

The Impact of Financial Education on Banking Behavior

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Abstract: The purpose of the article is to highlight the increasing importance of financial education or its absence, on the behavior and decisions of consumers in a more sophisticated banking market, being offered a variety of complex financial instruments for borrowing and saving, credit cards, mortgage loans, insurance, investment and retirement saving etc., with a large range of options. The financially educated consumers, well informed and familiarized with financial instruments, are able to make responsible choices, otherwise risking isolation and financial exclusion. The article presents a comparative study, based on statistical data, between countries within the European Union, including Romania, from the point of view of the financial inclusion index, the access of the population to financial services, the proportion of the adult population using banking products and services such as bank accounts, credit cards, debit cards, saving products, the proportion of borrowers by the type of the credit, the role of financial institutions in providing financial education, the level of education and the access to it.

Keywords: financial behavior; banking system; financial instruments; banking products; financial exclusion

JEL Classification: G21; G23; G40; I22

1. Introduction

Financial education is becoming increasingly important for individual's financial well-being, even more in emerging economies where the financially educated consumers can adapt more easily to the variety of financial services offered by a growing banking market.

According to the Organisation for Economic Co-operation and Development (OECD), the financial education is a process that includes elements of information (facts, data, and specific knowledge), instructions (skills, training, and abilities to understand financial terms and concepts), advice (counsel about generic financial issues and products). (OECD, 2005)

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The term of financial education is different from the notion of financial literacy, which is focused on understanding and general knowledge, and also from the financial ability which covers, besides the cognitive views, the behavior, decisions and practical skills.

So, according to the above-mentioned definition, we can say that the financial education is the most complex notion, more extensive, including both financial literacy and financial ability.

In this context, well-informed customers and familiarized with the financial instruments, are able to make responsible choices, otherwise risking isolation and financial exclusion. (Kempson et al., 2007)

2. Research Aims and Methodology

The purpose of this research is to show how the lack of financial knowledge and an improper financial education influences people's decisions on lending, saving, and also on the usage of simple banking products.

The objectives pursued during the research, answer the following questions:

- What does the financial education mean?;
- To what extent does the financial education influence the access to banking products and services?;
- On what position is Romania situated, in relation to the Euro area and other Central and Eastern European countries, in terms of financial inclusion indices?;
- What are the causes of financial exclusion in Romania?.

In trying to answer these questions, the proposed approach combines the descriptive research with the explanatory research by obtaining information and evaluating them.

The research methods used are both quantitative and qualitative methods.

Through deductive reasoning, which resembles a top-down approach, the study begins with the presentation of the general characteristics of financial education, continues with observations based on statistical data collected and processed during the period between 2007 and 2017, for the unit involved- the population accessing banking products in Romania and ends with checking the research validity and the possibility of generalizing the results obtained. It also presents the cause-effect relationship between financial education and the assumption of risks associated with decisions in the banking financial sphere.

The tool used in the qualitative approach is the opinion poll. It refers to the opinion of the adult population in Romania regarding the importance of financial education, who should provide it, and what is the age at which basic concepts should be introduced in education.

The characteristics and attributes specific to the unit involved relate to education-measured in school years; age-measured in years of fulfillment; the area where they live - rural environment /urban environment.

The novelty of this approach is the multitude of statistical data collected, processed and analyzed, which allows the presentation of a comparative study between Romania, the Euro area and other European countries, from the point of view of the access to financial instruments specific to the banking sector in terms of importance and the level of development of financial education.

3. Level of Financial Education in Romania, Financial Inclusion and the Access of the Population to Banking Products and Services

Financial behavior implies an attitude formed and adapted to the specific way of life within the today's society, acquired through financial education, a financial intelligence and last but not least, through financial discipline. (Hollinger, 2007)

Financial education involves the formation of habits arising from financial practice, of essential skills in the understanding of financial issues, which allows the assumption of financial responsibilities, financial modeling, giving up the old habits and automatism that reduces the consumers', investors' and small entrepreneurs' access to a variety of financial information in the banking field, designed to allow correct decisions regarding resource management, assuming the corresponding rights, obligations and risks.

In addition, to its role as the main financier of the economy, banks also have prerogatives related to the increasing level of financial education, ensuring and maintaining the stability of the banking system through the promotion of fair and balanced relationships with banking clientele, rebuilding the trust in the banking system.

A poor financial education attracts restrictions regarding the consumers' freedom of choice, the impossibility of an informed decision to purchase the offered banking products and services, the ignorance of the contractual rights related to the purchased product or service, deficiencies in communication with the banks, low financial capability, and finally financial exclusion with repercussions on the economic and social integration capacity.

At a global level, the access to quality public and social services is essential for daily life, economic and social wellbeing. Efficiency and sustainability are essential to make sure the beneficiaries receive the best possible services, corruption is minimized and the local economy can benefit. (Dincă et al., 2016)

Even though taxes did not influence directly the financial crisis, some aspects of the tax system had a certain impact on raising the risk assumed and the degree of indebtedness of banks, households, and companies. (Ulici-Ciupuc et al., 2013)

Financial exclusion (without taking into account the voluntary financial exclusion), lack of access to financing for personal consumption, personal development, the development of a business, the exclusion from basic financial services necessary for any household (current account for receipts and payments, saving products suitable for small amounts, money transfer facilities, insurance products-life and non-life, small loans and overdrafts for personal purposes of production or other type-assimilated to the concept of microcredit), lack of access to financial counseling services, have as main causes the lack of saving skills, lack of personal assets, lack of access to financial education, low income, unemployment, residence in a rural area or in a geographical area with a high risk of poverty, old age, lack of access to information.

In this respect, banks are developing new models of banking communication, increased transparency, developing long-term financial education programs, taking measures to reduce costs and strengthen financial discipline, measures aimed at training and attracting responsible consumers, properly and systematically informed, adequately protected, changing the mentality of keeping cash savings at home with effect on the increase of redistributed sources of credit in the economy, essential for economic development and, implicitly, for ensuring the stability of the banking system.

The achievement of a mutual advantageous partnership based on trust between the banks and their customers, requires the banks' compliance with certain principles of conduct based on financial values such as professionalism, transparency and honesty, freedom of choice and understanding, and for the both sides, principles based on integrity, accountability, respect and reciprocity, both in terms of benefits and obligations.

In the segment of individuals, financial education in banking, starts with the understanding and the acquirance of a specific terminology related to retail banking (current account, bank deposit, maturity, interest rate, credit, capitalization, debit card, credit card etc.), with the understanding of the banking system structure and the different categories of banks of which it is composed, of banking products and services market, the main characteristics of the goods and services on offer, the terms and conditions provided in the specific contracts, the way how the offer of

banks is structured, specific aspects of current banking activity (advice, information, promotion, transaction accounts, savings, credit, etc.).

Within the European Union, Romania has the lowest index of financial inclusion - 0.554 compared to Bulgaria with 0.567, Poland 0.747, Hungary 0.876, Slovenia 1.000, etc. Romania also occupies the last position in terms of the population access to financial services, 40% of the adult population not having access to it. In this percentage falls, in particular, the population with low level of education (primary education or less) - 34.4%, rural population-56.4%, although it has noted a consistent increase with 50% in only three years of the access to financial institutions in rural areas.

The adult population which uses products and banking services, represented in 2016, only a percentage of 60%, compared to 99.4% in Austria, Germany, and France with 99.2% and 98.7%, according to the statistics of the European Banking Authority (EBA).

One of the main causes of poor financial inclusion in Romania is, alongside the individual poverty at the level of communities (11% of people which are living in urban areas, and 38% of those living in rural areas, are exposed to the risk of poverty), the low level of financial education.

In terms of financial education in Romania, according to a study, conducted by Standard & Poor's, over global financial education, our country stands on the last position in the European Union and ranks 124 from 140 countries worldwide, while only 22 % of population has a minimum of financial knowledge, the European average being 52%.

According to the Romanian Commercial Bank (RCB) survey's, "*Romanians and Financial Education*," released in October 2016 together with Unlock Market Research, 85% of financial education is done within the family, 9% through the school, and only 6% in the banking system. Although according to the same study, 42% of the Romanians considered that financial education should be provided by banks, finance specialists and other financial institutions, and only 18% expect that financial education should be taught in school, results that contradict the similar RAB survey (Romanian Association of Banks), according to which the financial education responsibility belongs to a larger proportion (79%) to the school, mainly to high school and college.

The RCB's report highlights the way in which the population perceives the importance, the role, and purpose of financial education. So a 75% of the adult population understands, through financial education, that the access to credits must be conditioned by the possibility of their repayment, 66% to not spend more than it earns, 61% relate to financial education through the need to prioritize spending, only 1 of 5 Romanians having a savings' account or a term deposit.

According to the Global Findex Database 2015 (Global Financial Inclusion Database), Romania is the country with the least access to the bank accounts among EU member countries.

Only 60.8% of the population over 15 years old from Romania holds a bank account, the average in the Euro area being 94.8%. The proportion is lower even than in Bulgaria, with a share of 63% of the adult population that has a bank account, 72% - Hungary and Poland with 78%. (International Monetary Fund Report, 2015)

Card market analysis shows a similar situation, Romania having one of the lowest rates of usage of these payment instruments in the European Union. Thus, the percentage of the adult population holding a debit card is in Romania of 45.8% (1275 debit cards/1000 adults, which are used mostly for salaries and less as an instrument of payment; the proportion of cash withdrawals from ATMs being of 75.3%), 81.1% - the Euro area average, 59.9%-Hungary (1577 debit cards/1000 adults), 57.8% and 55.9%-Serbia-Bulgaria (1833 debit cards/1000 adults). Credit card holders in Romania are at the rate of 16.6% (255 credit cards/1000 adults), 41.9% - the Euro area average, 11.8% - Hungary (294 credit cards/1000 adults), 15.2% - 12.2%, Serbia-Bulgaria (284 credit cards/1000 adults). (Ray, 2015)

Only 13.3% of the adult population had chosen as a form of saving, in the last year, the bank deposit, in relation to the Euro area average of 47.6 percent, while loans have been accessed by Romanians at the proportion of 45% compared to 35.4% in the Euro area.

The number of persons indebted to banks and non-banking financial institutions is about 4 million, the sources of loans financing coming mainly from over 10 million depositors. (Folcuț, 2015) The ratio between borrowers and depositors being 2 to 5.

As it is presented in Table 1, Romania is the country which, compared to the Euro area average and with other region's countries (Bulgaria, Hungary, Serbia), has the highest share of borrowers. Thus, 45.7% of Romanians have borrowed money in 2014, well above the Euro area average of 35.4%, the other countries having a percentage below this average.

Also, Romania is the country with the largest share of citizens who have to borrow money for education or health expenses (5.4% of the population), the Euro area average being 4%. The share of those loans in rural areas being 5.5%, while the Euro area average is 3.3%. The percentage of loans for medical needs is 13.3%, the average of the Euro area being 3.7%, 5.0%, Bulgaria, 4.1% and 3.7% in Serbia and Hungary.

At the same time, only 2% of the population lends money to start or develop a business or a farm, compared to 2.8% in the Euro area.

The proportion of loans from informal sources, including pawn shops and money lenders, representing 1.6% of total loans (0.0% in Serbia), an increase of over 9 times in the period 2011-2014, of the frequency with which Romanians borrow from such sources.

Table 1. The Proportion of Borrowers From Different Sources

	Rom.	Euro area av.	Bulgaria	Serbia	Hungary
Loans in the last year (+15 years)	45,7%	35,4%	33,1%	32,1%	31,7%
Loan from a financial institution; % of total (+15 years)	11,8%	15,8%	13,3%	8,5%	8,7%
Loans from informal sources– family, friends, pawn shops, etc; % of total (+15 years)	1,6%	0,4%	1,6%	0,0%	0,7%
Loan for education or school fees	5,4%	4,0%	2,1%	2,6%	2,0%
Loan for health/medical reasons	13,3%	3,7%	5,0%	4,1%	3,7%
Loan to start or develop a business or a farm	2%	2,8%	1,6%	2,3%	1,1%

*Source: Global Findex Database 2015 (Global Financial Inclusion Database)
<http://databank.worldbank.org/data/reports.aspx?source=1228>*

It can be said that all these evolutions are the consequence of poverty and financial exclusion, Romania having one of the highest values of the risk of poverty and social exclusion indicator (37.3% compared to the EU average of 23.7% in 2015).

On this background, more than half (55%) of the new loans granted in the last year to the private non-financial sector were oriented to the population sector, increasing by 20% compared to the previous year, as a result of a low interest rate and a significant increase in income for certain categories of employees.

Figure 1 shows the destination of credits granted to the population of Romania between December 2007 and December 2016. There is an increase in loans to the population, with the exception of a slightly decreasing trend in 2013 and 2014; in their portfolio, depending on the destination, housing loans rising by 8% in 2016 (NBR, 2017), to the detriment of consumer credit, mainly due to banks' lending restrictions and the fact that this type of credit raises the highest risks of excessive indebtedness.

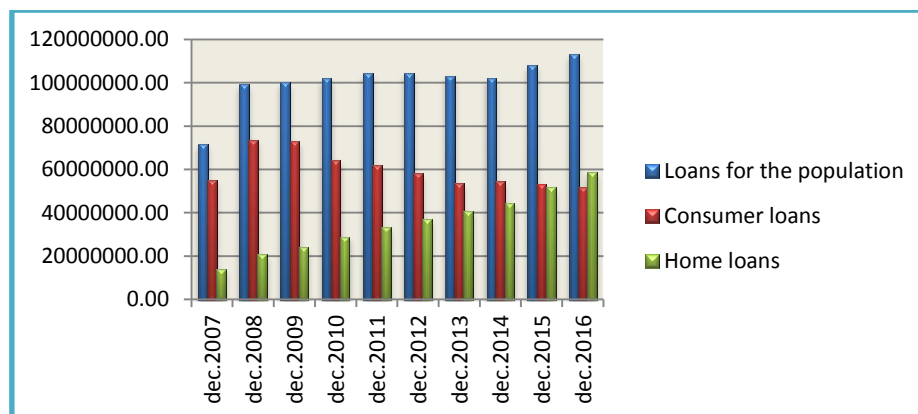


Figure 1. The destination of credits granted to the Romanian population December 2007 - December 2016

Source: Author – representation of the data from Statistical Data, available at www.bnro.ro

The statistical data provided by the World Bank (processed in Figure 2), reveals that in April 2017, 52,03% from the total housing loans were granted in lei, 43,56% in euro and 4,41% in other currencies. The credits for consumption were granted in the proportion of 70.11% in lei, 24.97% in euro and 4.92% in other currencies. The amount of overdue loans had risen in January to 8.08 billion lei, increased by 1% compared with the previous month, of which over 3 billion lei were in the national currency, 3.45 billion lei equivalent in euros, 1.58 billion lei the equivalent in other currencies and 5.5 billion lei equivalent in American dollars.

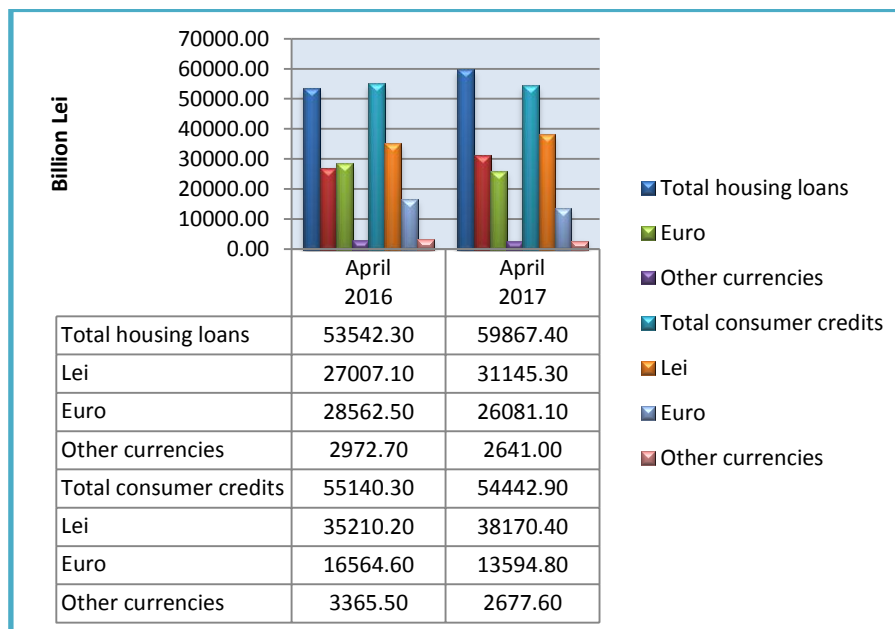


Figure 2. The housing loans and consumer credits granted between April 2016 – April 2017, in lei, euro, and other currencies

Source: Author – representation of the data available at:
<http://databank.worldbank.org/data/reports.aspx?source=1228>

The level of financial education, financial literacy and financial inclusion determines the attitude of the population for saving, the way it chooses to use the financial instruments offered by the market to achieve a higher return on savings, the purpose, and motivation for which they were established.

Only 13.3% of the adult population from Romania, has chosen, as a form of saving, in the last year, the bank deposit, in relation to the Euro area average of 47.6%, 14.3% of Bulgaria's adult population keeps their savings at the bank, in Serbia 8.7% and in Hungary 19.3% of the population over 15 years.

4. Conclusion

The main conclusions of the study can be summarized as it follows:

The value of the financial inclusion index places Romania on the last place among the European countries, the main causes of poor financial inclusion being individual and community poverty as well as the low level of financial education, Romania having one of the highest values of the risk of poverty and social exclusion indicator.

Romania ranks last in the EU in terms of the population access to financial services and instruments. The percentage of the adult population in Romania, using banking products and services, is lower by about 40% compared to Western European countries. Financial inclusion is quantified according to the proportion of the adult population holding a bank account; the percentage of the adult population holding a debit/credit card (Romania having one of the lowest rates of usage of these payment instruments in the European Union); percentage of the adult population holding a bank deposit, etc.

The level of financial education places Romania on the same position in the European Union, less than a quarter of the population having the minimal financial knowledge, 85% of financial education being developed within the family. The adult population mistakenly understands by financial education, first of all, that the access to credits must be conditioned by the possibility of reimbursement, and less in terms of the need to prioritize spending, with only 1 out of 5 Romanians holding a savings account or a sight deposit, and the ratio between borrowers and depositors is 2 to 5.

Only 13.3% of the adult population has chosen as a form of saving, in the last year, the bank deposit, in relation to the Euro area average of 47.6%, while loans have been accessed by Romanians at the proportion of 45% compared to 35.4%, in the Euro area.

Romania is the country that has the largest share of borrowers compared to the Euro area average and to the countries in the region. They have, as a priority destination, the coverage of education or medical needs and only 2% of the population borrows money to start or develop a business. The proportion of loans from informal sources, including money lenders and pawn shops, is also worrisome.

The efforts at the international level is materialized in the development and implementation of national strategies for financial education, over 60 countries having such a strategy, of which 26 countries have or are in the process of developing a national strategy, 23 countries are implementing the national strategy while 11 countries are reviewing the first national strategy or are implementing a second revised one.

In Romania, there are implemented a number of programmes designed to contribute to the increase of the level of financial education, which is aimed primarily at younger generations.

Thus, financial education youth programmes, conducted by the Ministry of Education, National Bank of Romania (NBR) and the Financial Supervisory Authority (FSA), were awarded to Berlin, at the event's Global Inclusion Awards 2017, at Child and Youth Finance International (CYFI) Country Awar category.

However, Romania is not on the top of the statistics in the field, the conclusions of specialized studies in financial education highlighting the fact that there is still a low degree of consumer financial information and a reduced ability to make informed financial decisions and transforming them into a suitable financial behavior, adapted to the needs of their own.

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