

Newsletter on Financial Education



March 2022; Issue 1

Contents

A word from the Governor.....	3
<i>Mugur Isarescu, Governor of the National Bank of Romania</i>	
Seeking out opportunities in times of uncertainty	4
<i>by Radu Hanga, Bucharest Stock Exchange President</i>	
Three behavioral biases.....	5
<i>Alin Istocescu, Expert, National Bank of Romania</i>	
Does one need to be rich in order to have financial well-being?	6
<i>Conf.univ.dr. Rodica Ianole-Călin, Department of Applied Economics and Quantitative Analysis, University of Bucharest</i>	
Court decisions in financial services litigation — a behavioral perspective.....	8
<i>Valeriu Stoica & Dragoș Bogdan, Partners, SCA STOICA & Asociații</i>	
Financial education and client behavior driven models	10
<i>Sergiu Manea, CEO of Banca Comerciala Romana</i>	
Some traps of financial education and a credo	11
<i>Anton Comanescu, Senior expert, National Bank of Romania</i>	

A word from the Governor

Mugur Isarescu, Governor of the National Bank of Romania

Financial education has been a trending topic for the past three decades. Its importance to the current social and economic landscape cannot be stressed enough. It helps the population to make more informed financial choices that could further positively impact their daily lives.

Times are constantly changing and the economy evolves towards highly complex structures and phenomena. During the past few years and especially now, during this uncertain and trying period, people need to better understand the financial environment.

Moreover, the world relies increasingly on the digital dimension, which requires people to acquire both financial and digital literacy, making the educational task even more challenging. On the other hand, digitalization facilitates the didactic process. We see education campaigns, programs and seminars that are being taught exclusively online and, as such, people all around the world can be reached.

As a central bank, our mission is to make sure we provide the tools and

information necessary, through our financial education programs, so that the people can have easy access to professional opinions and be well-informed from trusted sources.

With a general public being sometimes prone to unfortunate investment decisions, this newsletter will deal with practical tools and examples that could help fixing the very practical problems.

While in this first issue we mainly focus on the implications of behavioral economics for financial education, in the future we plan to offer articles on aspects such as the hype that surrounds the cryptocurrencies and the NFT markets, practicalities about monetary policy and inflation etc.

Therefore, the bottom-line of this newsletter is to provide good quality information, which is practical and condensed into a few paragraphs.

It is safe to say that the contributors have managed to do so. And for that I thank them.

I hope you will enjoy our newsletter.



Seeking out opportunities in times of uncertainty

by Radu Hanga, Bucharest Stock Exchange President

The year 2020 and the start of the pandemic have brought, we must all admit, fears, questions, and uncertainties. The reconfiguration, however, happened gradually, with efforts from the everyone's side. Now we can speak of a certainty regarding the capital market, namely an enthusiasm regarding the use of the financing mechanisms available on the stock exchange by Romanian entrepreneurs, as well as an increasing number of individual investors.

What exactly determined the increase in the number of Romanians who chose to invest on the stock exchange? From March 16 last year until now, mid-November 2021, the BET index¹ has risen by 80%. This increase in the BET index was accompanied by a steady increase in the number of investors on the stock exchange (a yearly 35% increase in the number of investors in September).

Also, the accumulation of resources, mainly from bank deposits, a trend

which is now present for some years, coupled with the strong capital market performance, is the main driver for the growing individual investors' interest for investments in the stock exchange. This growing amount of bank deposits coupled with the low interest rates environment is expected to further support the local stock market and the listed companies.

As an individual investor, to invest in the stock market you do not need exorbitant amounts of money, the stock market is not an exclusive club, dedicated to millionaires. You only need a small change in attitude, to be more open in trying new things. Or we, the entire capital market community, have various campaigns to provide people that information they need to put together and make those good investment decisions for themselves, in line with their budget, training and expectations. Education in this direction is on a continuously basis, and the results are gradually being seen.

1 Main index on the Romanian Stock Exchange.

Three behavioral biases

Alin Istocescu, Expert, National Bank of Romania

In behavioral economics, a bias is an irrational belief that can unconsciously influence human decision-making process in a negative way. A bias can be emotional or cognitive.

Three interesting behavioral biases are the ostrich effect, restraint bias and choice-supportive bias.

The *ostrich effect* is a cognitive bias that leads people to avoid potentially negative situations. One concrete situation is when someone avoids to look at their mortgage payments because they can be far behind with payments.

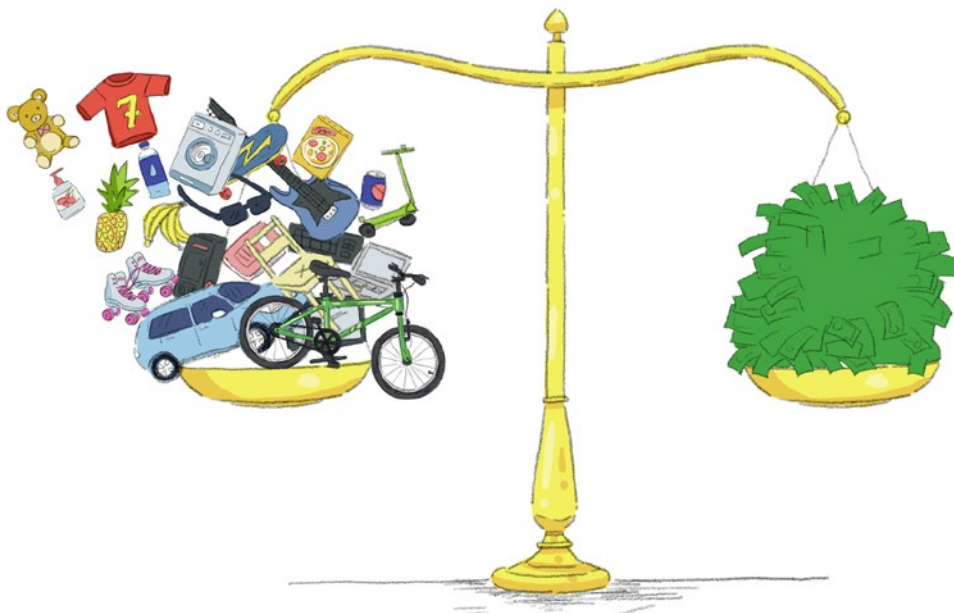
The name of this bias comes from ostriches' behavior who bury their hands in the sand thinking they can avoid the danger if they can't see it.

Restraint bias is considered to be the tendency to overestimate our impulsive behaviors. It has an emotional

perspective attached to it, because we sometimes decide to make a purchase if we feel down. This can be a blow to personal finances.

Choice-supportive bias, also called post-purchase rationalization, represents the tendency to assign a positive attribute to one specific purchase. This is usually done to involuntarily justify a bad purchase and make it easier to live with. It eventually will be seen as a good purchase by the buyer.

Choice-supportive bias can be very tricky because purchases made unconsciously using this bias can be stored as good memories and be used for future purchases.



Does one need to be rich in order to have financial well-being?

Conf.univ.dr. Rodica Ianole-Călin, Department of Applied Economics and Quantitative Analysis, University of Bucharest

The fact that the answer to the title question is often positive in the public eye is not a big surprise, but rather a consequence of the persistent (and mostly false) belief about a causal relationship between money and happiness. However, when the same answer seems to linger also in professional environments, we need to ring the “scientific literacy” alarm and to put forward the evidence that speaks of the contrary.

First, financial well-being is indeed linked to standards of livings (current and anticipated), but it is more than that. Namely, it further expresses the confidence on how to navigate through financial affairs and how to make financial choices, translated into empowerment and perceived behavioral control about one’s relationship with money. When these attributes exist, we describe the dimension of financial security (that ideally will lead to certain level of financial freedom); consequently, when they are absent, we face the reverse dimension labeled financial anxiety.

Second, while financial education has a documented positive effect on savings and money management behavior, it is not always the most

important determinant of financial well-being. Thus, financial well-being is the strategic objective and financial education can be an effective tool in some context and less effective in others (e.g. when information is not enough to change behaviors, when the change is not sustainable on the long term).



Our recent research on the topic (Ianole-Călin et al., 2021) showed that in the case of Romania factors like optimism, self-control, future orientation, and deliberative thinking had the highest impact on the two dimensions of financial well-being: financial security and financial anxiety. More-

over, contrary to the intuition that financial security is the most important dimension, the data points towards financial anxiety as the main priority to be addressed in Romania (and probably in the region, considering the similar level of financial vulnerability), both in terms of redesigning financial services and in creating more psychologically comprehensive public interventions.

Lastly, while financial challenges differ significantly by country it is noteworthy to highlight the current trend followed by financial authorities around the world in developing not only strategies for enhancing financial education but also targeting specifically the aim of acquiring and strengthening financial wellbeing (e.g. UK: *“A financially healthy nation*

is good for individuals, communities, business and the economy”).

References

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Court decisions in financial services litigation — a behavioral perspective

Valeriu Stoica & Dragoș Bogdan, Partners, SCA STOICA & Asociații

Experiments demonstrate that economic agents, consumers especially, *show departures from rationality* when making decisions to buy certain products or access certain services, financial services, in particular. This is not only a problem of lack of information, but also one of *imperfect rationality*; for instance, data suggests that many consumers pay high interests rates on large credit card balances while holding liquid assets that yield low returns.



This new awareness with regard to how consumers make decisions influenced regulatory bodies and courts decision at both EU and national level. In this sense, European Court of Justice (ECJ) has underlined many times¹ that consumers may be *unaware of the unfairness* of a term in a mortgage loan agreement or not appreciates the extent of their rights under applicable EU law².

In order to balance the positions of consumers and banks, regulators and courts imposed to financial service providers obligations of *transparency* at the conclusion of the contract. For instance, for the High Court of Cassation and Justice (HCCJ), there is an “(...) obligation of clarity and transparency of the contractual terms, which would give consumers *the exact configuration, at the time of the conclusion of the contract, of the nature and mutual obligations assumed by the parties*”.³

In the same vein, according to ECJ settled case-law, information provided before the conclusion of a contract, both on the terms of the contract and

1 See, to that effect, judgment of 16 July 2020, Caixabank and Banco Bilbao Vizcaya Argentaria, Case C 224/19 and C 259/19, EU:C:2020:578, paragraph 90 and the case-law cited.

2 Directive 93/13

3 Decision no. 1323/2019 – High Court of Cassation and Justice, Second Civil Chamber.

on the consequences of concluding it, is of *fundamental importance for a consumer*.⁴ Therefore, the requirement of transparency of contractual terms *cannot be reduced merely to their being formally and grammatically intelligible*.

This is a legal standard which can respond to consumer's perceived irrationality. However, the obligation of transparency *should not turn the bank*

into the consumer's lawyer, nor should it be interpreted as *an obligation to educate (individual – n.n.) consumers about the contracts to be concluded*⁵. Even so, how this “objective” consumer will be appreciated in individual court cases, may allow for certain flexibility.

4 See, for instance, judgment of 3 March 2020, Gómez del Moral Guasch, C 125/18, EU:C:2020:138, paragraph 49 and the case-law cited.

5 Decision No. 541/2015 – High Court of Cassation and Justice.

Financial education and client behavior driven models

Sergiu Manea, CEO of Banca Comerciala Romana

Few things in a person's life are as important as quality of life or confidence in the future. As such, behaviors around personal finance and financial management towards achieving life satisfaction is a key focus for our bank.

We discovered the main area of tension in Romanians' lives is their financial situation – very few satisfied with it (24%) and that Romanians' money mindset revolves around financial safety (being able to make it through unexpected hardships – 57%).

Overall, Romanians believe that money is a resource that needs to be carefully controlled (saved and wisely spent or invested). As we are obviously dealing with a tension (satisfaction vs preoccupation) within primary needs realm (safety and control) we further learned that 62% of Romanians search for financial information at least monthly, with people relying on mass media and online communities, but also family and friends.

Only 33% look for money advice from a bank and even less from a financial broker 23%. In fact, more than half of the Romanians who save money don't use a financial service such as savings account or deposit.

As we strived to understand how Romanians deal in real life with finance, we invested into modelling financially healthy advice based on real people preference and behavior models. That has made our bank prioritize a social behavior driven approach: invest into mass media edutainment concepts, social influencers driven content and financial education concept advertising.

58% of Romanians admit to regretting their lack of interest in their own financial education. Saving money is the main financial advice Romanians would spontaneously give others, while the main financial errors Romanians admit to have made, include spending money impulsively or without a careful plan/analysis or prioritization ranks highest.

We made sure that advice reached people.

We believe that is the right thing.



Some traps of financial education and a credo

Anton Comanescu, Senior expert, National Bank of Romania

It is these days a blasphemy to criticize financial education. It's like denying climate change or being against COVID-19 vaccination.

Even if central banks discovered rather recently the holy grail of financial education, they enthusiastically embraced it, with all its opportunities. However, most institutions needed years to make concrete steps to effectively reach their audiences and to respond to their real needs for knowledge.

Even so, we need to remain humble and keep exploring. More time will pass until the efforts to educate vast cohorts of people will pay dividends in terms of financially behavior. And we don't even know if these behavioral changes will persist over time.

More research is needed to reveal the long term effects of this endeavor. Meanwhile we can only follow the work in progress of this art or science, learning by doing, to preach about

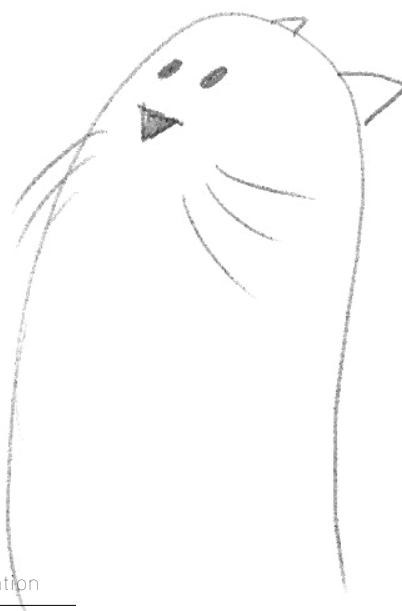
saving, budgeting tools, needs and wishes, or the risks and opportunities of cryptoassets.

Commercial banks developed platforms and programs teaching their clients about the benefits of modern banking. NGO's are mushrooming because it makes a lot of sense not to miss the trend.

All the above leave a lot of room for rolling up our sleeves and delve into the vast fields of down-to-earth financial education. This is what we want to promote with this newsletter.

We believe that actions of financial education can become inflationary if they are not absorbed by society. Expansionary policies that are not calibrated miss the target and we, central bankers, run both risks of over- and undershooting.

Avoiding these risks is another part of the credo of this newsletter.



This newsletter is a regional project of central banks with an interest in financial education.

We are grateful to our partner, the International Network on Financial Education—OECD-INFE.

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