

# FINANCIAL EDUCATION, STRATEGIC ACTIVITY IN THE DEVELOPMENT OF THE LIFE INSURANCE INDUSTRY

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**ABSTRACT.** *The notion of financial education should be implemented as a strategic activity at the level of each country, given that “a low level of financial education is one of the main barriers to a country’s economic development”. Considering that both Romania and the Republic of Moldova occupy unfavorable places in the ranking regarding financial inclusion, financial intermediation and financial education level, we can say that a fierce need for financial education at the level of each country is necessary.*

*If we relate internationally, the level of financial education relates to one in three people and in Western Europe we meet the most financially educated people, an aspect highlighted in the well-being of economic life in these countries.*

*The efforts of the insurance industry, in addition to the other financial markets, to increase the degree of financial education are permanent actions and require countless campaigns, courses and projects in this regard, on various topics such as car insurance, life and health insurance, housing insurance, etc. In other words, for a sustainable financial education, a path of continuous and sustainable action is needed.*

**Keywords:** *education, financial, industry, insurance, life, literacy, stability*

**REZUMAT.** *Noțiunea de educație financiară se impune a fi implementată ca și activitate strategică la nivelul fiecărei țări având în vedere că „un nivel scăzut de educație financiară reprezintă una dintre principalele bariere în dezvoltarea economică a unei țări”. Având în vedere că, atât România cât și Republica Moldova ocupă locurile nefavorabile din clasament cu privire la incluziunea financiară, intermedierea financiară și nivelul de educație financiară putem spune că, e necesară o nevoie acerbă de educație financiară la nivelul fiecărei țări.*

*Dacă ne raportăm la nivel internațional, nivelul educației financiare se raportează la unul din trei oameni iar în Europa de vest întâlnim cei mai mulți oameni educați financiar, aspect evidențiat în bunăstarea vieții economice din aceste țări.*

*Eforturile industriei de asigurări, pe lângă celelalte piețe financiare, în a crește gradul de educație financiară sunt acțiuni permanente și necesită nenumărate campanii, cursuri și proiecte în acest sens, pe diferite subiecte, precum asigurările auto, asigurările de viață și sănătate, asigurările de locuințe etc. Cu alte cuvinte, pentru o educație financiară sustenabilă, e necesar un parcurs al acțiunii continue și durabile.*

**Cuvinte cheie:** *educație, financiar, industrie, asigurări, viață, alfabetizare*

*„Financial peace of mind does not mean the purchase of various things. It means learning to live with less than you produce, so that you can give money back and stay with other money to invest. You can't win until you do that.” Dave Ramsey*

Financial education is the ability to understand how money works and the sooner one learns about how it works, the more people will be confident in managing it and enjoying economic prosperity.

Financial literacy uses a variety of financial skills and can help you avoid making bad financial decisions and gain financial knowledge for creating a budget, managing expenses, managing indebtedness, and how you can save money for retirement. In order to be able to "control expenses, savings and investments", it is necessary to create a budget because the financial well-being must know the destination of the money spent.

In economically developed countries, the first lessons of financial education are acquired as early as childhood, learning how important financial savings are. In other words, the administration of finances is an area where one steps from childhood, but in eastern countries such as Romania, the

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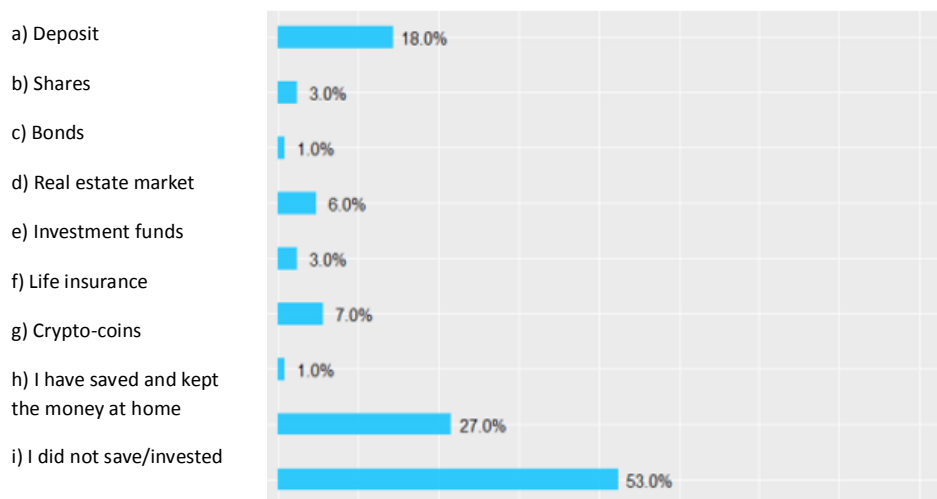
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Republic of Moldova, Ukraine, this level does not develop and for this reason, they are on the last places in terms of financial education.

In Romania, financial education is quite unstable and does not help Romanians to get more information about certain extremely important areas and the insurance industry is the field that should be deepened. Compared to European citizens, Romanian citizens are limited to concluding mandatory third party motor liability policies or home insurance, neglecting to access insurance products that can ensure them a more stable future, relative to life insurance. In principle, people understand the essence of life insurance, but nevertheless they prefer to ignore the assessment of life and avoid providing an ideal tool in the case of legacies for those they should take care of.

Institute for World Economy of the Romanian Academy conducted a case study where the focus was on "financial well-being and its determinants, including financial literacy, addressing the main factors leading to the low level of financial inclusion and the interdependence between the development of the financial system and financial education"<sup>1</sup>.

One of the questions in the questionnaire refers to how people have saved or invested sums of money in the last 3 years. The responses received are represented in Figure 1 and it can be seen that only 7% of those who responded saved/invested through life insurance.



Note: Research based on telephonic survey, being interviewed 1391 persons and with an error margin of +/-2.63

Fig. 1 Answers to the question: "In the last 3 years, what are the main forms by which you have saved and/or invested?"<sup>2</sup>

Compared to the life insurance sector in the Republic of Moldova, the situation is much different, as the Republic of Moldova is facing a transitional period where it is desired to improve all the operating principles of this sector. Insurance companies in the Republic of Moldova face a series of problems, namely, "from the imperfection of the insurance legislation, the lack of a perfect statistical and information base, the high degree of poverty of the population, the distrust of the population in insurance, the lack of highly qualified specialists and technologies to high-performance techniques of high-performance data processing"<sup>3</sup>.

Financial stability and increasing the well-being of the population can be achieved through a correct management of risks and this will implicitly lead to economic development given that the insurance industry is an important pillar in the country's economy.

<sup>1</sup> Mihai Nițoi, Dorina Clichici, Cristina Zeldea, Miruna Pochea, Cecilia Ciocîrlan, Financial well-being and financial literacy in Romania, Institute of World Economy, Romanian Academy, Bucharest, 2022, page 2

<sup>2</sup> Idem, page 12

<sup>3</sup> Tatiana Burlacu, Life insurance market of the Republic of Moldova, Academy of Economic Studies of Moldova, page 2, available at: [https://ibn.idsi.md/sites/default/files/imag\\_file/289-291.pdf](https://ibn.idsi.md/sites/default/files/imag_file/289-291.pdf)

Compared to the European countries where the life insurance sector has a share between 40-60% of the total market, in Romania, at this moment, the degree of share of insurance in the total insurance industry reached a percentage of 18% (Figure 2).

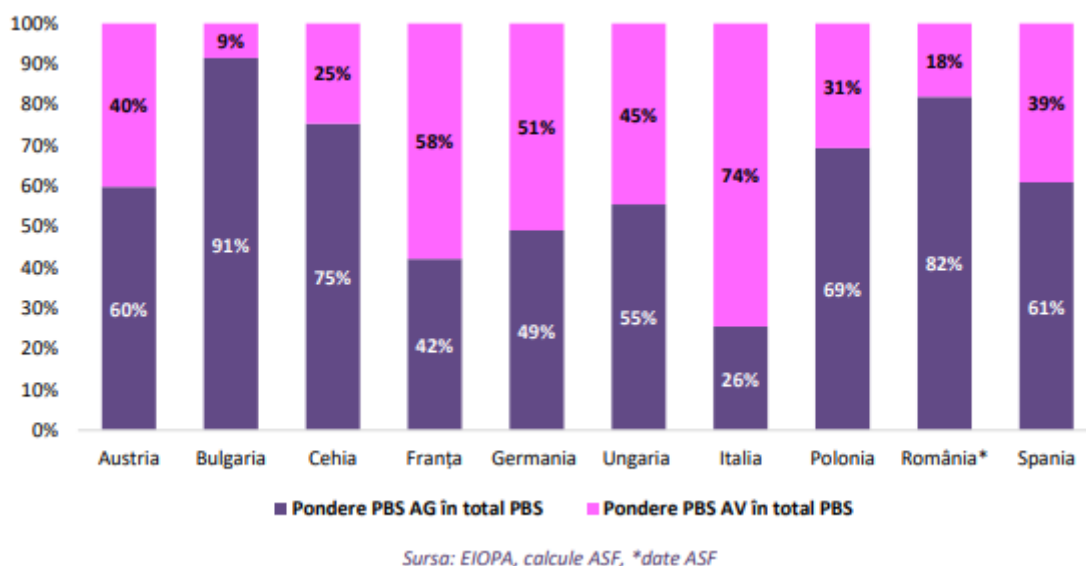


Fig. 2. Market structure: non-life and life insurance  
(Source: Evolution of the Insurance Market in the first quarter of 2022<sup>1</sup>)  
PBS AV Weight in total PBS; Source: EIOPA, calculation ASF, \*ASF data

On the other hand, the share slightly exceeded the 4% threshold in Moldova.

In the eastern countries, the concept that life insurance is a relatively new product still persists, so to some extent it is understood why people regard this type of insurance with some reservation. This concept cannot be changed only through the intervention of financial education, education that can be designed through an educational plan understandable to everyone, a plan that can show the way to a progressive future, with small but safe steps.

Life insurance is not only a simple insurance product that covers risks such as illness, disability or death, but also represents the financial protection of a person or his/her family. In response to more complex needs, such insurance is accessible in forms such as traditional life insurance, life insurance with capital accumulation, with investment component. These types of life insurance can be personalized on a regular basis in order to adapt to changing needs. Starting from the understanding that each of us is responsible for our own financial protection and that financial education has an essential role in the process of understanding and knowledge, we cannot overlook the benefits of a life insurance.

Financial education is necessary to be present not only at the top poles of the society where we live, but also among the critical masses of the population because the need to invest in ourselves and in our financial education is part of our ever-changing future.

The daily financial choices generated by the needs of each of us, can have an impact on prosperity if we do not understand that it is necessary to increase the level of financial education, to learn to save and to be prepared for any circumstance.

In Romania, due to the increased degree of functional illiteracy and the extremely low level of financial literacy, being among the lowest in Europe and positioned on a place lower than the Republic of Moldova, "according to the 2020 OECD study", only 1 in 5 adults understands the financial concept.

In order to increase awareness, Romanian insurers through UNSAR (The National Association of Insurance and Reinsurance Companies in Romania), in partnership with ASF (The

<sup>1</sup> Financial Supervisory Authority, Evolution of the Insurance Market in the First Quarter of 2022, page 11

Romanian Financial Supervisory Authority), launch "information and education campaigns on the savings resources and tools made available to Romanians for keeping the same standard of life at the time of their withdrawal from activity and in case of unforeseen situations such as accident or illness"<sup>1</sup>.

The initiative aims to raise awareness among society given that the ageing of the population is a worrying factor for the financial future of Romanians active today, and "consumer incomes are significantly affected by major events when they intervene"<sup>2</sup>.

Financial education campaigns were organized in the Republic of Moldova by APPA - Association for the Promotion of Insurance and by BNAA - National Bureau of Motor Insurers of the Republic of Moldova, but they were focused on information campaigns on compulsory and general insurances such as, RCA, Casco, and Green Card

In Romania, the financial education rate is 21% compared to the European Union average of 56% and the Nordic countries 65%. Even in EEC countries the awareness of financial education registers a higher percentage: the Czech Republic - 58%, Hungary - 54%, Slovakia - 48%, Poland - 42% and Bulgaria - 35%".

If the degree of awareness and responsibility among the citizens of Romania and the Republic of Moldova would reach the share of the European Union average on the conclusion of life insurance contracts and private pensions, then, certainly, we can say that the occurrence of an unfortunate event will not affect the standard of living, but can be maintained and, at the same time, it will also help to supplement the income after the retirement age intervenes. Every citizen should impose on itself a principle of long-term financial planning and, establish its monthly saving through a minimum percentage of the registered income.

Figure 3 shows a drastic decrease in the Romanian population: many more people die compared to the number of those who are born, which is represented by the natural increase (the difference between the number of people born alive and the number of people who died).

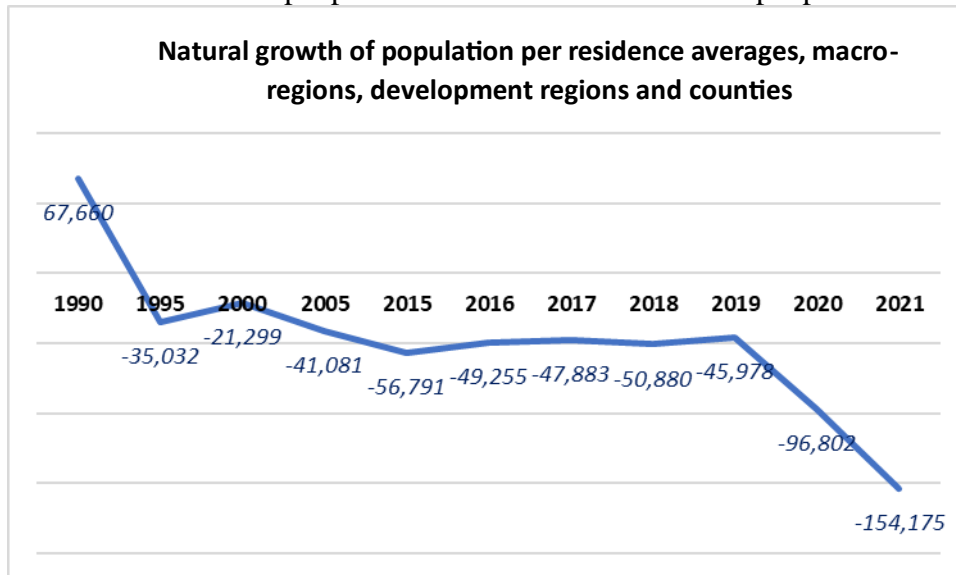


Fig. 3. The evolution of Romania's natural growth during 1990-2021  
(Data source: National Institute of Statistics)

Taking into account the demographic involution registered in recent years, as well as the contributory tax to the state pension of those who carry out their professional activity in the labor market, corroborated with the low awareness of financial education among citizens, there will

<sup>1</sup> <https://www.agerpres.ro/economic-intern/2018/05/08/appa-romania-pe-ultimul-loc-in-europa-in-cee-a-ce-priveste-educatia-financiara--104272>

<sup>2</sup> Idem

certainly be a replacement rate of income from the state pension below the average of the European states that already have in the national culture the awareness of long-term savings.

Demographic and macro-economic evolution generates risks and people are exposed in this context, so people need to be aware of and understand the need for long-term savings. This requires long-term financial planning and understanding of these complex financial principles. Given that very often, people's concept about life insurance is that they are complex and sometimes quite difficult to understand, insurers have a special role to communicate with policyholders and offer them life insurance products tailored to their needs.

For economic well-being we need financial education and this can be progressed through the education system adapted to the present needs. Viewed as a sophisticated and hard-to-access concept, financial education has not been embraced with interest among society's education even though it is "a tool to boost economic development". Financial education among citizens can generate behavioral changes and can contribute to improving financial sustainability, economic development and people's well-being.

As a perception among the population, the school, the distribution partnerships between banks and insurance companies (bank assurance) and the media are responsible for the financial education.

The foundations of a developed and integrated economy consist in education dressed in all its forms, so that in Romania and the Republic of Moldova it is necessary to establish as a national objective the economic prosperity, which can contribute to GDP/capital and last but not least, the economic prosperity that can contribute to GDP/capital. Measures are also needed to increase the level of financial education and professional retraining.

In order to achieve the level of financial literacy, it is necessary to establish principles whereby the company must be guided, and according to the European Commission, through the Romanian Financial Supervisory Authority, financial education is based on some important principles:

- ✓ „Financial education must be actively available and promoted throughout life, without interruption.

- ✓ Financial education programs must be clearly targeted at the needs of citizens.

- ✓ Consumers should receive economic and financial education as soon as possible, starting at school age.

- ✓ Financial education programs should include general instruments to draw attention to the need to improve financial knowledge on financial issues and risks.

- ✓ When financial services providers deliver financial education, it must be balanced, transparent and objective. The interests of the consumer must always be taken into account, in compliance with the legislation in force, without resorting to unfair commercial practices. The financial trainers must benefit from the adequate resources and training in order to be able to develop efficient and reliable education programs.

- ✓ National coordination between stakeholders must be promoted in order to achieve a clear definition of roles, facilitate the exchange of experiences and streamline and create a hierarchy of resources. International cooperation between financial education providers must be strengthened to facilitate the exchange of best practices.

- ✓ Financial education providers must regularly assess and, if necessary, update the programs they manage to comply with best practices in this area”<sup>1</sup>.

### **Conclusions**

As an immediate measure and with viable results, financial concepts should be extended in school curricula and the training of financial education tutors should be carried out on a more extensive basis. But, for this to become achievable, openness on the part of adults is required to

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<sup>1</sup> <https://asfromania.ro/ro/a/1548/principii-educatie-financiarã---comisia-europeanã>

embrace the economic and financial culture and to introduce financial education into the compulsory school curriculum for all citizens of Romania and of the Republic of Moldova.

The strategy of increasing the level of financial education of citizens must be started with the access of all children to education at the same time with primary education in order to be able to achieve effective results in terms of the qualitative skills of financial education and its sustainable development.

The concept of financial education must be based on the collaboration of all the factors involved in the development of the concept, from public administrations, the banking and non-banking financial industry, the education system, civil society and the adoption of the best implementation and functioning mechanisms.

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