

BANKS AND THEIR IMPACT ON FINANCIAL EDUCATION AT THE CURRENT STAGE

CZU: 336.71:[330.59:330.564.22](478)

DOI: <https://doi.org/10.53486/mfsne2024.14>

Ilinca GOROBET

PhD, Associate Professor
Academy of Economic Studies of Moldova, Moldova
ORCID: 0000-0002-8429-9585
Email: gorobet.ilinca@ase.md

Larisa MISTREAN

PhD, Associate Professor
Academy of Economic Studies of Moldova, Moldova
ORCID: 0000-0002-4867-937X
Email: mistrean_larisa@ase.md

Abstract: Financial education helps to ensure financial wellbeing and maintain it throughout life. Although the role of financial education is very important, very few people know about it. Planning your income and expenditure over a longer period of time and thinking about your own financial well-being is a constant and ongoing process that is passed down through generations. Getting started in financial education starts with changing attitudes towards money, by changing behavior from consumer to manager, from the notion of personal money to personal finance. It is almost impossible to be successful in managing your finances without cooperation with banks and other financial market institutions. It is important to learn how to use all that banks have to offer in order to increase your capital. Over time, the number of people who understand the importance of banks and financial institutions is growing. Banks are investing more and more in financial education, i.e. how to build beneficial bilateral relationships with them. The most significant aspects of financial education that banks are engaging in relate to limiting over-lending, stimulating savings, limiting cash transactions, how important it is to manage personal finances. The purpose of this research is to investigate how banks contribute to financial education. The subject of the research is banks and their contribution to financial education. The research methods will be description, comparison, analysis and synthesis. At the end of the research, we will present the research findings materialized in conclusions and recommendations.

Keywords: banking, education, finance, behavior.

JEL Classification: G21, G41, G51, I22.

INTRODUCTION

Banking products and services are becoming increasingly numerous, varied and complex, making it necessary to study, assimilate and adapt them to everyday needs and realities. In addition to the convenience and convenience they offer, users of these services need to withstand challenges such as data protection, information security and protection against fraud and scams. In order to meet these challenges, users need to be financially educated. A decisive role in providing financial education lies with the Central Bank, and thus with banks. The Central Bank develops and updates educational materials, organizes workshops, webinars, interactive games and videos. Financial education is about planning personal finances, to avoid any crisis, not to fall into panic or depression, not to carry out chaotic actions, to avoid reckless loans. Financial education is about how we set our goals in managing our personal finances, the risks we take and how we realize these goals. The incentives to educate oneself derive from the amount of knowledge a person has acquired. Having this knowledge there is an understanding of the options in which one can earn money. With financial education a person not only has knowledge and skills, but also psychological stability. Financial education also has tangents with knowledge in other areas. If a person learns to apply the rules of financial education in their life, their life will gradually change for the better. The relationship with

money is built over a lifetime. Already having knowledge and experience with money and some proven solutions throughout life, it follows that we will not learn from scratch and it will not be very difficult.

CONTENT

There is no strictly defined concept of what constitutes financial education. This concept seems to be more philosophical and subjective.

„Financial education is the ability to manage financial flows (income and expenses), to manage money intelligently, that is, to live within one's means and to increase the available capital" (Levin, A., 2019).

„Financial education is a clear understanding of how money works, how to earn and manage it. There are two main characteristics of a financially literate person. First: his or her spending never exceeds his or her income. The second: any positive difference between monthly income and expenses is used for investment in any form".

„Financial education - a set of skills, knowledge, abilities that help to create and multiply capital. This concept underpins material wealth. It can also be interpreted as information that helps to have a correct financial behavior, contributing to wealth for a short or long period of time. The concept combines the ability to manage financial flows, to be disciplined in accounting for income and expenditure, bringing them to an optimal balance" (2020, Финансовая грамотность).

„Financial education is relevant when:

- planning the family budget;
- when it is necessary to take out a mortgage loan for the purchase of the home;
- buying an insurance policy;
- buying a car (leasing or crediting);
- develop a personal financial plan”.

„Through financial education we create a financial safety cushion. That is, a reserve of money in case of a difficult financial situation, which can arise in the event of a loss of basic income and would be of great help in the first few months to 6 months. These financial resources, if well managed, can be used as a means of enrichment, ensuring a better standard of living throughout life and later in retirement” (Sidorin, A, 2019).

A financially educated person will exhibit the following competencies:

- *planning and accounting for financial flows* - this is an important skill as we prepare to create our own savings and budget, which we will rely on as we have to survive in force-major situations over the next 6 months. For this there are computer or smartphone programs to keep track and plan;
- *use of additional sources of income* - people must have both active and passive income, i.e. in addition to salary, savings can also be directed to deposits, foreign exchange, securities, etc., but working on the financial market requires specialized studies or working with a brokerage company;

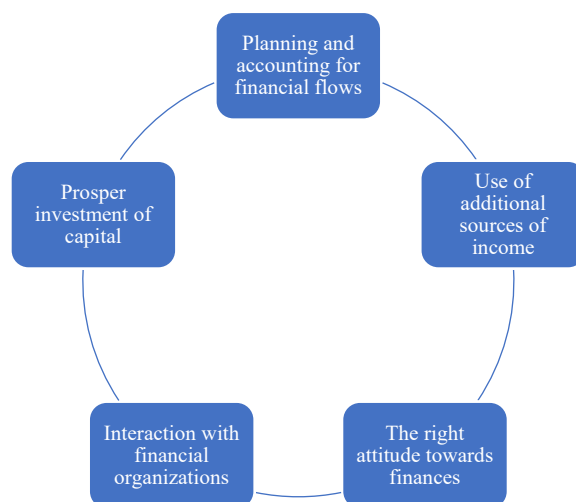


Figure 1. The skills of a financially educated person

Source: based on Levin, A. (2019)

- *the right attitude towards finances* - any financially educated person will have to change their behavior from consumer to manager, this means that they will not have to spend everything they earn, i.e. they will move from the notion of personal money to personal finance;
- *interaction with financial organizations* - in the modern world you cannot have relationships with money without establishing partnerships with financial institutions, whether it is be banks (deposits, loans, cards, etc.), insurance companies, microfinance organizations, pension funds, investment companies, leasing companies, brokerage firms, etc. It is important for the individual to know the advantages and disadvantages of the products and services they offer, to know the fees, AEs, in order to be able to manage their expenses and income in order to obtain a capital increase. There is a preconceived idea that in order to partner with financial institutions you need to have a lot of money, but these institutions are quite flexible and you can start investing from smaller amounts;
- *proper investment of capital* - when we talk about financial education, everyone needs to understand that money can bring income if it is properly invested, that is, with minimal knowledge, we can make passive income.

The most vulnerable in relation to financial education are older people, because students and young people benefiting from schooling programs, are trained in different workshops, are more able and flexible to learn.

Next, we will analyze how savings are managed through examples from international practice.

To begin with, we will look at the experience of the USA and Russia. „In Russia, about 50% of capital is in cash (not actively participating in investments), and the rest in deposits and investment funds, 4% in investment funds, and 96% are bank deposits. In the US, 36% of people keep their money in deposits and 64% in investments" (Levin, A., 2019). Because of US financial traditions and culture, most people in the US are shareholders, and this results in active or passive participants in the stock market. This confirms that even people with lower incomes, can become lever investors. This contradicts the stereotypical thinking that only very rich people with lots of excess money can afford to invest.

In the following we will analyze what types of investments the EU members have. The information includes the average size of the statistical data submitted by the EU member countries in 2023, aiming at systematized data for year 2021.

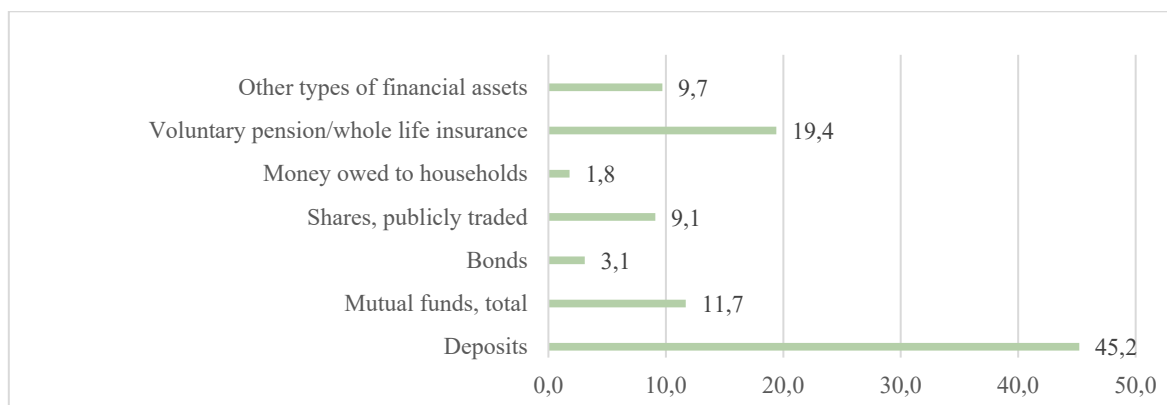


Figure 2. Shares of financial assets types on total financial assets, % of total financial assets

Source: based on European Central Bank (2023)

We observe that in the EU countries, deposits account for the largest share, 45.2% of the total, followed by voluntary pension funds and life insurance with 19.4%, mutual funds with 11.7% of total financial assets, other types of financial assets - 9.7%, shares, publicly traded - 9.1%, bonds - 3.1% and other equity investments - 1.8%.

In this context, we can conclude that European citizens also invest prudently and do not want to take many risks, since deposits are investments that correspond to a passive investor profile, i.e. designed to obtain modest returns at well-managed risks, as are investments in private pension funds and life annuities, which, in addition to providing an income, also contribute to a peaceful old age.

We also note that investments in the form of securities continue to have rather limited shares, which shows that the European stock market is still a more modest share of the private investor's preferences and is not as financially literate as it seems.

Next we will analyze consumption in EU countries.

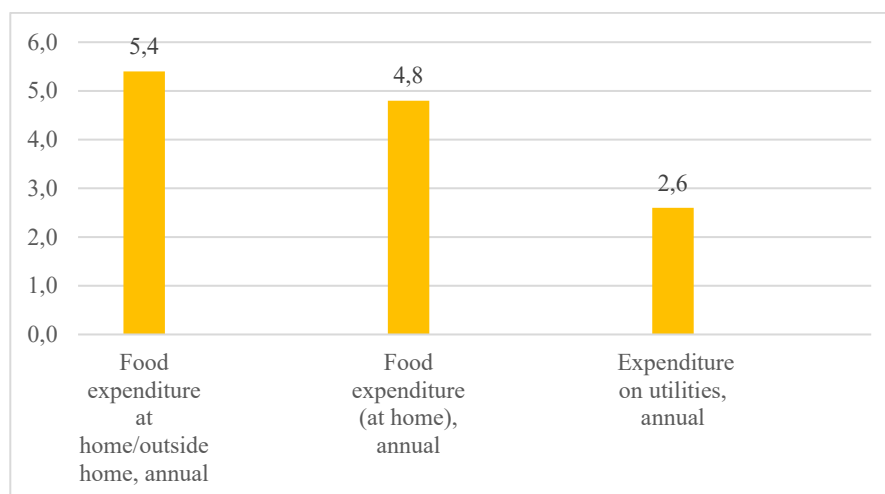


Figure 3. Consumption - food, utilities – medians, EUR thousands per year

Source: based on European Central Bank (2023)

Figure 3 shows us how many thousands of euros an EU citizen uses in 2021, we are talking about an annual average. By analyzing the figure we can conclude that the most expenditure a European citizen spends on food is more than 5400 euros per year, if we analyze both household and out-of-home consumption (at work, cafes, restaurants, etc.), another destination of expenditure is utilities, which account for half of the food expenditure.

From the point of view of financial education we will analyze the next figure.

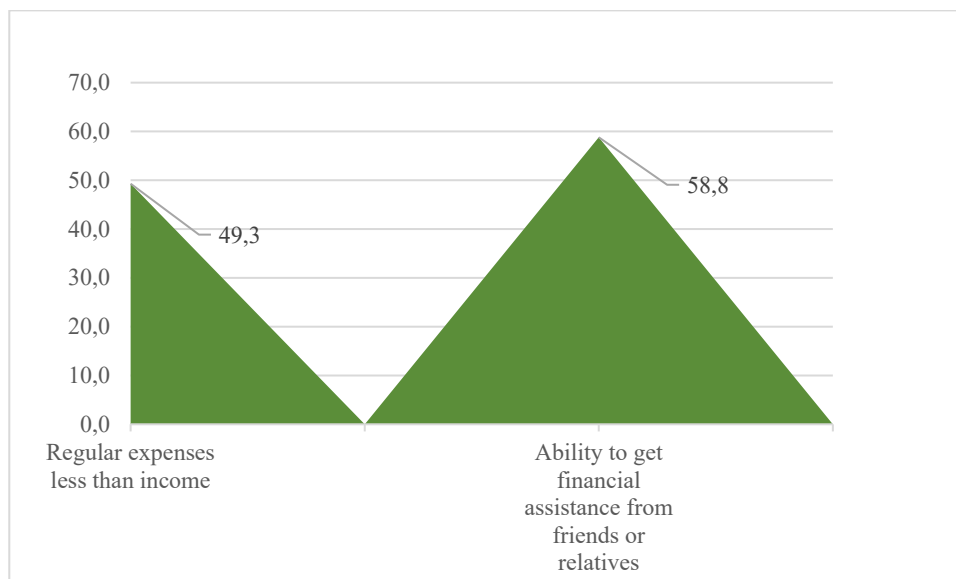


Figure 4. Consumption and saving, % of households

Source: based on European Central Bank (2023)

This figure shows two indicators that represent the modest financial education of the population in EU countries. We observe that the first indicator shows that expenditure is lower than income in 49% of cases, i.e. in 51% of cases expenditure exceeds income. In other words, it shows that expenditure is not always planned correctly. The second indicator in the figure shows in how many cases people whose expenditure exceeds their income can call on the support of friends or other close people.

Table 1. Credit constraints, % of households

	euroarea	BE	CZ	DE	EE	IE	GR	ES	FR	HR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PT	SI	SK	FI
Applied for credit within last 3 years	22	23	1,6	20	28	44,5	2,8	34	30,3	14	11	8,6	21	15	35,2	100	11	17,4	6,0	24	12,3	16	29,1
Refused or only reduced credit (among those applying in last 3 years)	11	7,2	M	10	11	5,9	70	15	8,1	16	12	7,9	19	39	11,9	M	18	4,9	15	6,0	18,0	9,7	6,3
Not applying for credit due to perceived credit constraint	M	3,5	M	4,6	5,1	4,6	4,0	8,7	7,3	7,5	M	5,1	8,7	7,6	12,6	3,0	2,7	2,1	2,5	6,4	3,5	3,9	5,4
Credit constrained household	M	4,9	M	6,1	7,2	6,4	5,4	12	8,7	8,9	M	5,7	11	12	14,2	3,0	4,7	2,7	3,3	7,1	5,3	4,7	6,4

Source: based on European Central Bank (2023)

Table 1 shows that 22% of people in EU countries have taken out credit in the last 3 years and 11% (50%) have been turned down because they are in enough debt and have had their credit debt reduced. Indebtedness is also an indicator of financial literacy. If we look at the situation by

country, Hungary is the country where 100% of the population is in debt, and at the opposite pole is 1.6% - the Czech Republic. Greece is the country where 70% of the population cannot apply for credit because they are over-indebted. In Lithuania - 39% and in Slovenia - 18%, the indebtedness is also quite high. Belgium, Luxembourg, Finland, Netherlands, France and Germany are countries where the appetite for credit and indebtedness is moderate - which denotes a more advanced financial education.

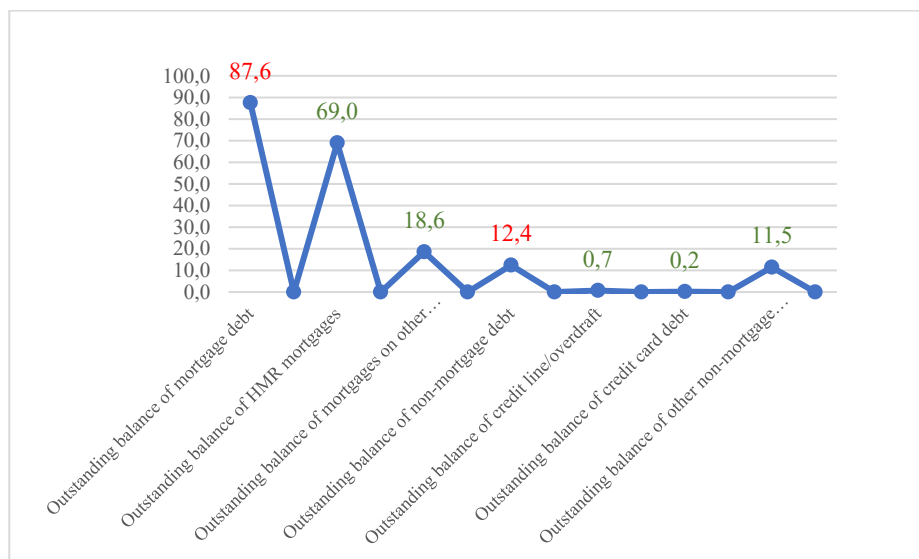


Figure 5. Shares of debt types on total liabilities, % of total liabilities

Source: based on European Central Bank (2023)

Figure 5 shows the share of debts in total liabilities. From the figure we can see that out of the total of 100%, 87.6% is related to mortgage related liabilities and 12.4% is related to other non-mortgage related liabilities. Most of the mortgages (69%) are related to own homes/apartments, 0.7% are related to lines of credit/overdraft and 0.2% are related to credit card debt. Analyzing these data allows us to conclude about the quality of these debts, i.e. we can speak of advanced financial education of the people who have contracted these loans people who have contracted these loans. The small share of credit-related debts indicates that the share of consumer debts is quite small and effective communication with banks.

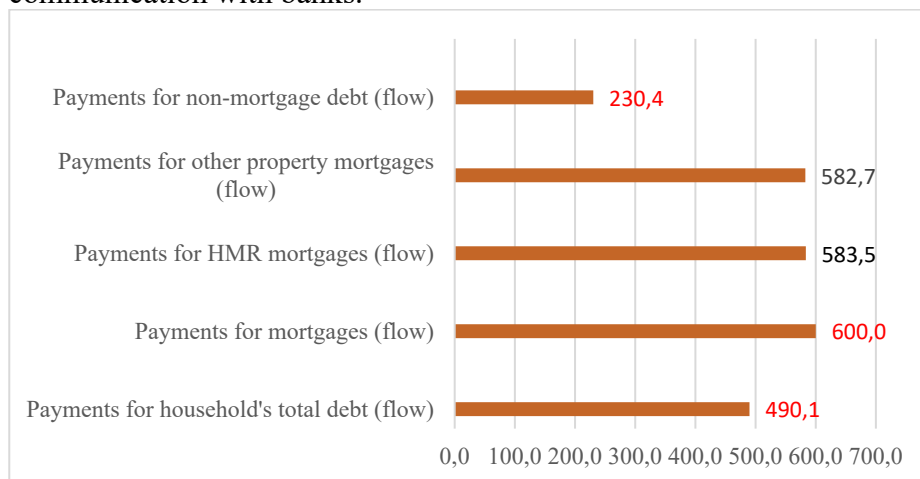


Figure 6. Payments for debt - conditional medians, EUR, per month

Source: based on European Central Bank (2023)

Figure 6 reflects that European citizens pay the most for mortgages, on average €600/month, for house/apartment €583.5/month, other property €582.7/month, non-mortgage related - overdraft cards, credit cards - €230.4/month, which confirms the trend in Figure 5.

We analyze in Table 2 the ratio between income and expenditure per capital per month in the Republic of Moldova.

Table 2. Per capita income-consumption ratio in the Republic of Moldova

Years	Indicators	Chisinau		North		Centre		South	
		MDL, average monthly per capita	Share of consumption in total income, %	MDL, average monthly per capita	Share of consumption in total income, %	MDL, average monthly per capita	Share of consumption in total income, %	MDL, average monthly per capita	Share of consumption in total income, %
2019	Disposable income - total	4184,5	96,518103	2507,9	96,961601	2530,4	99,6957	2356,4	91,818027
	Consumption expenditures	4038,8		2431,7		2522,7		2163,6	
2020	Disposable income - total	4355,0	90,615385	2729,7	90,753563	2811,2	92,995874	2524,5	83,061992
	Consumption expenditures	3946,3		2477,3		2614,3		2096,9	
2021	Disposable income - total	5062,3	83,93418	3045,8	90,43601	3059,1	92,484718	2985,5	76,831352
	Consumption expenditures	4249,0		2754,5		2829,2		2293,8	
2022	Disposable income - total	6400,7	87,010796	3639,9	91,892634	3670,0	87,125341	3420,8	80,864125
	Consumption expenditures	5569,3		3344,8		3197,5		2766,2	
2023	Disposable income - total	7376,8	85,313415	4010,5	91,868844	4137,7	86,214564	3831,8	81,426484
	Consumption expenditures	6293,4		3684,4		3567,3		3120,1	

Source: based on Statistical databank (2023)

Analyzing Table 2 we observe that in the Republic of Moldova, both monthly per capita incomes below very modest and correspondingly all that is practically obtained and consumed. The lowest monthly income-consumption ratio was recorded in 2022 in the southern part of the Republic of Moldova, and the highest is 99.69% in 2019 recorded in the center of the country. Although, we observe in the dynamics a decreasing trend, however, the share of consumption in total income remains quite considerable. Here, we can mention that financial education also remains precarious.

It is obvious that the level of financial education in the Republic of Moldova is much lower than in the USA, EU countries and even in Russia, where the financial education index has been calculated for many years. „This index is based on the assessment of several indicators related to knowledge, skills and attitudes on a scale from 1 to 21. Levels of education has a gradation from 0 to 3, level 0 are people who do not have the most elementary knowledge, 1 point is given to people who have elementary knowledge, 2 is given to people who know the main investment instruments; 3 - people who have complete knowledge of both investment concepts and instruments” (Levin, A., 2019).

In developed countries, the foundations of financial education begin in childhood. Nowadays there are numerous educational programs in the field of money, which is also showing changes in the Republic of Moldova, and the number of financially education people is starting to increase. The most important task falls to the National Bank of Moldova. Through the project "Give meaning to money", the NBM, in cooperation with the National Bank of Romania and ASE Bucharest, is effectively contributing to the financial education of students studying economics in the Republic of Moldova.

CONCLUSIONS

Financial education offers solutions to every money management problem. Banks have a key role to play in financial literacy. We will have to learn to cooperate and enter into beneficial partnerships with banks to obtain the full spectrum of financial operations and services.

In addition to understanding and grasping the basic concepts, we will need to be able to identify the advantages of alternative forms of investment, to distinguish between 'good' and 'bad' loans. Bad' loans gradually slide the borrower into the pit of poverty, which is why we will have to learn to identify them.

At the same time, how to learn to save, how to open term deposits, sight deposits, how to compare them with other investment alternatives, between simple and capitalized interest, between fixed and variable interest rates.

The same skills and knowledge will also be needed when dealing with cards: how to distinguish the difference between a debit card, overdraft, credit card, line of credit and the difference between a debit card and a classic credit.

To consider ourselves financially literate, we will need to:

- constantly learn to analyze our personal budget,
- set financial goals;
- develop our own budgets;
- take financial education courses;
- get information about money only from credible sources;
- we understand that the process of financial education is never-ending, permanent and continuous.

BIBLIOGRAPHY

1. European Central Bank, 2023. *Household Finance and Consumption Survey (HFCS)*, [online] Available at: <[http://Household Finance and Consumption Survey \(HFCS\)](#)> [Accessed 31 October 2024].
2. LEVIN, A., 2019. *Что такое финансовая грамотность - основы для начинающих + ТОП-9 советов, с чего начать изучение финансовой грамотности*, [online] Available at: <[http://Финансовая грамотность: основы финансовой грамотности + советы, с чего начать обучение \(biznesmenam.com\)](#)> [Accessed 10 November 2024].
3. SIDORIN, A, 2019. *С чего начать изучение финграмотности самостоятельно – рекомендации финансового консультанта*, [online] Available at: <[http://Финансовая грамотность – что это + основы знания от эксперта](#)> [Accessed 8 November 2024].
4. Statistical databank, 2023. *Consumption expenditures of population by sources of income and statistical regions, 2019-2023*, [online] Available at: <[http://Consumption expenditures average monthly per capita by Years, Expenditure group, Statistical regions and Unit.PxW](#)> [Accessed 10 November 2024].
5. Statistical databank, 2023. *Disposable incomes of population by sources of income and statistical regions, 2019-2023*, [online] Available at: <[http://Disposable incomes average monthly per capita by Years, Sources of income, Statistical regions and Unit. PxWeb](#)> [Accessed 10 November 2024].
6. Wikipedia, 2019. *Educație financiară*, [online] Available at: <[http://Educație financiară - Wikipedia](#)> [Accessed 10 November 2024].
7. 2020. *Финансовая грамотность*, [online] Available at: <[http://Финансовая грамотность](#)> [Accessed 12 November 2024].