

## FINANCIAL EDUCATION AND SUSTAINABLE ECONOMIC DEVELOPMENT IN ROMANIA

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### **Abstract**

*Financial education is necessary for people of all ages, because every day they make decisions that can have financial implications. Thus, whether we talk about earning money, choosing savings solutions, investments, loans or simply about spending money, financial education is the basis for making appropriate decisions. Good financial education of the members of a society will lead to more responsible behaviour, better management of each household's financial resources and more economic stability. The complexity of today's economic life poses new challenges for the average citizen, who needs to keep up with technological progress on the one hand and understand the opportunities and challenges in the financial field on the other. Information sources today are diverse and information users need to be able to interpret the messages they receive in order to make the right choices and avoid falling victim to fraud. The impact of financial literacy and education on economic development is major because a person without even basic financial knowledge will make wrong choices that will affect their household's financial situation, with consequences for the national economy. This paper presents a number of aspects of the financial behaviour of Romanian citizens and includes a comparative presentation of the turnover of companies whose activity is "Gambling and betting activities" and the amounts spent by citizens on housing insurance and voluntary pensions.*

**Keywords:** Financial education, financial literacy, gambling, insurance, voluntary pensions

**JEL classification :** A20, I25, E21

### **1. Introduction and context of the study**

The current economic context is increasing the role of economic and financial information in personal wealth management decisions. Developments in financial science and practice have always been linked to the economic and social development of humanity. The transition to a new stage in the history of the economy led, time and time again, to an increase in the complexity of financial issues, and generated new challenges for the general public.

In recent years, the global economy has faced a number of challenges that have increased the role of financial and accounting information for both business and individuals. The recovery of the global economy from the 2007-2008 crisis has been slow, while the low interest rates and deflation that have marked the post-crisis period have led to a large inflow of investment in equities and real estate. The Covid-19 pandemic brought a lot of volatility to stock markets, generated by the investors' fear of the crisis, and the recovery plans put in place by governments after the pandemic spurred inflation.

Sustainable development has been a hotly debated topic in the economic literature over the past half century, which involves striking a balance between economic, social and environmental aspects. Sustainable development leads to sustainable structures over time and benefits society as a whole, and is defined in the Brundtland Report as the type of development that ought "to ensure that

it meets the needs of the present without compromising the ability of future generations to meet their own needs” (World Commission on Environment and Development, 1987).

## 2. The need for financial education

Financial education has a long history, although it may be thought to be a recent trend. The need for financial education has existed since ancient times, but its spread was severely limited by the limited spread of formal education and the lack of means for rapid dissemination of information.

In 1737, Benjamin Franklin (1706-1790), then aged 31, wrote a short article entitled “Necessary Hints For Those That Would Be Rich”. Immediately after the title, the author inserted the following text: “The use of money is all the advantage there is in having money”. In a few sentences, the author offers a series of basic financial tips (Franklin, 1736).

Jacques Necker (1732-1804), a Genoese banker and finance minister to King Louis XVI, said that “the first rule of economics is to keep accounts, and the first step that leads to ruin is to neglect them”, a statement that is still valid today, despite the passage of time (Iacob and Ionescu, 1996, p. 5).

James Gilbart, manager of the London&County Bank, published in 1848 an article entitled “Ten Minutes’ Advice about Keeping a Banker” (Gilbart, 1854), in which he explained the advantages of having a bank account, and he was making a comparison between the situation in London and Scotland, which he considered more advanced in terms of the use of bank services. Although we are almost two centuries on from the publication of that work, today we still have a large proportion of the population who remain in favour of keeping their money in cash, which is an argument in favour of financial education for people of all ages.

The subject of financial education is not a new one in Romania, either, having been debated for at least one and a half centuries. In the Romanian press published in 1871, the lack of financial and political education of local capitalists was deplored (Telegrafulu Romanu, 1871).

At EU/OECD level a document has been worked out, titled “Financial competence framework for children and youth in the European Union”, and in the document the authors state that “financial literacy means the knowledge and skills needed to make important financial decisions” (European Commission, 2023). This document considers “three dimensions that are important to support financial literacy throughout life:

- awareness, knowledge and understanding;
- skills and behaviours; and
- attitudes”.

Financial education must be carried out taking into account the challenge of sustainable development imposed by the current context. Sustainable development is based on three major objectives: improving the economic outcome of enterprises (economic performance), protecting the environment (environmental performance) and developing human society as a whole (social performance). One of the targets included in *Romania’s National Sustainable Development Strategy 2030*, under Goal 4: Quality Education, is “Increasing the citizens’ level of financial education” (Government of Romania, 2020).

In developed countries, recent decades have seen an increase in life expectancy and a decline in fertility rates, aspects which are putting pressure on the pension system. In this context, the financial education of the population becomes crucial, absolutely necessary to understand the challenges they will face at each stage of life.

Among the benefits of financial education for all age groups one can count:

- ✓ The ability to make better financial decisions;
- ✓ Better management of financial resources;
- ✓ Responsible debt;
- ✓ Reducing or eliminating unnecessary spending;

- ✓ Consolidating critical thinking skills and the ability to prioritize;
- ✓ The ability to analyze and avoid fraudulent offers.

The benefits listed above, replicated at household level, can lead to accelerated economic development and social progress.

A study published by the OECD shows that “Young people (aged 18-29) appear to have lower financial literacy and financial attitude scores than the rest of the sample consistently and significantly” (OECD, 2020). This can be interpreted as a failure of the education system to prepare children for their relationship with money. The higher scores of older people can be attributed to self-learning, including their life experience.

Financial education can be done in all age groups. For that segment of the population who is being educated, the curriculum can be adapted and complemented to achieve the objective of increasing the level of financial education of the population. Today, children have access to money and money-related technology from an early age. Banks offer children’s accounts and cards, and parents/guardians can open such an account online in minutes. Today’s children are already customers for some companies, and as adults they will be employees, customers, investors, managers, or entrepreneurs. Using money and technology without proper education can lead to undesirable situations. Children and teenagers need to have a proper picture of how money is earned honestly, spent responsibly, saved, and kept safe.

Young people need to be aware of the importance of managing their wealth responsibly, and have suitable knowledge about how to invest money and the risks involved in each type of investment. Building a successful adult involves financial education from an early age.

For the adults who are not integrated in the system of education, ways must be found to build skills through lifelong learning, involving public and private actors. Some studies (Pandey et al., 2020) suggested that "policy makers should also focus on developing attitude towards money through effective communication highlighting the benefits of saving money, tracking expenses and being prudent with money".

Romania’s transition to a market economy has been slow and difficult. The 1990s were marked by numerous financial scandals that have remained in the collective mind to this day. The lack of adequate legislation or the lack of clarity in the legal texts allowed pyramid schemes to emerge, damaging hundreds of thousands of citizens. The bankruptcy of some investment funds and banks in the years at the end of the 20th century and the beginning of the 21st century seriously affected the confidence of a large number of citizens in entities of this type, despite the obvious progress made by the Romanian financial-banking system.

The calculation technology developed in recent decades has facilitated financial operations, bringing simplicity and reducing the workload. A direct consequence of this development is that the general public has access to operations which until a few years ago were reserved only for the initiated or the specialists in the field, such as stock exchange transactions, investments in assets located in other countries, etc.

The general public is making extensive use of relatively new technologies, such as: digital payments; cloud storage, which allows multiple individuals access to data; artificial intelligence and machine learning – allowing large volumes of data to be quickly processed and analyzed. Another modern technology is blockchain, which helps to keep a record and securely transfer ownership of assets and can be used “in industry, the public sector, health care, education and business” (Polkowski et al, 2018).

Digital payments are also called electronic payments, and they involve transferring money from one account to another, without using cash, using an electronic device such as a mobile phone, POS (i.e. *Point of Sales*), computers etc., and an electronic communications channel such as mobile data or SWIFT (i.e. *Society for the Worldwide Interbank Financial Telecommunication*).

All these technologies represent an asset for an informed and financially educated user.

### 3. Gambling vs insurance and private pensions in Romania

In terms of education, Romania has a lower proportion of citizens with higher education than the EU average, as shown in Table 1.

**Table 1. Population by educational attainment level, 25-54 years age group, 2022**

	Low (ISCED 0-2)	Medium (ISCED 3-4)	High (ISCED 5-8)
EU (%)	18.1	44.2	37.7
Romania (%)	17.5	60.4	22.1

Source: Authors' projection based on data published by Eurostat (2022)

According to a report published in 2015, in 2014, in Romania there were 22% of adults who were financially literate, ranking last among EU countries. The EU average was 52% (Klapper et al, 2015). “Financial ignorance carries significant costs” (Klapper et al, 2015) and this certainly also affects the sustainable development of the economy.

Gambling companies are an important contributor to the state budget, but in order to have a complete picture of the phenomenon, it is also necessary to quantify the negative effects that gambling can have if some citizens gamble irresponsibly. A study conducted by GfK Romania in 2016 showed that “15% have practiced gambling or had a bet at least once in the last year”, and that “the incidence of developing gambling problems in Romania is 0.6%, i.e. 98,000 people” of the population over 18 years old. The study found that a significant proportion of respondents had problems such as: arguments and misunderstandings in family/relationship due to gambling, problems at work and others (GfK 2016).

In Table 2, we have presented some statistical indicators that characterize the activity of firms whose main activity was *gambling and betting activities* (CANE code 9200), in the period 2008-2021.

**Table 2. Indicators on the activity of enterprises whose main purpose is Gambling and betting activities (CANE Code 9200) in the period 2008-2021**

Year	Number of enterprises	Average number of employees	Turnover (RON)	Gross outcome of the year (RON)
2008	1,071	16,489	4,745,522,818	188,416,179
2009	1,232	19,260	5,258,685,653	-6,738,257
2010	968	20,380	5,456,441,967	-36,490,481
2011	784	22,141	5,683,122,352	273,129,655
2012	779	23,393	5,971,063,318	156,956,811
2013	803	26,895	6,283,524,898	265,149,988
2014	846	28,944	6,327,062,147	362,505,558
2015	813	29,646	6,993,295,293	480,190,220
2016	727	27,551	7,602,604,512	616,489,201
2017	711	26,744	8,247,335,371	891,880,037
2018	675	27,134	9,143,497,543	1,123,045,354
2019	634	27,849	10,017,923,793	1,266,281,466
2020	602	23,701	6,340,064,878	330,918,318
2021	606	24,125	10,355,515,790	842,593,232

The data in Table 2 show that, between 2008 and 2021, the number of firms operating in this sector has decreased considerably, a development that can be attributed to the tightening of legal requirements and competition. The number of employees increased significantly until 2015, and then decreased due to the increasing popularity of online games. The turnover of these companies increased in every year of the period analyzed, with one exception: the pandemic year 2020, when there were circulation restrictions.

Negative natural increase and emigration in recent decades have increased pressure on the public pension system and the need for a privately managed pension system to complement the public system has become increasingly clear. Thus, in 2004 *Law 411 on privately managed pension funds* was adopted, and in 2006 *Law 206 on voluntary pensions* was adopted. Romania thus joined the ranks of countries with private pension systems. The emergence of privately administered (mandatory) pension funds and voluntary pension funds has been beneficial for both the capital market and citizens. In Table 3 we have shown the evolution of the number of participants in second and third pillar pension funds.

**Table 3. Participants in Pillar 2 and Pillar 3 pension funds**

Year, month	Number of participants Second Pillar (persons)	Number of participants Third Pillar (persons)
2007, December	-	50,887
2008, December	4,031,421	150,745
2009, December	4,565,116	187,172
2010, December	4,902,503	221,605
2011, December	5,277,822	260,379
2012, December	5,576,602	292,146
2013, December	5,845,319	313,348
2014, December	6,112,445	346,452
2015, December	6,388,303	382,318
2016, December	6,652,062	410,241
2017, December	6,903,592	446,131
2018, December	7,118,046	472,167
2019, December	7,337,692	501,123
2020, December	7,509,804	527,336
2021, December	7,688,336	564,472
2022, December	7,876,837	626,612
2023, September	8,007,561	687,440

Source: Authors' projection based on data published by the Financial Supervisory Authority

<https://asfromania.ro/ro/a/204/date-statistic-fonduri-de-pensii>

Table 3 shows an increase in the number of participants in both Pillar 2 and Pillar 3. The increase in Pillar 2 (mandatory) is the natural result of a new generation entering the labour market each year. As for the increase in Pillar III, this is certainly also due to the increase in the financial literacy of the population and the awareness of the need for additional income after the age of 60.

At the end of 2021, according to the data published by INS, there were 9,587,153 households in Romania. According to data published by Eurostat for 2021, Romania ranks first in the European Union in terms of the share of home owners, with 95.3% share of people living in households owning their home, well ahead of the EU average of 69.9% and ahead of the last-placed, Germany, which has a share of owners of 49.1% (Eurostat, 2023).

According to Romanian legislation, it is compulsory to take out a disaster insurance policy for buildings used as dwellings, which is the obligation of all homeowners. This insurance covers three risks of natural disasters (floods, earthquakes, landslides) as well as damage that may occur as an indirect effect of the occurrence of these disasters. The annual insurance premium is €10 or €20, depending on the type of structure of which the building is made, with an insured value of €10 000 or €20 000, respectively. Although there is a legal obligation to have a disaster insurance, in reality the number of insurance contracts is rather modest compared to the total number of dwellings, as shown in Table 4.

**Table 4. Number of contracts in force at the end of the period and gross written premiums for compulsory and optional household insurance**

Year	Compulsory home insurance		Voluntary home insurance	
	Number of contracts in force at the end of the reporting period (pcs)	Gross written premiums (RON)	Number of contracts in force at the end of the reporting period (pcs)	Gross written premiums (RON)
2018	1,704,634	153,394,811	1,483,302	348,442,687
2019	1,731,965	159,341,371	1,528,220	370,491,950
2020	1,753,520	164,938,240	1,549,102	379,366,435
2021	1,819,113	174,523,810	1,485,647	403,440,492
2022	1,845,208	177,966,857	1,616,705	459,920,586

Source: Authors' projection based on data published by the Financial Supervisory Authority <https://asfromania.ro/uploads/articole/attachments/6459ffa31ef7d772727530.pdf>

Table 5 shows that the share of dwellings for which a compulsory insurance is taken out does not exceed 20%, while the share of dwellings for which a voluntary insurance is taken out does not exceed 17%.

**Table 5. Number of dwellings in Romania and share of insured homes/dwellings**

Year	Number of homes at the end of period	Share of homes with compulsory insurance (%)	Share of homes with voluntary insurance (%)
2018	9,031,317	18.87	16.42
2019	9,092,963	19.05	16.81
2020	9,156,311	19.15	16.92
2021	9,587,153	18.97	15.50
2022	9,655,685	19.11	16.74

Source: Authors' projection based on data published by the Financial Supervisory Authority and the National Institute of Statistics

A large proportion of the homes that have optional insurance are mortgaged properties, for which the bank requires such an insurance. Romanian legislation makes the conclusion of optional home insurance conditional on the existence of a compulsory insurance policy.

In Table 6, we have made a comparative presentation of the turnover of companies whose main activity is *gambling and betting activities* (CANE code 9200), of the amounts that Romanian employees contribute to the pension funds in pillar III, and of the gross premiums subscribed for compulsory and optional home insurances.

According to the data published by the National Institute of Statistics in Romania, in January 2021, the average gross nominal salary was 5549 lei, and the average net nominal salary was 3395 lei (INS, 2021). The minimum contribution to a voluntary pension fund is 35 RON per month (approximately 7 euros), so the lack of financial resources is not a reason that can be credibly evoked by the majority of citizens for not participating in the voluntary pension system.

The realization of this comparison started from the premise that a more educated public from a financial point of view is able to choose the priorities correctly. Unfortunately, it can be seen that

the amounts spent for housing insurance and optional pensions are very small compared to the turnover of companies whose main activity is *Gambling and betting activities*.

**Table 6. Comparison between company turnover – CANE code 9200, contributions to Pillar 3 pension funds, and housing insurance premiums**

Year	Turnover of companies – CANE code 92000 (RON)	Contributions Pillar 3 (RON)	Gross insurance premiums written – compulsory home insurances (RON)	Gross insurance premiums written – voluntary home insurances (RON)
2018	9,143,497,543	297,634,712	153.394.811	348.442.687
2019	10,017,923,793	343,025,941	159.341.371	370.491.950
2020	6,340,064,878	369,766,418	164.938.240	379.366.435
2021	10,355,515,790	430,183,207	174.523.810	403.440.492

Source: Authors' projection based on statistical data published by INS and ASF

The increase in the number of participants in the system of voluntary pension funds will have positive effects both on the level of well-being of each future pensioner and on the level of the entire economy because the pension funds invest the sums collected from the participants and thus contribute to economic development.

For increasing the level of financial education of the population, the first actor that has the necessary levers and resources is the state, through its institutions. The Ministry of Education has a key role to play because it is responsible for modifying the national curriculum at all levels of education. The institutions in the field of financial supervision can contribute to achieving the objectives of raising the citizens' level of financial education by producing information materials for the general public and through various partnerships with public or private entities.

In 2016, the Financial Supervisory Authority concluded a cooperation protocol in the field of financial education with the Romanian Chamber of Financial Auditors (ASF, CAFR, 2016). Financial Supervisory Authority institution has also published various materials that can serve as a manual for anyone who wants to learn basic aspects about financial instruments. Other entities that can contribute to educating the general public in the financial field are universities, regardless of their form of funding, the specialized press, banks, professional bodies (Avram and Avram 2012), investment fund managers, pension fund managers and brokers.

#### 4. Conclusions

There are many different sources of information available to investors today. The companies whose shares are listed on a regulated market are compelled to publish their financial statements. Audit reports are also public and provide valuable information to all categories of stakeholders. The website/application of the broker through which the financial instruments are traded provides certain indicators free of charge, which characterize the performance of the financial instrument. Asset management companies also publish general information likely to contribute to the financial education of the general public.

Specialized financial analysis websites/applications provide detailed analyses of the company and its business, either for free or for a fee. Government institutions and various international bodies provide credible statistical data, often free of charge, and those represent a valuable source of documentation. The financial press is now available to any interested reader via the internet, often free of charge.

Thanks to recent developments in IT and computer technology, these sources of information are accessible to anyone who has an internet connection.

Successful financial education in pre-university and university education also requires legal knowledge, which can be the subject of *Legal Education*. Both subjects are designed to prepare the younger generation for the practical problems they will have to deal with throughout their lives.

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