FINANCIAL COMPETENCES IN FINANCIAL EDUCATION PROGRAMS DEVELOPED BY SCHOOLS AND COMMERCIAL BANKS

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Abstract

The paper is focusing on the financial education as is it understood and delivered by schools and different financial organizations active in the industry. The first part is more focusing on defining and describing financial competence. Educators' perspective is defined in the school curriculum and syllabus and implies a set of knowledge, skills and behaviours related to consumption and savings. The perspective of financial services providers is defined in the educational programs they have designed and developed for public. They are targeting different age categories of people, from children, to youngsters and adults in order to promote effective financial behaviours. It will mention the aim of the paper, research goals and expected results.

Keywords: Financial competence, financial education, financial education programs, non-formal education

JEL classification: A20

1. Introduction

Financial education became increasingly important in present times. Individuals, businesses and decision makers are more and more aware of the need to increase people's knowledge and capabilities in the area of financial matters, and to make them able to responsibly manage personal finances, access credit, consume financial products and services, and benefit of financial opportunities, in general. In other words, we could say, people need to be

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financially competent. The 2008 financial crisis is currently associated with the lack of understanding of financial matters and risks and economists are sharing the opinion that at least some of its negative effects could be avoided or diminished if people would have been more aware of long term risks involved by their decisions in respect with consumption and loans. This explains why households are willing now to learn more about financial risks than they have been in the past.

Poverty is also associated with the lack of financial education (OECD, 2005; Lagarde, 2014). Financially non-included persons are mostly poor (Lagarde, 2014). They have limited access to basic financial services such as payments, savings or insurance. Financial inclusion is seen as an important way to increase consumption and investments, increase job creation too, ensure against unfavourable events and avoid falling deeper into poverty. Financial literacy supports responsible financial inclusion making financial market more transparent and easier to be understood for consumers. It also ensures responsible access to credit for small and new businesses by building capacity in accounting, record keeping and project planning.

The low level of understanding financial matters affects people's capacity to make informed financial decisions. Many people have been negatively affected in 2015 by changes in the value of Swiss franc (CHF) that had direct impact on all CHF-denominated loans in the EU (OECD, 2009). It was clear that due to the lack of financial understanding, consumers weren't able to anticipate this risk when they agreed on loan obligations. Sometimes, consumers make decisions regarding financial products or services they purchase having no information or advices to base upon and tend to choose the first product they see (Euro barometer, 2012). Appropriate financial decisions increase a person's reliability in his or her relationships with banks and different financial institutions and contribute to stability of financial system, while inappropriate financial decisions can affect the stability of financial market. Poor financially educated persons tend to have lower provisions for retirement, make more use of expensive debts like credit cards and have greater reliance on debt to meet their needs (OECD, 2009).

Financial education is equally important for both individuals and professionals (Aprea, 2016) no matter if they have to manage personal finance in everyday life or to make decisions in respect with investments and different transactions involving money. Nowadays people are involved in many financial matters and have to face the complexity and increased number of financial products and services. They need money-related knowledge and skills required in electronic payments that have replaced many of face-to-face transactions and to be able to ask and understand financial advices given them by financial intermediaries or advisers. People have to be more responsible for their own financial security, even in the case of illness or retirement as the government responsibility on financial security tends to decrease. Financial education is especially important for young people who are consumers of financial services such as online payments or other financial services accessible through mobile electronic devices. They have to face many financial risks in their adult life. Young people have to be empowered to play an active role in the financial world (Davis, 2015).

Due to its importance financial education must be not only a family responsibility (Aprea, 2016; Retzmann & Seeber, 2016), although the family has a major interest in having its members educated financially and encourage them to earn income, spend responsibly and save money. School should be the main provider of financial education (Lusardi, 2004; OECD, 2005), because school prepare students for their adult life (Aprea, 2016) and has proven success in financial matters instruction. Financial education should start as soon as possible and financial knowledge should be tested (OECD, 2005, 2009; EU Commission, 2007, 2008). A test of financial literacy is used since 2012 as part of PISA testing system to measure financial knowledge (OECD PISA, 2012, 2015). Financial education is promoted and supported by national and international financial organizations, such as central banks, International Monetary Fund or World Bank too.

2. Educators Perspective on Financial Competence

Financial competence is understood as the ability to deal with money and manage financial matters and implies a set of knowledge, skills, attitudes and behaviours in respect with financial issues. Almost all definitions of financial competence are focusing on practical knowledge related with spending and savings, managing bank accounts, loans and debts or risks insurance.

If we are looking at the school curriculum, for example, in Romania we can easily see this practical knowledge orientation in financial education that is basically known as financial literacy. Financial education curriculum for elementary school is focused mainly on money and banks. In terms of content, students learning consists in getting information on history of money and money creation, understanding the evolution of money, and the differences between national money in different countries. Elementary students are taught how to use money, what are cards and how are they used, how people should behave in a bank. They also are taught about saving money and investments. Financial education at middle school level is based on the concept of consumer, on the family budget, on how the financial needs can be met immediately or postponed by means of savings or taking out a bank loan, and the benefits and risks arising with the relation between consumer and financial institution. At high school level, in the second stage of deepening understanding on financial issues, financial education is focused on savings and investments, and how to use banking products (deposits, credit cards, electronic bill payment partner services).

No doubt that the financial education curriculum in Romania is a success in terms of recognition given to importance of financial education in general, and in Romania in special. Romania is one of EU countries with low level of understanding financial issues and many 'financially illiterate' or 'reluctant' persons (Romanian Institute of World Economy, 2010). On a scale from 0 to 100, financial literacy index (FLI) that aggregates financial knowledge and understanding, skills, attitudes and behaviour is 31, which means that the level of financial education in Romania is low.

The financial education Romanian curriculum reflects the need for financial literacy of population financially non-included or with lack of participation on financial market, but not necessarily the need for financial education of young people, technologically literate who will make use of various financial products. They need more than financial literacy; they need knowledge and understanding of financial risks, skills, motivation and capacity to apply such knowledge and understanding in order to make financial decisions, improve their financial well-being and enable participation in economic life. In other words, they need financial and economic education (Retzman & Seeber, 2016).

Financial literacy is limited. This is recognized nowadays in by many economic educators who are seeking effective ways to improve the quality of financial education among students. (Bosshardt & Walstadt, 2014). Typically tests on financial literacy included items on basic concepts such as savings and inflation. Students are asked to make savings calculation including interest rate, to demonstrate that understand inflation as depreciation and risk diversification. Experts are considering that such tests associate limited capability with financial literacy. PISA tests on financial literacy introduced in 2012 requires knowledge related to invoice (levels 1 and 2), shares (level 3), pay slips (level 4), and bank error (level 5). Level 1 question required common financial products identification and information interpretation based on basic financial concepts. Level 2 question implies financial knowledge application. Students are required to apply their knowledge regarding financial products and to make financial decisions based on given information. Level 3 question requires understanding the consequences of different financial decisions and making simple financial plans in familiar contexts. Level 4 question implies understanding specific financial concepts such as compound interest, and the differences between gross and net pay/before and after deductions (taxes), evaluation and interpretation of detailed financial documents (e.g. bank statements), and making financial decisions weighting long-term consequences. Level 5 question requires analysis of complex financial products, non-routine financial problem solving, evaluation of potential financial frauds and appropriate reaction to potential fraud situations.

Financial literacy standards in USA (CEE, 2013) include six standards, each one focusing on a particular set of knowledge and skills: earning income, buying goods and services, using credit, saving, investing, and protecting and insuring (see Table 3: US National Financial Literacy Content Standards' Topic). The standards are based on an economic perspective that would allow students to gain a deeper understanding on personal finance and make informed decisions about budgeting, saving and investing. Students are asked to demonstrate not only understanding economically financial issues, but also that they are able to use the economic way of thinking when they have to make financial decisions and act on financial market.

The competence model for financial education (Retzman &Seeber, 2016) understand financial education as part of economic education and of formal education provided by school and designed to conduct to personal autonomy, domain-specific capabilities and social responsibility. It includes competences in the fields of decision making and rationality, relationships and interactions, and economic order and system, e.g. making rational decisions in individual interests, interacting responsibly considering also others' benefits, wishes and values, understanding financial system and political intervention into the system. There are domain-specific competences and general competences such as methodological skills (e.g. problem-solving or learning strategies) numeracy (e.g. to calculate alternative loan offers), reading and writing (to understand economic concepts), ICT skills (at basic level for internet research).

3. Financial Education Programs Developed by Commercial Banks

The perspective of financial services providers is defined in the educational programs they have designed and developed for public. They are targeting different age categories of people, from children, to youngsters and adults and are promoting savings and financial security in order to educate people in respect with financial issues, to promote effective financial behaviours and increase people understanding and motivation to benefit of financial services available.

Banks have identified the need for financial knowledge not only at young people, but also at adults who have to face different kind of risks in their current activities and everyday life. The programs they have developed in the field of financial education represent their reaction at the low level of understanding financial matters people have. They wanted immediate actions and results, and targeted thousands and hundreds of thousands of beneficiaries. This could explain, in our opinion, some important characteristics they have: knowledge-orientation, on-line delivery, and counselling approach. On banks websites customers can find information related with savings, saving instruments, investments opportunities and insurance. People may find information about bank accounts, interest, credits, or how to access. Usually, all this financial concepts and instruments are defined and briefly explained. On banks website there are readings or videos in respect with the most the financial concepts that people need to understand. Some videos may be more structured by different questions meant to underline the important parts of explanation. The explanations are given by banks employees or other experts in financial matters. People that are navigating on the banks' websites can ask questions on line or call to customer service centres or can read 'frequent questions and answer' section to find particular information that could be considered important and selected by sites' developers. Entrepreneurs may also find useful information in respect with money and business management and different types of financial support they may find from government or financial institutions.

Reflecting the nowadays changes in banking systems, especially banking to multichannel access and digitization of finance (Taylor, 2017), banks are offering information about online payment system and services, mobile banking or phone-based system that give people access to a range of financial services including domestic and international transfers, merchant payments, saving accounts, insurance, and credit. They also provide information about digital finance products accessible though applications on smart phones such as mobile banking, money transfer apps, and investment apps or mobile money, as a low-tech solution that implies use of ordinary mobile hand set to make transactions. Such kind of information are usually targeting young people digital literate that prefer to complete financial transactions or manage personal finance from home or on the move using mobile devices instead of going to a bank. Especially for them information is given through tutorials, online discussion groups or infographics that combine reading with images (see Millennials and Banking, May 2016; Tokenization Technology, April 2015, https://www.aba.com/Tools/Infographics/Pages/default.aspx).

Special financial education programs banks are offering for children, usually students, alone or in partnership with different educational organizations, such as schools or non-governmental organizations focusing on education. The concepts of the programs and banks involvement are different and at different levels. Some banks are more like financial supports of the programs and are making the programs visible on their websites. This is the case, for example, of Reiffeisen Bank which is committed to financial education Junior Achievement programs in Romania (https://www.raiffeisen.ro/despre-noi/responsabilitate-corporativa/educatie-financiara/). They may also receive training in order to be able to conduct the program in the classroom. Romanian Transilvania Bank (BT) has also a financial education program for children called ‘Financial ABT’ and others for young people and entrepreneurs. ‘Financial ABT’ is targeting tens of thousands students and hundreds of schools and is designed as school extracurricular activity.

In the survey we have conducted searching on websites of important banks active on market in Romania we have found that they all are providing the above mentioned information. Every person who has internet access, is computer literate, can read and is interested to gain financial information can ‘learn’. One of our conclusions is that banks are addressing to people with a level of education above average. That means that these programs will not necessarily increase the financial inclusion in Romania, because they will not rich financial non-included persons who are mainly women, elderly, less educated or Roma people, farmers, retired persons or residents of poor rural area (Stanculescu, 2010) who do not meet requirements such as internet access or computer literacy.

Another conclusion is that developers of these programs have an unrealistic perspective on learning process. Learning is more than reading or receiving information. Having available and accessing online information a person will not necessarily learn. Learning outcomes are results of complex processes of analysis, synthesis, application, or evaluation that involved inquiry, discussions, exercises, problem identifying and solving, check for understanding, repetition, assessment, feed-back and so on. This is applying equally to children, young people, and adults. The pedagogy involved in these programs is poor and is too much relay on individuals own capacity to make use of information. Information, especially information for entrepreneurs, is delivered by bankers, bank employers, experts in financial markets and investments and so on. They are using a specialized language sometimes understandable only for experts, such as economists. Non-economists may not understand concepts such as assets, actives, passives, balance of payments, or cash flow.

Some of the banks are aware of the lack of pedagogy in their financial education programs and the need to work not only with experts in the financial domain, but also with experts in education. They initiated partnerships with educators, educational organizations, especially schools, and curriculum and educational materials developers in order to develop quality financial educational programs and increase the impact. We have looked at one particular program, so called ‘The Money School’ developed and delivered by Romanian Commercial Bank – BCR to increase the public responsibility in respect with money management, both from spending and investments’ perspective. ‘The Money School’ was launched as an on-line program consisting in interactive lessons available at www.scoaladebani.ro. It included also a contest called ‘The Pocket of the Year’ with spending and investments tasks for participants. Two volumes of materials were provided on-line: Volume 1 – ‘Conversation Guide between Pocket and Money’ focused on effective management of family spending; Volume 2 – ‘Guide of Money Increase’, focused on personal investments. We have chosen this program because is probably the most long-term or lasting program evolving in time. BCR has initiated partnerships in developing and delivering it with other interested organizations, such as Vodafone Foundation, with schools and international experts in training and materials development. They also came with a new concept of program. Especially developed for children, the 2017 version of the program called ‘The Money School on Move’ is delivered in different cities across all over the country. Among other game-based activities, students have to spend 90 minutes in a track named FLIP organized as a virtual playground and ‘play’ games about earning and spending money. The contribution of educational experts is evident on pedagogy of the program – game-based activities conducted in a special designed educational space highly attractive from children point of view.

Many educational experts are advocating for innovative ways to developed financial competency especially to students, insisting to look beyond lecture or worksheet lessons (Craig, 2015) and to make use of online games such as *Financial Entertainment* (https://financialentertainment.org/no-flash) and mobile apps such as *Banker Jr.* (http://htmobileapps.com/products/banker-jr/).

4. Conclusions

Schools and financial services providers have different perspectives on financial competences. Financial services providers tend to narrow financial competence to financial literacy. They are interested to develop financial understanding of different categories of population seen as possible consumers of financial services they are offering. This is why in financial education programs they are developing for public the focus is on money matters and financial products and services. Schools have financial education programs especially developed for students, including primary, middle school and high school students. They are building financial understanding from a basic level, that is currently seen as financial literacy, to higher levels of understanding that allow students to make informed financial decision, to act as rational, and responsible consumers of financial services, to save and invest in effective ways and have access to credit In school’s perspective, financial education is linked with economic education. Schools and financial products and services providers are important agents of financial education and inclusions.

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