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FINANCIAL LITERACY OF CLIENTS: CURRENT ISSUES IN BANKING PRACTICE

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Abstract

Financial literacy plays a crucial role in ensuring individuals can effectively interact with banking institutions, make informed financial decisions, and manage personal finances. The research is based on qualitative data collected through semi-structured interviews with banking customers and financial experts. The findings indicate that insufficient financial literacy leads to poor financial decisions, including excessive reliance on credit, ineffective savings strategies, and a lack of awareness about financial risks. The study also highlights how banks address these challenges through financial education programs, customer service policies, and digital tools designed to enhance financial awareness. The article discusses the main problems associated with financial illiteracy in banking, examines the factors influencing financial decision-making, and suggests potential solutions for improving financial literacy among banking clients. Strengthening financial literacy is essential for reducing financial risks, increasing customer confidence in banking services, and improving the overall financial health of individuals and households.

Keywords: Savings and investment, digital banking, financial education, consumer financial behavior, banking services accessibility, financial risk management.

Introduction

Financial literacy is a key component of an individual's ability to interact with banking institutions, manage their financial obligations, and build long-term financial stability [1]. As banking services become more complex, customers are required to have a higher level of financial knowledge to navigate credit products, investment opportunities, and digital banking tools effectively. However, financial literacy remains a challenge for many individuals, leading to difficulties in understanding loan agreements, evaluating financial risks, and selecting appropriate banking products.

In the modern financial landscape, banks offer a wide range of services, including credit and loan products, savings and investment plans, insurance, and digital payment solutions. While these financial tools provide opportunities for wealth accumulation and financial security, they also present risks if clients lack the necessary financial knowledge [2]. Many individuals make financial decisions based on limited understanding, which can lead to excessive debt, poor credit management, and financial instability. The issue is further complicated by aggressive marketing strategies employed by financial institutions, which can encourage consumers to take on financial commitments without fully comprehending the associated risks.

A key problem in banking practice is the increasing reliance on credit products by financially illiterate customers. Many clients fail to assess their repayment capacity before taking out loans, leading to high levels of indebtedness [3]. Similarly, a lack of understanding of savings and investment options prevents customers from making optimal financial choices, resulting in missed opportunities for financial growth. The growing popularity of digital banking also presents challenges, as individuals with limited financial and technological literacy struggle to use digital platforms securely, exposing themselves to fraud and financial mismanagement.

This study aims to analyze the current issues related to financial literacy in banking practice, examine the factors influencing clients' financial decision-making, and explore how banks are addressing these challenges. By identifying the key barriers to financial literacy, the study seeks to provide recommendations for improving financial education and increasing the effectiveness of banking services [4].

Methods

To examine the challenges associated with financial literacy in banking practice, this study employed qualitative research methods, focusing on semi-structured interviews with banking clients and financial professionals. A total of 25 interviews were conducted, including discussions with individual customers of various age groups, income levels, and educational backgrounds, as well as interviews with banking experts specializing in financial education and customer service. The goal was to explore the difficulties faced by clients in understanding financial products and services and to assess the effectiveness of current financial literacy initiatives in the banking sector [5].

The interview questions covered key aspects such as customers' understanding of loan agreements, savings and investment products, digital banking tools, financial risk assessment, and their experience with banking customer service. Additionally, participants were asked about their financial habits, including their approach to budgeting, debt management, and long-term financial planning. The qualitative data collected from these interviews were analyzed to identify common themes and patterns in financial literacy challenges among banking clients [6].

Secondary sources, including reports from financial regulatory institutions, academic studies on financial literacy, and statistical data on consumer banking behavior, were also reviewed to provide a broader context for the findings. This combination of primary and secondary data helped create a comprehensive understanding of financial literacy issues in the banking sector and the measures currently being taken to address them.

Results

The findings from the study highlight several key challenges related to financial literacy in banking practice [7]. One of the most significant issues is the widespread misunderstanding of credit terms and conditions. Many customers sign loan agreements without fully understanding the interest rates, repayment schedules, or potential penalties for late payments. As a result, they often struggle with excessive debt, missed payments, and negative credit histories, which limit their future financial opportunities.

Another major issue is the lack of awareness about savings and investment opportunities. While banks offer a variety of financial products designed to help customers build financial security, many individuals fail to take advantage of these options due to a lack of financial knowledge. Clients frequently deposit their money in low-interest accounts rather than exploring higher-yield savings plans or investment funds that could provide better financial growth [8].

The rise of digital banking has also introduced new challenges for financially illiterate customers. Many clients struggle to use mobile banking applications, online payment systems, and digital financial tools effectively. This digital divide leads to a reliance on traditional banking services, increasing financial exclusion and limiting access to more efficient banking solutions [9]. Additionally, customers who lack financial and digital literacy are more vulnerable to financial fraud, phishing scams, and identity theft, further exacerbating their financial insecurity.

The study also found that many customers rely heavily on bank employees for financial advice, yet they often receive limited or biased information. Bank staff, particularly those working in sales-driven environments, may prioritize promoting specific products rather than providing comprehensive financial guidance. This can lead to customers making suboptimal financial decisions based on partial or misleading information.

Discussion

The findings of this study underscore the importance of improving financial literacy among banking clients to enhance financial stability and reduce financial risks. While banks offer financial education programs, these initiatives often fail to reach the most vulnerable segments of the population [10]. Many financial literacy programs focus on general financial concepts rather than practical skills, leaving clients without the necessary tools to make informed banking decisions.

One of the key challenges in addressing financial illiteracy is bridging the gap between financial education and real-world application. Simply providing information about financial products is not enough; individuals need hands-on experience and personalized guidance to develop effective financial habits. Banks could play a more active role by integrating financial education into their customer service approach, offering tailored advice based on clients’ financial situations.

Additionally, banks should focus on making financial products more transparent and user-friendly. Complex loan agreements, unclear fee structures, and difficult-to-understand investment options discourage many customers from engaging with financial services. Simplifying financial product descriptions, using clear language, and offering interactive tools for financial decision-making can help clients make more informed choices.

Another critical area for improvement is digital financial literacy. As banking services continue to shift online, ensuring that all customers, regardless of age or background, can navigate digital platforms safely and efficiently is crucial. Banks should invest in educational campaigns that teach customers how to use mobile banking apps, recognize fraudulent schemes, and manage their accounts securely [8].

Conclusion

Financial literacy is essential for banking clients to make informed financial decisions and achieve financial stability. However, many individuals continue to struggle with understanding financial products, managing debt responsibly, and utilizing banking services effectively. The findings of this study highlight the need for improved financial education programs, greater transparency in banking products, and enhanced digital financial literacy initiatives.

Banks, financial institutions, and policymakers must work together to develop strategies that empower clients with the knowledge and skills needed to navigate the financial system successfully. By prioritizing financial education, simplifying financial products, and promoting responsible financial behavior, the banking sector can contribute to the long-term financial well-being of its clients and the broader economy.

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