a level of uncertainty that can easily be understood. In contrast, we place them in a situation where they need to invest, but, beyond this, it is highly realistic. Sometimes there are bills to pay, their friends borrow money off them, or certain risks arise. We have attempted to promote this game using social networks and tens of thousands of people have looked at the game and played it. A further thing we have done is to launch a version 2.0 of the game, incorporating improvements suggested by those who have played it.

Here is the page you see on the website. There is the e-book, the game, tests, and so on. The book can be read online, and there is also an iPad application, so you do not have to read it on your computer only, but can instead take it with you on the train if you want. Here is a standard quiz within the book. Once you have read a chapter, you will be given a set of questions. This is not just the case after each chapter. At the end of the book, there is a timed quiz that allows you to check how much you have learned.

This is the game I mentioned earlier. There is no multiple choice test here, but simply questions and answers and a simulation of real life. As I said, we give the player a million roubles to start with and make them live on it for ten years. The game contains suggestions. This is very important because one component of financial awareness is an understanding of how to respond to proposals that, in Russia, as it says here, are sometimes just "disguised fraud". We know that today, in 2011–2012, Sergei Mavrodi continues to be a successful businessman, with part of his business relying on the fact that, unfortunately, many people do not really understand how it is actually possible to earn money with limited risk. Moreover, as already mentioned, unlike in an idealized model, where you are simply faced with an investment portfolio, our game challenges people with risks in real-time. We tell people that they need to pay some bills or help out their friends, which is also a part

of real life. Sometimes they need to find a new job because they are unable to handle the risks with their present income. This is another key aspect of the game. Financial awareness is not merely about investing a million roubles, but about finding a balance between the million roubles, your income, and the risks that are not associated with making investments.

Here is a typical sequence from the game. As you can see, your financial status is shown at the bottom. You receive proposals. There are advertisements from mutual funds and you get to select the fund you want. As you would expect, a great deal of information is provided on what certain terms mean, how mutual investment funds are structured and what indeed these funds are. A core aspect of the game involves moving beyond terminological illiteracy. Terms are not taught as they would be in a didactic textbook, but as an actual part of real life. As you can see here, we say: "You have received a fantastic proposal from a non-bank investment company, offering reliable investments with a 40% annual return." The ability to recognize what works and what does not is also a vital part of the game.

It has now become a rule of online banking products that we always say that we give you the opportunity to see your own portfolio in terms of the share structure. We have of course incorporated inflation, so we try to send a signal that it is not enough just to save roubles, given the need to protect oneself against inflation.

This slide shows how many people have visited the portal and the numbers of people that have played the game all the way through. It requires patience and skill, but, as you can see, on average, people were able to overcome the challenge of inflation. There is no guarantee that they will be as successful in real life, as this is only a game. Nevertheless, an understanding of how to place an investment is the key to success in real life because, one way or another, most young people now need to save at least some of their money for their pension. I will stop here and give the floor to Zdenek. Zdenek, please.

**Z. Turek:**

Many thanks, Sergei. Good afternoon. I will try to continue in Russian, but there is not much to add, as Sergei has already explained everything. On behalf of the Citigroup Foundation, I would just like to highlight that financial awareness and financial education have become a key investment area of the Citi Foundation in recent years. The Citi Foundation devotes approximately USD 25 million annually to financial awareness projects.

As Sergei just showed, we started from a small base, with school books, before developing more complex books and moving on to the very successful portal we have today. We hope that this is just the beginning for this project.

We have been working with the New Economic School for over four years. Sergei, many thanks to you and your colleagues for working with us and thank you for helping to develop this project. The problem we face in Russia is that many projects end after one or two years. However, as the School was able to attract leading experts to the project, we believe that it has a very bright future.

Why is this important? I would say that it is important for the bank because we need the sort of clients who understand the products that suit them and know what they are buying and why. Why is this important for Russia? It is vital because the level of financial literacy in Russia is still low, as indicated by our tests on students. The situation with people aged 30-50 is no better. And last but not least, I should note that, at the present time, when global financial markets are still experiencing significant financial problems, people need to have an excellent grasp of the risks associated with the banking products they purchase.

I would like to conclude by once again thanking Sergei and the New Economic School for their wonderful cooperation, which we will seek to develop further in the coming years. Citigroup and the Citigroup Foundation will continue to provide support in the future. I hope that, in 2013, the portal will have an even more interesting game, which will be played by even more students and members of the wider public.

**S. Guriev:**



We will now take questions from the audience. Please.

**From the audience:**

This is an outstanding initiative to create the toolkit to improve financial awareness in Russia. However, this problem is not isolated to Russia. Are there any plans to do something similar, for example in English, so that this project could also be implemented in other markets?

**S. Guriev:**

Yes, that actually forms part of the Citi Foundation's global activity and we are delighted to be part of it. The finer point is that every market is different and has its own distinctive features. It is for this reason that, on the one hand, Citi Foundation is engaged in projects globally and, on the other hand, that we work on specific products for each individual market. Everywhere has its own challenges and Citi as a global foundation appreciates that each market must be treated on its own terms. So, there are of course such products for other markets, where Citi began to operate earlier than in Russia. But you cannot just take a product done for Russia and replicate it for other countries; even in Eastern Europe, where the challenges, curiously enough, are wholly different.

Zdenek, please.

**Z. Turek:**

We are in discussions with the Citi Foundation office in New York and we are already working with countries where the situation is similar to that in Russia. I can tell you that, as far as we know, no such portal exists in the more than 70 developing nations in which Citibank operates. We will try to take this product to other regions, for example to Africa.

**From the audience:**

Can you tell us please whether there is any intention to introduce similar programmes for the senior classes in schools, adapting them to the relevant age groups?

**S. Guriev:**

Thank you. That is an excellent question. We have actually produced a special book for schoolchildren. Let me repeat once more. When doing such work like this it is essential to work with the needs and requirements of the reader, participant, or customer and so the questions we discuss in the book for schoolchildren are entirely different than those found in the book for students.

What is the current situation with financial literacy? A vast programme is being implemented by the Ministry of Finance, with representatives from Citi serving on the expert council. I would say that we are in a very good position. It is highly likely that something will happen with regard to the senior classes in Russian schools. The problem, of course, is that we can train professors in universities, but preparing tens of thousands of school teachers is on an entirely different scale. However, the resources of the Ministry of Finance and the World Bank are also far greater. The sort of project on which we have collaborated with Citi shows the way, but widening the scope is more of a task for the Ministry of Finance and the World Bank. I think you asked a legitimate question and a lot is going to happen in the next few years. This is extremely important because, as Zdenek rightly said, the level of financial awareness is not very high, but the demand is there.

**From the audience:**

That was actually the question I was going to ask. Perhaps, with government support, you could also make a television programme?

**S. Guriev:**

At the present time, it is not possible to make any such television programme without government support. But, we of course are always thinking about such an

idea. The problem is that the television audience is currently changing very rapidly. Television is losing younger viewers in droves, so Facebook and VKontakte may prove more important. We have made use of Facebook and VKontakte. In terms of long-term investments, they may prove more important than television. But you are correct in the sense that television remains highly significant. It is entirely possible that, in five years' time, it will not be as important, but it is still an excellent question.

**Z. Turek:**

I think that people can be taught in various ways. There is a great difference between listening to something, watching something, and interactive learning. In our experience with the portal, the results are positive because the people who use the portal actively engage with it. With government support, we might be able to produce something, but, in any case, it would be an advertisement for people to visit the portal and find out more there.

**From the audience:**

Forgive me for asking a follow-up question. You just talked about "preparing tens of thousands of teachers". Tens of thousands of teachers, combined with their family members, would mean that you would already have a hundred thousand financially literate individuals. In addition, there would be an impact on their pupils. Thank you.

**S. Guriev:**

I simply meant that, whereas for you "tens of thousands" does not sound so great a number, but for us it would be quite large. You are, of course, correct.

**From the audience:**

I also have a follow-up question. Do you concede that with government support this programme could be a part of additional reforms, including of the pension system? Are they connected or does the government not want to link your project with the general issue of the pension system?

**S. Guriev:**

The objective of our programme is not to reform the pension system. But, on the whole, whether such reform proceeds or not, financial awareness is an extremely important aspect of organizing your future income and savings. Our game spans ten years, but, in the book, we write at great length about the need to plan ahead for old age. We are all planning on living for longer than another ten years. Furthermore, we all know that, in the long term, we will have to live off our savings even if we do not want to contemplate that at the moment. Irrespective of whether we like thinking about that or whether we are afraid of the future, the future is coming and we need to know how to plan ahead. Although we do not do this in the game, which only covers a period of ten years, we write about it in the book. The question at the heart of financial awareness is that of whether you are able to protect yourself from the risks associated with the fact that you are going to live for quite a long time.

**From the audience:**

Continuing with this theme, from the point of view of the work of the expert council for the larger programme, are there any discussions on linking the wider national programme with other on-going reforms in Russia, be it pension reform or other examples?

**S. Guriev:**

To some extent, yes. On the other hand, there remains a large degree of uncertainty over pension reform in Russia. The key points of the pension reforms will apparently be announced in the autumn. It will then become easier for the Expert Council on Financial Awareness to discuss the matter. Pension reform is undoubtedly an extremely important issue, but there are others as well. In many countries, a pivotal part of financial awareness involves planning the costs of educating your children. In Russia, as before, most people study at university for free, but, as we heard from the new Minister of Education, it is entirely possible that

we will see reform, whereby there will be fewer state-financed places. Many people will have to pay for their studies. This means that part of financial awareness will consist of saving and investing money for your children's education.

**From the audience:**

Can you please tell me whether your project is closed or if there is a procedure for attracting new partners? Are you interested in attracting new companies from the business world to support the development of the project? Are there any such opportunities and does this interest you?

**S. Guriev:**

We would certainly be interested. Citi probably has some restrictions concerning participation from competitors.

**From the audience:**

But if it is not a bank?

**S. Guriev:**

If we are not talking about a bank, then yes. For example, we have conducted several projects with Visa, which is also investing large amounts worldwide in the development of financial literacy. We would of course be interested in gaining new partners. This is a public concern and a social good. You have to understand that the development of financial literacy not only benefits banks, but also society as a whole. In general terms, it is important for all of us that people on the street understand their finances. As we saw in the recent financial crisis, if people do not understand how to take out a mortgage, then that ends badly for all of us, even if they take out a mortgage in another country.

**From the audience:**

Thank you.

**S. Guriev:**

If there are no further questions, then let me express my sincere thanks. Please do visit our portal, play the game, and tell your friends and colleagues about the portal. It really is an interesting and useful activity. Many thanks.