NEW CHALLENGES OF FINANCIAL EDUCATION IN EUROPE

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Abstract: *The aim of this paper is to highlight the boosting importance of the financial education at all levels, irrespective of ages, entities especially in Europe where the population is above 65 years. Even the international organizations are involving in it. Finance has roots in all times and it is a must nowadays. All individuals at all levels are directly or indirectly influenced by financial knowledge irrespective of their culture, religion, spiritual dimension, even if one of them is trying to be placed far from this materialized world we are living in.*

Keywords: *financial education, financial literacy, financial exclusion, EU policy, transaction*

JEL Classification: *A1, A2, G0.*

Education is what remains after one has forgotten what one has learned in school.

(Albert Einstein)

Introduction

Because of the challenges brought about by globalization and by the world we are living in, no matter the dimension we are discussing about: financial, economic, demographic and political, financial literacy and the need for financial education have become a must for all individuals, organizations and states.

Narrowly, it means money and we use it in daily transactions for different purposes, following even the hierarchical order of needs set by Maslow: basic needs (physiological and safety needs), psychological needs (belongingness and love needs, esteem needs) and self-fulfillment needs (self-actualization).

Briefly, financial education helps people to make well-informed and responsible choices in order to have a better life. Improving the quality of life across the EU has always been important and at the forefront of the minds of the people ruling and especially nowadays, financial inclusion is crucial in order to achieve the best possible standards of living. The European Union has policies and good practices for its citizens with respect to financial education. It is obvious that Europeans, who are financially literate, succeed better in life.

Problem Statement

A masterpiece dealing with the narrow meaning of finance, money respectively, is considered to be George Simmel's book, "The Philosophy of Money" (2011). Moreover, he

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DOI: 10.29302/oeconomica.2020.22.2.16

describes money as a factor of depersonalization and relativity by which individuals - people and things - are analyzed at the same level of relative "things." Additionally, the book shows the reduction of the considerable significance of money and the rise of genuine objective, while highlighting the restraints of genuine functionalism. A similar idea offering an alternative viewpoint shows how the unfortunate chore character of cash is progressively supplanted by its turning into an (appearing) end in itself. The second part of the book demonstrates the social changes that happen with the development of the possibility of money and are connected with the advance of a scientific rationale; the pressure among individual and the refined and hierarchic types of life and the law based individualistic, relativistic and standard less types of a general public where money has displaced any other esteem. Mammonism as a religion and a style of life is also mentioned in this book. It also establishes a connection between money and religion, between money and old historical roots, Mammon being mentioned even in the New Testament of the Bible as a synonym for money, material wealth or any element forecasting wealth; it is also related with an insatiable hunt for benefits (Simmel G., 2004). A significant research study connected with the importance of finance was done by Robert Shiller (2012), who in his book entitled ”Finance and the Good Society” demonstrates convincingly that finance far from being a parasite on the back of society is one of the most effective instruments helpful for us in solving common issues and it enhances the overall well-being. We need more financial innovation, not less, and finance must play a greater role in helping the company to achieve its goals. By challenging the public and the leaders of society to rethink their finances and their role in society, Shiller emphasizes that finance should be defined not only in terms of money circulation and risk management but also as the responsible management of the material values available to society. He briefly explains what financial followers can and must do - from the general manager and the investment manager to the banker, insurer, lawyer and regulator - to manage, protect and enhance these values (Schiller, R., 2012).

Furthermore, as Lusardi and Tufano (2015) and Lusardi and de Bassa Scheresberg (2013) stated, being financially ignorant in our current, evolving society comes at a great cost. The persons that do not have the necessary skills to understand basic concepts such as interest compounding are the ones that spend a great deal more money on transaction fees, accumulate bigger debts and have a higher interest rate on their loans. In addition to this, in groups such as women, elders and poor people, financial skills continue to be found lacking (S&P Global FinLit Survey).

Research Questions/Aims of the research

The research question is How well prepared is the EU’s population especially in the field of financial education?

The European Union with its core institutions - the European Council and the European Parliament - take care of financial education in the Member States, both by policies (European Consumer Policy 2012/2013) or programs (European Money Week). The EU states that, besides better dealing with everyday social needs, boost border transactions and hence the completion of the Single Market. For this purpose, after the Crisis, the EU Commission regulated the market for more transparency and supervision (eg. Consumer and Mortgage Credit Directives, etc.). On the other hand, as a soft power mechanism of implementing financial education, a program like the European Money Week under the coordination of the European Banking Federation celebrates the countries financial education achievements, from public awareness to school financial education, with the involvement of several local stakeholders that organize seminars and round tables.

Research Methods

The research method used for this paper is a very well-known one, content analysis, considering it is more a qualitative research and less a quantitative one, even if at its basis there are some statistical data from questionnaires used by the OECD's Report.

It takes into account several empirical studies on the responsibility for the pensions, the household debt, innovation and development in the field of finance, financial exclusion, financial literacy.

The Europeans take the first place in the world as to the number of aged persons - above 65 years - is increasing (in 1990, 14% of the EU population and in 2014, 18%), meaning that pension is claimed by ever more citizens.

For this reason, pension reforms are needed to improve the pay-as-you-go systems. Unfortunately, the generations to come witness a weaker replacement rate but a more important rate of private pensions in order to supplement the public pensions. This is a matter of financial education because one must have the essential knowledge for planning one's retirement nowadays, when the contributors (who are fewer and fewer) have the responsibility to manage their future pensions.

The household debt represents a question mark why before the Crisis nobody understood the risks of credits and the situation where the economy collapsed: the consumer debts. All this is related with financial education and in order to avoid them in the future, we should be more predictable.

The financial products are also in expansion and in continuous improvement but some categories of persons such as elders, youngsters or migrants are not willing or cannot be in line with the new arrivals on the financial marketplace. As a consequence, the demand can be based on little information.

The social inclusion means no financial exclusion. We are so much related with financial products and services (credits/savings) that the need to access a bank for particular transactions is something universal and necessary. Moreover, as the OECD report shows, the European Union that has the most developed and the most innovative economy in the world has become a cashless society where people who prefer to pay in cash, because of the lack of access and financial knowledge, can have difficulties in cash transactions representing paying more in cash or risking being stolen (Atkinson and Messy, 2013). Therefore, as Demirguc-Kunt (2015) said, a first, important step in the participation of some people in the financial system can be considered having a bank account. However, having an account be it with a bank or other types of financial institutions should not become a purpose in people's lives. Instead, it should become a means of achieving other more important goals for our society. A person using financial accounts or even digital payments have a better ability to provide for their family, making savings and even surviving an eventual future economic shock. What is more, payments being carried out in a digital market help copiously in bringing a reduction in corruption and empowering women through a significantly bigger control over their own finances (Klapper and Singer, 2014).

Being a current complex financial market, financial education is a core topic. According to research and general views, the EU Single Market benefits from it because the knowledge of consumers once increased, they relate more to cross-border transactions, thus increasing the countries' exchanges. Also, having a higher level of financial education among the population can result in a restored confidence in the financial market, and in a greater support of financial stability. As a consequence, G20 Leaders have acknowledged these facts by their 2012 endorsement of the OECD International Network for Financial Education (OECD/INFE) High-level Principles on National Strategies for Financial Education. These principles are currently being applied by 59 economies worldwide, a constantly growing number that has doubled over the last 5 years and they provide necessary guidance for their development of customized financial education, in both emerging and advanced economies. As a complement to the Principles, a Policy Handbook has been developed, with a direct contribution from more than 65 economies which are members of OECD/INFE. This Handbook's focus is to identify the primary challenges of financial education and also to offer pertinent solutions that have previously been used in other economies and to outline the main lessons learned.

Findings

Successful Financial Education should be based on 2 main elements: long-term development and the permanent study of the Financial Education Environment.
Moreover, when you work in the financial education marketing, you must be gifted, creative, punctual and responsible.

Furthermore, many reforms should be made on the financial education marketing, like: a good pension system and schedules with all the activities of the government pension system, but also reforms regarding the financial education of the poor, of women, even children, in order to start creating from a younger age some level of financial literacy, and also the workforce for which being offered financial education courses might go as far as accomplishing higher motivation and retention and to an increase in the involvement and contribution to pension schemes.

Now, the question that has to be answered is what exactly financial literacy is, and according to the S&P Global FinLit Survey, the 4 questions that serve as the best measurement of financial literacy and that address the main, basic concepts that comprise the financial decision-making process regard risk diversification, numeracy (interest), inflation and interest compounded. In order to be deemed as financially literate, a person has to be able to answer correctly a minimum of three out of four questions. According to the results of this survey, 33% of adults across the world can be classified as financially literate, while a staggering 3.5 billion adults, the majority of them found in the world's emerging economies, were found to be lacking the understanding of these simple financial concepts.

Delving even further into financial literacy across Europe, the survey has found that an average of 52% of the residents of Europe can be considered as financially literate, but this percentage is not uniformly distributed:

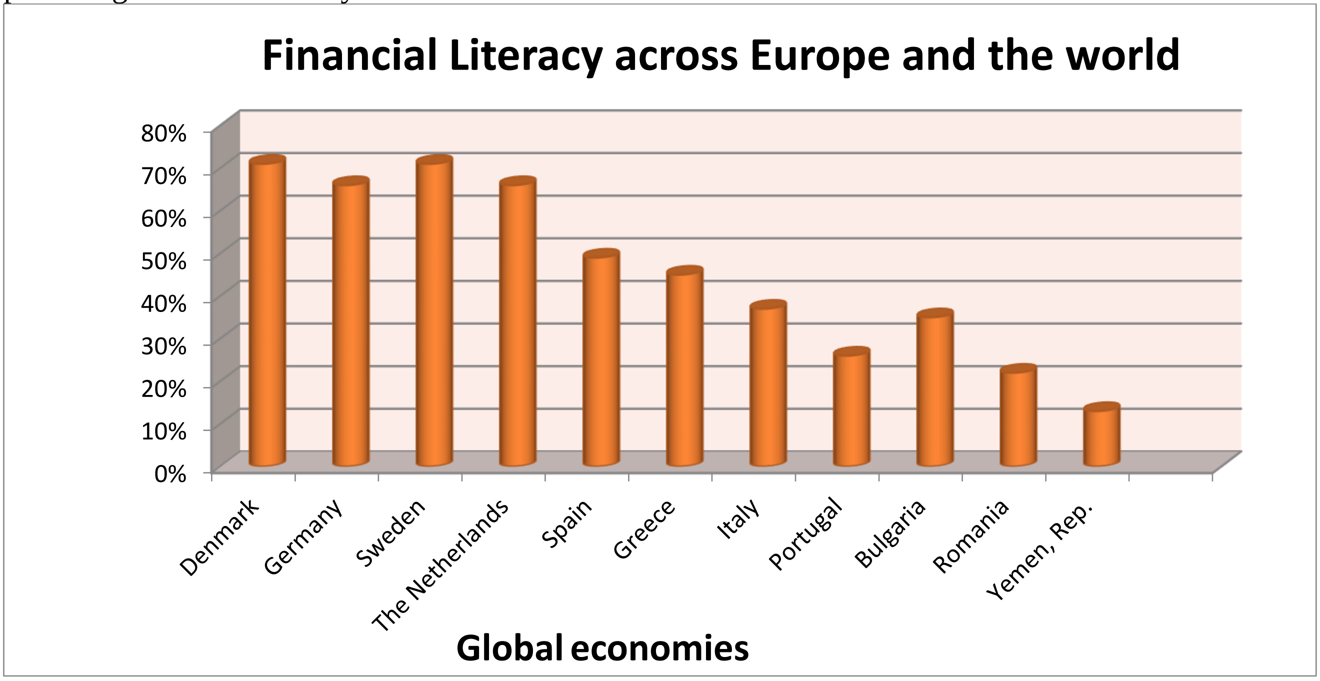

Figure 1- ***Financial Literacy across Europe and the world***
Source: S&P Global FinLit Survey

As the figure above shows, with regard to the percentages of people that are financially literate in Europe, it can be said that Europe is divided. Therefore, there are countries in which the percentages are higher, such as Denmark, Germany, Sweden and The Netherlands where at least 65% of persons are financially literate, Northern Europe leading in financial literacy. Concerning the south of the European Union, Italy and Portugal have some of the lowest percentages, with 37% and 26% respectively, while the lowest percentage of persons who can be called financially literate is found in Romania: 22%. Compared to the countries in which we can find the highest financial literacy percentages, such as Denmark and Sweden where 71% of the population is financially literate, Romania is found at a significantly lower percentage, the lowest in the European Union, with just 22%. However, the problem with Romania does not reside in a lack of money, but rather in the purpose and in the extent to which the country allocates it. Should Romania be able to further financially educate people and increase financial literacy, it would undoubtedly manage to change the lives of millions of people. Worldwide, the lowest percentage of financial literacy is found in the Yemen Republic where it only reaches 13%, a figure that is also significantly smaller than that of Romania.

The rates of people who are financially literate also differ according to gender, the level of education, the income level and age. If we are to take as a criterion gender, on a global scale, 35% of men are financially literate compared to only 30% of women and this gender gap persists regardless of whether we are talking about advanced or emerging economies, with women constantly showing weaker skills when it comes to finance.

The gender gap in financial literacy can also be shown by looking at the percentage of unbanked- without an account at a financial institution or at a mobile provider- persons in the world.

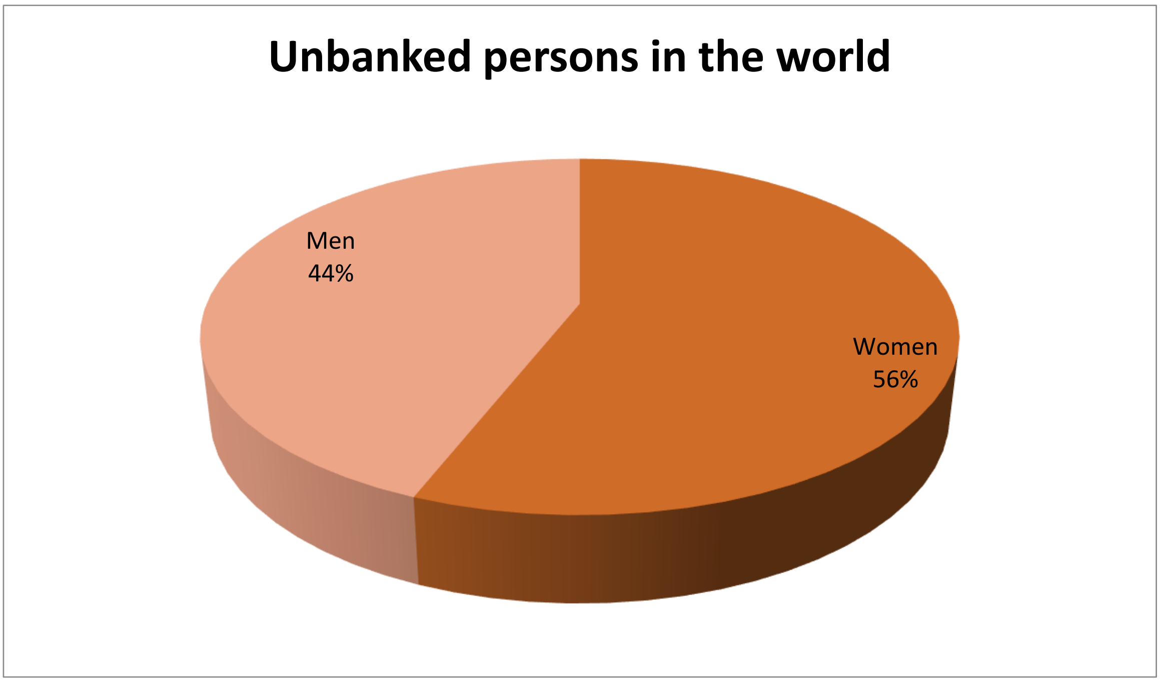

Figure 2- ***Unbanked persons in the world***
Source: Global Findex database

According to the figure above, we can see that among the percentage of people who are unbanked in the world, women represent the majority, with a percentage of 56%, representing about 980 million in the world, while men represent 44%. This statistics also emphasizes the fact that there is a strong need for financial inclusion and financial literacy in the world in order to try and overcome this gender gap.

Another criterion that strongly influences financial literacy is age:

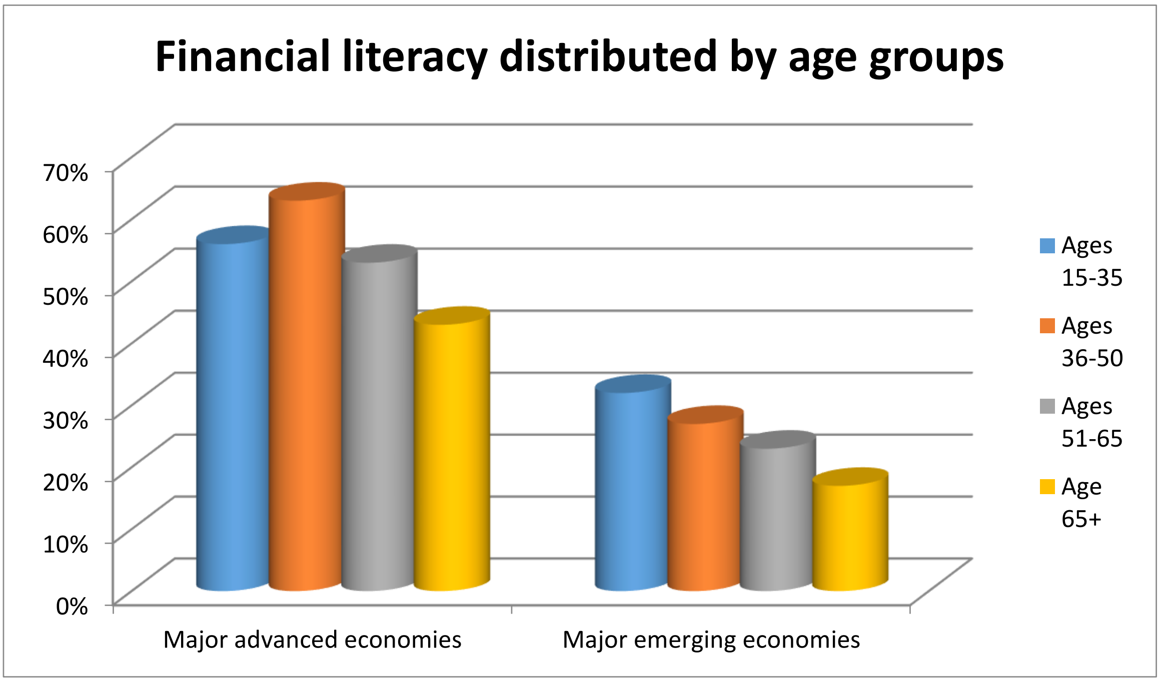

Figure 3- ***Financial literacy distributed by age groups***
Source: S&P Global FinLit Survey

In the figure above, it is visible how financial literacy is distributed, according to whether the person comes from a major advanced economy or from a major emerging economy and also to the age group to which they belong. Regarding the major advanced economies, we can denote that literacy rates increase with age until the ages of 50 and then steadily decline, reaching the lowest levels in persons aged over 65. When it comes to the major emerging economies, the situation shifts, the highest levels of literacy rates being found in those with ages ranging from 15 until 35 where they are at 32%, and reaching the lowest levels in people aged over 65 as well where the percentage is 17%.

Education can also greatly affect financial literacy, both in the major advanced and major emerging economies.

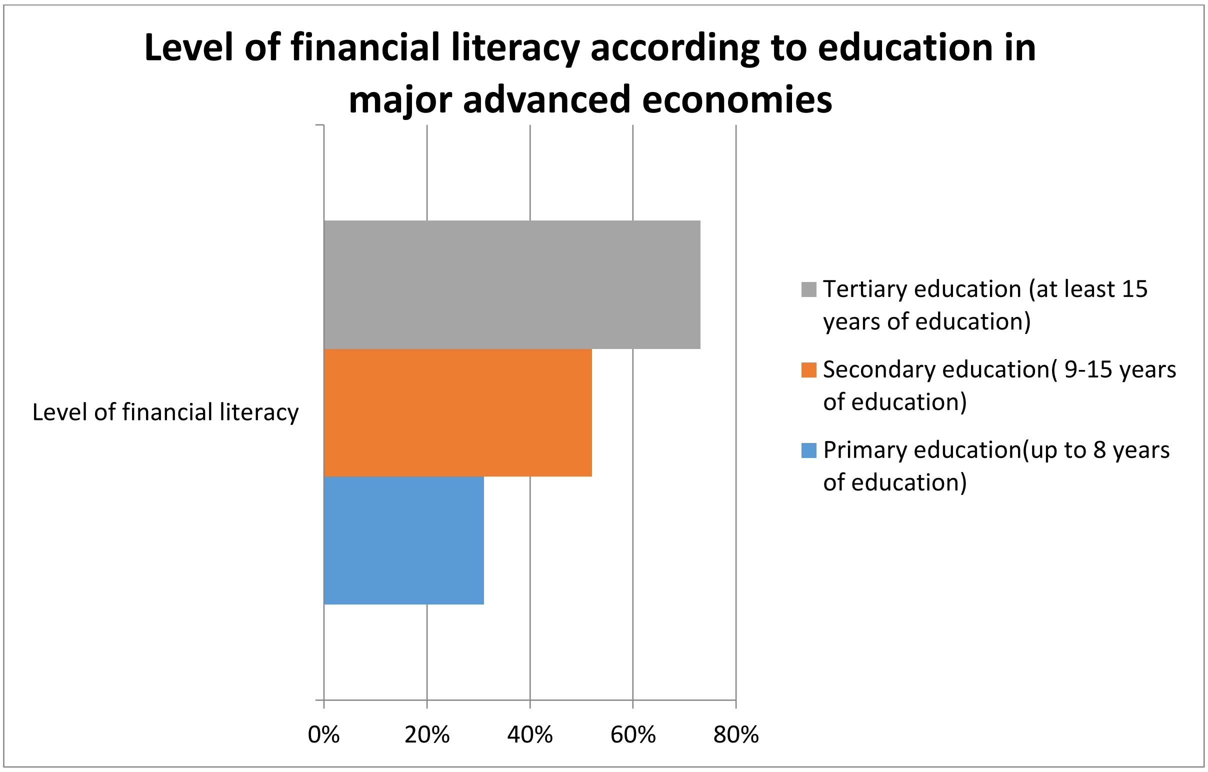

Figure 4-***Level of financial literacy according to education in major advanced economies***
Source: S&P Global FinLit Survey

The figure above showcases the difference that the level of education has on financial literacy. Therefore, it can be seen that the percentage of persons who have achieved tertiary education and are financially literate is 73%, with secondary education is 52% and with primary education it only reaches 31%. It should also be mentioned that these gaps among individuals with different levels of education are similar in the major emerging economies.

Worldwide, just 1 in 3 adults is able to understand the basic financial concepts needed to be considered financially literate and that can result in multiple challenges for them such as the accumulation of debt and even reaching the state of bankruptcy. In order to improve the percentages shown by the S&P Global FinLit Survey, governments have been developing different programs meant to tackle the issue of financial literacy among groups such as young people, elders or women. For example, for the youth, 15 economies, among which we can find Italy, Spain, Poland and the Slovak Republic (approximately 52% of the world GDP) have participated in the Financial Literacy Option included in the OECD Program for International Students Assessment (PISA), a program that showed a recognition of how efficient teaching young people about financial literacy could be in the long-run. Furthermore, in the Netherlands, focus groups were held to help people to obtain a better understanding of the experience of dealing with financial decision making.

There can also be some additional policy approaches that can be made in order to advance financial inclusion:

Table 1

Financial inclusion policy approaches to advance financial inclusion

Financial inclusion policy approaches	All	High Income	Upper Middle Income	Lower Middle Income	Low Income	Europe & Central Asia
Encouraging or mandating recipients of government transfers to open an account to receive their funds	67%	56%	76%	76%	55%	71%
Deposit-taking institutions are required to offer basic financial products, such as a basic account	54%	67%	43%	53%	55%	24%
Priority lending: mandatory lending requirements targeting underserved segments, e.g., SMEs or agricultural sector	38%	26%	41%	56%	27%	18%
Requirements, exceptions, tax incentives, or subsidies to promote opening of branches or outlets in underserved areas	24%	10%	22%	50%	9%	0%
Tax-incentive savings schemes (e.g., for retirement or education)	24%	36%	24%	18%	9%	8%

Source: Global Financial Inclusion and Consumer Protection Survey, 2017 Report

In the table above we can see the financial inclusion policy approaches by the level of income and in Europe and Central Asia. Therefore, we can observe that the most common practice in Europe and Central Asia was represented by encouraging or mandating recipients of government transfers to open an account to receive their funds with 71%, this policy approach also being the most common among people with upper middle and upper lower income, with 76%. The least common approach in Europe, with a clear 0% is represented by requirements, exceptions, tax incentives, or subsidies to promote opening of branches or outlets in underserved areas which is also the least common method used among persons with high income levels. Since Romania is located in Europe, we can also draw the conclusion that the same approaches were also used in Romania, with the second approach being deposit-taking institutions required to offer basic financial products, such as a basic account with 24%.

Conclusions

The importance of financial education in EU policy reveals the following points:

1. Financial education is the principal subject of the Financial Marketing;
2. Financial education is the main way through which we can improve financial literacy, which is an important issue in our current society and which can lead to incurring higher interest rates on loans and accumulating bigger debts;
3. Through Financial education both emerging and developed countries aim to improve financial inclusion and offer the necessary financial knowledge for groups of people such as elders, young people and women;
3. Financial education consists of many programs that aim to develop and increase the consumers' abilities in the online transactions through intensive courses on Financial Education;
4. Many of the EU countries create Online Financial Education Courses based on the strategies to be followed to save the Consumer's Content;
5. Finally, we can summarize that the Financial Education is the best solution to improve the consumer abilities and qualifications in dealing with the transactions and the financial operations.

Our personal point of view is that the actions and programs such as Global Money Week should be organized more often, considering that they can have a sustainable impact on the society's financial education background. Moreover, we consider that financial education, literacy and inclusion should be one of the main concerns of our society and that we should strive to improve what our elders and youngsters know and also aim to continue to empower women all over the EU and the world.

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