Financial Inclusion in Romania – A New Perspective

Alina Elena Cerchia (Ionaşcu)
Elena Cerasela Spătariu
Gabriela Gheorghiu
"Ovidius" University of Constanta, Faculty of Economic Sciences, Romania
alina_cerchia@yahoo.com

Abstract

Financial inclusion is an important national subject, sustained by the European Union policies. Financial inclusion has an outstanding role in growing the quality of life of citizen, and financial inclusion can be accomplished both through educational programs and through programs which facilitate access to financial products and services.

The financial inclusion score, a very useful instrument, can be influenced by many factors in order to decrease the major gap between the urban and rural environment.

In this paper, we analyze the level of financial education and inclusion of Romanians, the barriers that are encountered and giving solutions to enhance the level of financial inclusion in Romania.

The low levels of financial inclusion can be improved by the government through public polices mainly, but also in partnership with banks or other non-governmental institutions, regarding digitalization, financial education and fiscal and non-fiscal policies.

Key words: financial inclusion, education, behavioral finance, economic growth, government policies
J.E.L. classification: I22, A22, G40, Q56, I38

1. Introduction

Financial inclusion can be defined as a process that helps people and businesses to access various financial services such as those offered by banks or credit institutions in a low-cost and transparent way. For this reason we have chosen to link the digitization of the banking system to the notion of financial inclusion.

This can be achieved by running financial education programs regardless of demographic criteria, which can be carried out in schools, colleges or in rural areas through partnerships with financial institutions and public administration institutions.

Finance has always been considered as one of the important drivers of growth for any economy, activity and at the same time, financial inclusion can be an enabler of creating growth opportunities for Romania's weaker counties and cities. However, Romania is still ranked at the bottom of the European Union's ranking of financial intermediaries with a percentage of 26%.

Financial inclusion is a multi-dimensional system through which a country can generate inclusive economic growth by connecting stronger economic regions/cities with the country's weaker or rural population. Harmony between regions is quite high in Romania, thus general inclusion challenges are encountered. When it comes to financial inclusion, the most important role at the population level is played by physical and technological dimensions.

2. Theoretical background

Nowadays, financial literacy has become very important. The ability to deal with money and financial problems has long ceased to play a role only for adults, but is relevant even for teenagers, as they are using smart phones or their own bank accounts and are exposed to financial services from an early age (Rudeloff, 2019).

Financial inclusion can be defined as the theory that both the businesses and the individuals have responsible and sustainable access to financial products and services that are accordingly to their needs such as payments or other transactions, loans and savings.

Financial inclusion is based on several principles, the most important of which are:

- Adopting solutions that are market-specific;
- Inclusion and financial stability are mutually reinforcing;
- All financial services companies must support protection in a way that is appropriate and proportionate to the integrity of consumers and the financial system.

2. Research methodology

The research presented in this paper is based on the Financial Inclusion Score, that describes financial inclusion as the ability of the financial system to deliver services in relation to inputs and is a performance measure rather than an output measure. The calculation of the Financial Inclusion Score is made by the Workd Bank and represents the level of a country's financial system against the best.

With a Financial Inclusion Index score of 1, the system makes the access factor work in the most efficient way possible, setting a standard of efficiency and a model for other countries. An index lower than 1 indicates a less inclusive financial system compared to more developed countries. In both cases some people may still be excluded from financial services.

To calculate the score for a specific dimension of financial inclusion, the results of each indicator are compared with the proposed benchmark and for each indicator the distance to when the benchmark was assessed.

3. Findings

3.1. Financial inclusion in the European Union

Table no. 1 represents the financial inclusion score of the countries from the European Union (the DEA method was used as a method of calculus) and the FIS ranking. Using the scores, the countries were categorized as following (Korynski & Pytkowska, 2016):

-high performance, where the score is between 1-0.90 (8 countries)
-aspiration to performance, where the score is between 0.90-0.70 (in 6 countries)
-delays, where the score is less than 0.70 (in 2 countries)

Table no. 1. Financial Inclusion Score (FIS)

Categories	Country	Rank	FIS score
Leaders	Sweden	1	1,000
	Denmark	2	1,000
	Finland	3	1,000
	Ireland	4	1,000
	France	5	1,000
	Cyprus	6	1,000
	Slovenia	7	1,000
	Germany	8	1,000
	Latvia	9	1,000
	Spain	10	1,000
	Netherlands	11	1,000

High performance	Malta	12	0,999
	Austria	13	0,996
	Belgium	14	0,987
	Estonia	15	0,964
	UK	16	0,962
	Slovakia	17	0,930
	Czech Republic	18	0,921
	Luxemburg	19	0,904
Performance aspiration	Portugal	20	0,876
	Hungary	21	0,841
	Greece	22	0,840
	Italy	23	0,800
	Lithuania	24	0,753
	Poland	25	0,747
Latecomers	Bulgaria	26	0,567
	Romania	27	0,554

Source: (Korynski and Pytkowska, 2016)

The EU has a high average score for financial inclusion at 0.91, indicating a high level of overall inclusion. Eleven of the 27 countries, or 41%, had an FIS score of 1, indicating that their financial systems were as inclusive as the available inputs allowed. Of the 11 countries, three (Sweden, Finland, Denmark) scored 1, indicating that they had little difference in financial inclusion outcomes.

Seventy percent of Member States (19 countries) reported high levels of financial inclusion, with an average score of 0.97 for this group. The remaining eight countries have an average score of 0.75, and two countries (Romania and Bulgaria) have significantly lower FIS scores (0.554 and 0.567, respectively), accounting for half of the best results.

The main policy goal that emerges from the information in the table above is that countries need to consider factors such as: education and digitalization , which have a great influence financial inclusion.

According to information from the World Bank, the unbanked population in the European Union over the age of 15 is about 39 million, 7% of the total population. The number of unbanked people is most likely double, given that pensioners and some employees have been forced to open a bank account just to receive their pension and salary, which is fake banking, as the bank account is used only once a month to withdraw these types of income, without the account holder using the adjacent banking products.

This group of the population remains unbanked, in the true sense of the word, without even having a savings account associated with banking relationships. Thus, around 15% of the EU population is unbanked.

3.2. Financial inclusion in Romania

Although we live in the 21st century, the era of digitalization and technology, Romania's population has a very low level of understanding of the many changes, especially in banking. Over time, banks have developed trying to be as useful as possible, providing customers with more facilities to achieve an easier process and a freer relationship between bank and customer (Munteanu et al, 2013).

However, Romania still ranks at the bottom of the European Union in terms of the level of financial education and access to some banking services or products, the gap being found in the differences between rural and urban areas, with access to digital banking services being much more accessible to those in urban areas.

Both at the level of a micro-enterprise and at the level of an individual, in order to increase financial inclusion, programs have been developed that refer to financial education and increase access to banking products and services.

Financial education can be seen as a lifelong process of capacity building, resulting in improved financial literacy and wealth. It has four core principles, namely: understanding - how money works in the world, managing income and expenditure effectively, earning more - spending wisely, saving, investing and understanding financial instruments.

Fourteen years after Romania joined the European Union, it is still the last European country in terms of financial inclusion with a score of around 67% and a financial education level of 22%. Globally, about 1 in 3 citizens have a financial education, compared to Europe where 52% of citizens have had financial education in their lifetime (ARB, 2022).

There is a constitutive link between levels of financial intermediation and inclusion and levels of financial literacy. During the Covid-19 pandemic, an increase in financial inclusion was observed, with two out of three Romanians using all types of banking products and services, following the findings of the survey, Romanians' perception of the digitization of the banking sector, developed by the Romanian Institute for Evaluation and Strategy (IRES).

The low number of financial inclusion is due to the low level of financial education. An Organization for Economic Co-operation and Development (OECD) survey from 2020 states that Romania scores low on financial literacy. The average score for financial literacy in countries participating in the OECD survey is 12.7 in 21 countries and 13 in OECD member countries. The lowest scores belong to adults in Italy, Romania and Colombia (11). Romania has the second lowest score for financial literacy of the population above Italy's score in the same survey. This study concluded that the respondents lack knowledge of basic financial matters such as simple interest calculations, financial risk and time value of money. At the end of the survey, Romania ranked below the average for correct answers with a score of 49% and second in the choice of financial products (ARB, 2022).

In Romania, almost 1 in 4 citizens' lives on the poverty line, the poverty rate in Romania being 23.5% in 2018, the highest in the European Union, where the average at that time was 16.8%.

Romania's GDP per capita stood at 8,780 Euro in 2020, taking into account the downturn in the economy as the COVID-19 pandemic affected worldwide.

One of the structural problems related to financial education concerns the budget allocated to education and the lack of progress in this area. The researches show that more than 40% of school students with an age of 15 years do not have proper skills in reading, mathematics and science, as the EU average is around than 20%, and this circumstances are close to the situation 10 years ago (ARB, 2022).

Our country is one of the pioneers among European countries in promoting and introducing financial education as a compulsory subject. From 2021, financial education has been introduced as a compulsory subject for 8th grade students. Besides Romania, other European countries such as Denmark, the Czech Republic, Portugal and Sweden have introduced financial education as a compulsory subject or have introduced it through other subjects.

At European level, there are about 20 countries that have taken measures to make this subject compulsory, either as a main subject or as a sub-subject. In Romania all students enrolled in university education can benefit from optional financial education courses.

In 2018, the Ministry of Education, the NBR, the Ministry of Finance, the ASF and the Romanian Association of Banks (ARB) decided to enter into a partnership, a collaboration agreement, to support activities in the field of financial education, to increase the level of financial literacy and also to support a national strategy in this regard.

One of these projects is the one through which the National Romanian Bank, Romanian Association of Banks and the Authority of Financial Surveillance, through the Romanian Banking Institute, have accredited to the Ministry of Education and Research the only complete financial education course written to the professors of the compulsory course "Social Education" for eighth grade students. Therefore, the banking industry directly contributes to the training and improvement of financial literacy of the younger generation.

3.3. Barriers of financial inclusion in Romania

Romania is one of the European countries with a very low level of financial inclusion and development, which creates a barrier to economic convergence in the European Union. There is a low level of usage for the basic financial services such as: number of bank accounts, saving services such as deposits or loans due to serious constraints such as low financial literacy, distrust in financial institutions and high poverty. Because of these, the need to increase financial inclusion and literacy in Romania has recently been recognized.

As Yoshino & Morgan (2016) classifies: "Barriers to financial inclusion can be categorized as supply-side or demand-side".

Supply-side barriers reflect constraints in the financial sector's ability or willingness to issue financial services to poor households or SMEs. These fall into three categories: market drivers, regulatory factors and infrastructure constraints.

Market drivers include relatively high cost of micro-deposit and loan services, high cost of financial services in small rural towns.

In addition, the lack of credit data and reliable financial records exacerbates the problem of information asymmetry, preventing banks from lending to poor households and small and medium-sized enterprises.

Regulatory factors, including capital adequacy and prudential rules, can constraint the magnetism for small deposits, loans or other financial services.

Identification and other documentation requirements are important for understanding your customers' requirements and monitoring possible money laundering and terrorist financing activities, but can cause problems for poor families in countries without a common personal identification system.

Regulatory requirements such as foreign ownership limits and inspection requirements need to be calibrated to accommodate systemic regimes, financial risks posed by different financial institutions, and trade-offs between financial stability and greater financial inclusion.

Infrastructure barriers include the inability to use secure and reliable payment and disconnection systems, landline or cellular communications, and easy access to bank branches or ATMs.

Demand-side factors include lack of capital, lack of understanding of financial services or products (eg, financial literacy) and the absence of trust. This lack of trust can be a remarkable problem when the state does not have the necessary functional oversight or regulation of financial institutions or consumer protection programs for proper disclosure, debt collection product regulation, and dispute resolution systems.

The factors that contribute to the low levels of inclusion in Romania are:

- Lack of financial education;
- Lack of confidence in the financial system;
- The quality and degree of adaptation of the offer of financial services to the needs of the population, including rural areas.
- The large share of the informal economy and the low standard of living.

Romania has one of the highest values of poverty risk and social exclusion indicator and all of the factors mentioned above have a negative influence for the financial inclusion index.

4. Conclusions

Financial inclusion is worldwide essential in order to stimulate economic growth and lower the poverty rate, by increasing educational and entrepreneurial opportunities. The meaning of financial education and the role in expanding financial inclusion suggests using all educational opportunities to promote, support and facilitate financial inclusion.

Effective financial education leads to positive financial behavior. Such education should tailor the types of financial education to a specific target group, should use only the most effective methodologies in increasing knowledge, skills, attitudes and practices and should combine financial education activity with other reinforcement opportunities of long-term behavior.

The financial inclusion index of 0,554 in Romania, positions the country as a late-comer, as it has the last score out of 27 European countries.

There are several tools for increasing financial inclusion. The most important is the role of national authorities that must identify a balance between risks and yield generated by financial inclusion, to establish the balance between the objectives inclusion and stability policies, as well as to develop the policy framework and financial inclusion regulation. Therefore, government should improve the legislation and financial education, provide business models and innovative services, enhance the access for micro-credits, and encourage the variety of financial and institutions. The study revealed that there is a need to reduce inequality through an appropriate mix of public polices, mainly by the governmental authorities, not only by the private sector such as banks and non-governmental associations.

Further studies can analyze the data regarding bank accounts, number of ATMs or accessibility and usage of bank services such as loans, deposits or transactions, in order to calculate the financial inclusion index.

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