

FINANCIAL LITERACY – AN ESSENTIAL LIFE SKILL IN TODAY’S SOCIETY

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Abstract

Financial education is a concept that emerged nearly 200 years ago, namely in the 18th century. Its role grew rapidly in the 20th and 21st centuries. It is centered around concepts such as budgeting and saving, integrated into financial education programs, aimed both at explaining salary management mechanisms and at presenting financial protection mechanisms and long and medium-term investment tools. Financial literacy is not just a trend, but an essential life skill in today’s society, which enable us to develop and balance our budget, make more appropriate short and long-term saving decisions, and select the best financial products that could make life easier for us.

Keywords: *financial education, saving, insurance, pensions, income, family budget*

Introduction

Concepts such as 'A bank', 'Stock Market', 'Credit Card', 'Court of Accounts', 'Inflation', 'Patrimony', 'Fair Price', 'Pension', 'Revenue', 'Salary', 'Speculation', 'Overestimation', and 'Assets' are frequently used, which is perfectly normal since they refer to the ability to make appropriate saving and spending decisions. They also offer us and our society the financial stability and prosperity we need.

Looking at our history, we can see that the above-mentioned concepts emerged several centuries ago. In ancient times, in the Middle Ages and even in early days of capitalism, society was ruled by rich elites which exploited resources in their own interest, at the same time retaining political and economic power. The aristocracy, the landowners, the bourgeoisie involved in trade and banking, and, later on, the industrialists, strived to accumulate as much wealth as possible and prosper. The workers and producers had no alternative but to make saving decisions, although their access to resources was very limited, enabling them to survive, and not to grow or prosper.

Two centuries ago, after the scientific and technological revolution, economy started to develop at an accelerated pace, and many opportunities emerged, leading to general growth and prosperity. As a result of massive social confrontations and protests staged by the middle and lower classes, oppressed in history, the political elites finally understood that workers and producers should be given more access to resources, and benefit from relative prosperity.

In less than 50 years, the situation of industry employees improved significantly in developed countries. For example, one can hardly compare the Victorian Age in the first half of the 19th century, as described by Charles Dickens, with 'la belle époque' during King Edward's reign, in antebelum England. People had decent houses, water waste systems, electricity, and free access to insurance policies, pensions and education. They had decent salaries, enabling them to grow and prosper. Financial services, including loans, became available, and many had the opportunity to improve their standards of living. Life became easier for most of them.

It is important to mention that countries far away from the Western community, such as Romania, where industrialization emerged in early 20th century, managed to establish a large banking system, especially in poverty-stricken areas, such as the rural South, where agricultural producers and farmers were thus supported to buy land, machines and seeds or encouraged to sell

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their products on the markets, at a better price. In other words, they were provided everything they needed, including unprecedented access to resources. Today, in early 21st century, we are living in a diverse world, and the willingness to prosper is general, the aspirations are broad, amid a multitude of alternative possibilities. Therefore, the opportunity to fulfill our expectations depends on our ability to skillfully manage resources.

Exposition of Facts

Financial education should be fostered and enhanced, since it teaches us about the importance of preserving the resources available, which are not infinite, so that our children and future generations be able to benefit from them. I shall now offer the following example: during the December 9, 2012 parliamentary elections, two referendums were held. Unfortunately or not, many people did not participate, so the results were annulled. One of the referendums focused on Rosia Montana (Alba District), a heavily debated topic, concerning which the following were suggested:

- 1) To open the gold mines exploited in ancient times by Romans, and create new jobs to improve the local population's standards of living, and
- 2) To preserve the traditional culture, the beauty of a unique area, and its resources, and protect the environment, taking into account that cyanide is used in gold mining industry.

Although it is hard to make a decision, it is obvious that our welfare aspirations *hic et nunc*¹ destroyed the forest and polluted the river, transforming the once beautiful landscape into sprawling desert. And that was not the result of a cataclysm, but of our greedy nature. Financial education teaches us that prosperity is achieved through production, based on significant resources, which we no longer have. And that is the most dramatic challenge our civilization has to face. We are forced to make a difficult decision: either to strive for welfare and consume all resources or limit our aspirations and use resources adequately, in a balanced manner. It is thus necessary for us to be aware that the inherited resources and values are too precious to be wasted in a few generations. Therefore, saving and preserving, protecting the environment and a balanced exploitation and use of resources should be key concepts in today's society.

Going into details, I shall take into account individual or family interests, and bring into discussion our society, which faces a complex crisis. The economic decline has a lingering financial impact. After years of growth and increased production, experienced by almost all nations, not only by the Western and Northern industrial communities, people start to believe that welfare is unlimited and everyone can enjoy it. However, a series of crises have emerged since the 1970s. Although interrupted for a short period of time, they have showed us that spending and income must be controlled if we want to have enough resources, achieve and sustain prosperity and welfare. The same applies at the family level, too.

The happy days when states, governments, institutions or employers took care of people and staff, urging them to relax, as they were watching, have long passed and it is highly unlikely that they return soon. Facing high risks, society and people should take a balanced approach, make calculations, carefully preparing budgets and spending, along with consumption plans, and maintain tight control over resources in order to be able to exploit them on the short, medium and long term, and to develop and implement financial education programs².

The Central Concept

A concept addressed to consumers, and, first of all, to young people, financial literacy may ensure stability and secure saving and investment opportunities, since it provides useful information

¹ Latin for here and now.

² See reference [1].

helping us avoid bad loans, select the best banking products and tools, and increase competitiveness and innovative capacity³.

The financial institutions, banks, and insurance companies that have been involved in financial education programs since 2004 could be among the potential financial literacy providers and beneficiaries. And, of course, I should also mention the NGOs and sponsors. However, Germany tops the world's list, with 52 financial education programs implemented, while Romania has just embarked on the quest⁴. The financial education programs should start in kindergartens, for children aged between 3 and 5 years, according to their intellectual ability and capacity to learn. Then, in schools, for pupils aged 6-10 years, who should be taught essential financial concepts, and explained what is the money and the value of the money. Later on, in high-school, youngsters should be explained the relationship between expenditure and income, in order to make adequate saving decisions and spend money carefully. They should understand financial planning and the mechanisms for setting aside money for savings and investments as well as for the family budget, including with the help of financial institutions⁵.

The European Commission also considers financial education as fundamental to form a single market and aims to stimulate the European citizens to acquire basic knowledge of personal finance. To this end, on December 18, 2007 the Commission sent a statement of financial education. This Communication aims to define the principles for national quality financial education and also the presentation of initiatives managed by the EU in this field⁶.

Thus, given the lack of knowledge of consumers on financial products, and given the increasing diversity and complexity of these products, the Commission decided to promote the development of financial education in the EU. This Communication is part of the measures on retail financial services provided in the Commission report "A single market for 21 century Europe" and aims to assist stakeholders in the development of financial education programs through:

- awareness of the need to combat financial illiteracy;
- a high quality financial education within the EU;
- sharing of the best practices;
- developing practical tools to facilitate a more efficient financial education in schools.

Financial education is beneficial to individuals (e.g., it can help citizens make better financial provision for unforeseen situations), to society (reducing the risk of financial exclusion and encouraging the consumers to plan and make savings) but also to the whole economy (approved by favouring behaviour and additional liquidity to capital markets).

Commission set out eight principles that could assist in spreading financial education bodies involved in the development and implementation of financial education programs:

- Financial education should be available and actively promoted at all stages of life on a continuous basis.
- Financial education programmes should be carefully targeted to meet the specific needs of citizens. In order to achieve this aim, ex-ante research should be conducted on the current level of financial awareness on the part of citizens, to identify those issues that particularly need to be addressed. Programmes should be timely and easily accessible.
- Consumers should be educated in economic and financial matters as early as possible, beginning at school. National authorities should give consideration to making financial education a compulsory part of the school education curriculum.
- Financial education schemes should include general tools to raise awareness of the need to improve understanding of financial issues and risks.

³ See reference [7].

⁴ See reference [3].

⁵ See reference [3].

⁶ See reference [8].

- Financial education delivered by financial services providers should be supplied in a fair, transparent and unbiased manner. Care should be taken to ensure that it is always in the best interests of the consumer.

- Financial education trainers should be given the resources and appropriate training so as to be able to deliver financial education programmes successfully and confidently.

- National co-ordination between stakeholders should be promoted in order to achieve a clear definition of roles, facilitate sharing of experiences and rationalise and prioritise resources. International co-operation between providers should be enhanced to facilitate an exchange of best practices.

- Financial education providers should regularly evaluate and, where necessary, update the schemes they administer to bring them into line with best practices in the field.

Financial education is the responsibility of the Member States and the EU can provide important practical help. Thus, the Commission defined the following initiatives as priorities:

- The creation of a group of experts in financial education comprising representatives of Member State authorities (including education experts), financial services providers, consumer organisations and other groups where appropriate. Its aims will be to share and promote best practice on financial education and advise the Commission on how the above principles are being implemented;

- Providing sponsorship to Member States and private actors in the organisation of national/regional conferences on financial education (including messages of support and use of European logos);

- The publication of an online database of financial education schemes and research in the EU;

- Development of a teacher training module on financial literacy – The Dolceta initiative has already proved very useful in facilitating the teaching of financial issues to adult learners. Building on this, the Commission started, from the beginning of 2008, the development of the module on financial education for teacher-training purposes. This project is undertaken with the help of pedagogues and financial experts from the European Universities Continuing Education Network. This Dolceta module provides teachers in primary and secondary education with ready-to-use kits, including internet training, in order to encourage and help them to incorporate financial issues into the general curriculum on a voluntary basis. All materials are adapted to the national cultures. Upon the completion of this teacher-training module, national development teams will, where possible, participate in teacher-training events to advertise the consumer education materials and encourage teachers to use them.

At present, Romania's National Association of Insurance and Reinsurance Companies (UNRAR)⁷ with *Junior Achievement Romania* (JAR)⁸ support, develops a program called 'Ensure Your Success', addressed to college and high-school students. In February – June 2011, the courses were attended by a large number of pupils (6,000) from 117 towns and 37 districts (54 schools and 97 high-schools). 150 teachers participated in the program, along with UNRAR volunteers.

It comprises 5 educative modules, for two groups of pupils (aged 12-15 years, and, respectively, 15-18 years). Its main goal is to explain them salary management mechanisms, especially insurance policies. One of the modules, titled 'The Power of Savings', is addressed to college and high-school students, and is centered on financial planning and the basic principles for

⁷ UNRAR is an insurance companies association established in 1994 to develop and boost cooperation in the field, at the national and international level. 13 insurance and reinsurance companies founded the organization which became, in 2007, a full member of CEA Insurers of Europe.

⁸ JA is a non-profit organization founded in 1993 within Junior Achievement Worldwide®, USA and Junior Achievement-Young Enterprise, Europe. JAR is the largest international company in the field of economic education. In Romania, 284,000 pupils from 2,400 schools attend JA programs of "learning by doing", developed at the local level with the help of Education Ministry, its institutions and business circles.

setting family budgets. The other two modules, 'Risk Insurance' and 'Risk and Insurance' targets 7th and 8th grade pupils, and focuses on the basic concepts of insurance programs that can limit the potential adverse financial effect of risks. It also contains an introduction into the insurance domain. The other two courses, 'Insurance Policies, Savings and Investments', and 'Investments, Benefits and Risks', are addressed to 10th and 11th grade students, teaching them how to use financial protection mechanisms, including to make long-term investments⁹. JAR and the Romanian Commercial Bank's Vienna Insurance Group launched a program called 'ABC Insurance' in 31 schools. 44 consultants were involved in it, and 1,000 pupils attended the courses. It contains 3 modules: 'My Personal Plan', 'Investments for A Future of Growth', and 'Protecting Your Future'. Delivered during the classes, the workshop activities are based on role play, games and case studies, providing a large number of educational materials. The programs help participants familiarize with basic financial notions, including salary management mechanisms and insurance policies¹⁰. To enable the next age group (young people aged 18-26 years), namely the next generation of employees, entrepreneurs or family members to better retain financial information, JAR in cooperation with ING Insurance Group and Wall Street.ro, have initiated a program called 'Your Project and The Future' which provides a large amount of data on financial planning and life insurance policies¹¹.

As a result, on March 28, 2012, a Protocol on Cooperation was signed by Romania's National Bank and the Education Ministry, according to which the two institutions would undertake joint efforts to boost financial literacy and implement financial education programs in schools and high-schools, based on projects launched by Romania's National Bank, following the European model¹². Addressing another group of beneficiaries, the Romanian National Association for Consumer Protection (APCR) launched a financial education program, at the national level, called 'Family Budget'. It targets broad segments of population, especially family members, and is aimed at improving their understanding of basic modern financial concepts. It also teaches them how to use tools for setting up a family budget and prevent overdebts¹³. The participants are also offered the opportunity to access a website and consult online financial experts. In addition, a series of debates were held in 5 major cities, including Brussels, with the participation of European media outlets and national consumer organizations' representatives. Other seminars are centered upon the introduction of provisions regarding the consumer credit and financial literacy in the Romanian legislation. The goal is to improve the efficiency of financial education programs, based on a unitary approach which will enable us to develop adequate tools to support financial planning¹⁴.

In the end, I would like to mention the last segment of population targeted by our programs, namely the future pensioners or Romania's adult population, providers and beneficiaries of saving systems. ING Pensions Fund has got involved in awareness campaigns and financial education programs since 2010, holding debates on the issue, attended by students and young employees. The workshops are organized in state and private universities, in order to explain the vital role of private pensions system in today's society.

Since it is a new concept, basic notions are approached, namely the personal pension ownership, the possibility of offering benefits such as optional pensions, which are deductible, and to choose a pension fund¹⁵.

In conclusion, financial education programs are mainly addressed to young people. According to a European survey, 78% of the subjects believed they possessed limited knowledge and could not manage on their income, while 20% said they had no basic financial notions and could hardly

⁹ See reference [3].

¹⁰ See reference [6].

¹¹ See reference [1].

¹² See reference [4].

¹³ See reference [5].

¹⁴ See reference [5].

¹⁵ See reference [2].

manage their resources. However, one should notice that 97% of the respondents were aware of the important role of financial education programs, which should be taught in schools and family¹⁶.

Conclusion

In the end, one may conclude that financial literacy is essential in today's society. Therefore, everyone should know the basic notions in the field, in order to be able to take smart financial decisions, set out the family budget, save enough money for the future, and choose the best financial planning and management strategy and tools, in order to make life easier.

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¹⁶ See reference [3].