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THE INFLUENCE OF THE COVID 19 PANDEMIC ON FINANCIAL EDUCATION

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ABSTRACT. Pandemic situation has changed the way we work, learn and shop. Digital finance has helped individuals and companies to meet challenges. The forecasts for the impact of COVID 19 on the world economy are pessimistic. The latest revision of the International Monetary Fund shows a deeper recession than the initial estimates for 2020 and a slower recovery in 2021. Some industries were completely blocked, others were significantly declining. The impact of the restrictions imposed by the epidemiological situation were negative in industries like the automotive industry, airlines, travel agencies, tour operators, hotels, restaurants, entertainment and construction. There were also industries whose activity had an increase due to the pandemic like courier, transport and health services. The need to maintain social distance has pushed forward digital solutions for payments and banking services. People have been taken out of their comfort zone when it comes to managing personal finances. The discrepancies between poor and rich countries became more evident during this pandemic. Lack of activity, limited opportunities to spend money and uncertainty have increased saving behavior. According to Eurostat, the saving rate of households in the euro area increased by 16.6% in the second quarter of 2020 compared to the first, but the investment rate decreased by one percent.

Speaking of the crisis in general and the financial crisis in particular, it has been shown that it has significantly changed the financial behavior of individuals. This paper aims to analyze how financial education led to different financial behavior during the crisis and the exclusions circumstances that may occur.

Keywords: Covid-19, financial education, personal finances.

JEL classification: I15, A29, D14.

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Introduction

Two years ago, a pandemic situation seemed more like a movie script; meantime, it has become our daily reality. Everyday life has changed radically around the world since–the COVID-19 pandemic started. In an attempt to limit the number of casualties governments have adopted restrictions for the population, ordered the temporary or partial closure of activities that involve a high risk of spreading the coronavirus. Governments have moved the school online, encouraged teleworking and have imposed unprecedented health related measures. All these measures continue to be the subject of extensive debates on the necessity for measures taken against Covid-19, on how these measures affect human rights to privacy and freedom. At the same time, the fight against misinformation has become a necessity. Feelings of solidarity and tolerance were among the most visible human qualities during this period. Despite these controversies, one certainty is that the overall mortality rate, regardless of the causes, increased by 13 percent in the 27 countries of the European Union in 2020 compared to 2019 after a decrease of 1% in 2019 compared to 2018.

Observing Figure 1 we can see how the evolution compared to the previous year of the mortality rate in the countries of the European Union. One can notice how the least affected was Denmark where the mortality rate increased in 2020 by 3.1% after in 2019 there was a decrease of 2.3%. The country most affected from this point of view was Spain where the death rate increased by 20.8% in 2020 compared to 2019, although in the previous year there had been a decrease in the total number of deaths compared to 2018, of 2.1%. Measures of social distancing, health protection and health efforts have reduced the number of deaths. The UK and Sweden approached the pandemic in a more relaxed way in the initial phase, without imposing a lock-down, choosing to limit the economic effects of the restrictive measures but the increased number of infections and deaths convinced the authorities to change their strategy.

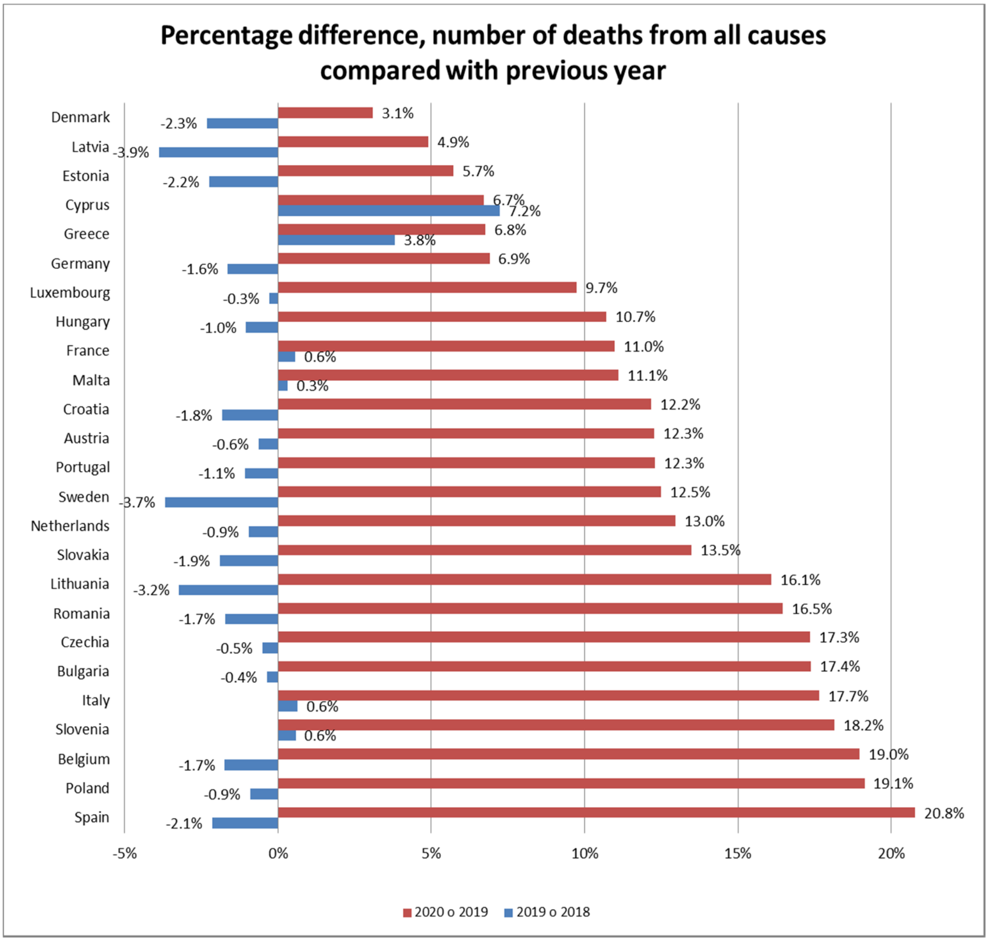

Figure 1. Percentage difference compared to the previous year of the number of deaths in European Union countries (2020 compared to 2019 and 2019 compared to 2018).
Source datasets: Deaths by week and sex. Eurostat [demo_r_mwk_ts]. Extracted on 01.04.2021.

In recent years, life expectancy at birth has increased, but in 2020, according to data provided by Eurostat, life expectancy has fallen in 25 of the 27 EU countries. The standardized mortality rate is generally higher for men than for women as life expectancy is lower for males than females (Life expectancy by age and sex, Eurostat, 07 April 7, 2021). In Figure 2 it can be seen that the mortality rate increased in 2020 compared to 2019 for both men and women in all European Union countries but it can be seen that the male mortality rate exceeded the female mortality rate in 16 of the 26 of countries analyzed. The biggest differences between the sexes are found in Latvia where the mortality rate for women exceed mortality for men by 7 p.p. and Romania where the mortality rate for men exceeds by 7 p.p. mortality rate for women, exactly the opposite.

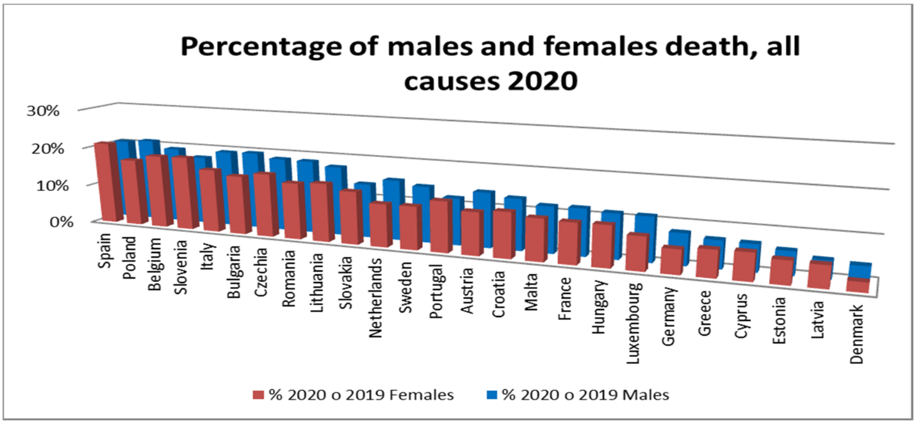

Figure 2. Mortality rate increase by gender, 2020 compared to 2019.
Source datasets: Deaths by week and sex. Eurostat[demo_r_mwk_ts].
Extracted on 01.04.2021

The coronavirus appears to undergo mutations that reverse long-term recovery projections and the support from governments ebbs away on a long term. A phone survey that was implemented in 34 countries shows that over 64 percent of households reported decreases in income, over 30 percent of children were unable to continue learning during school closures and 35.6 percent of respondents stopped working in the immediate aftermath of the pandemic. (Bundervoet et al, 2021). According to this study, women, young people and less-educated workers, were more likely to lose their jobs because of the pandemic. The pandemic seems to leave long lastig adverse effects on incomes. The COVID-19 pandemic is estimated to increase extreme poverty by between 88 million (baseline estimate) and 93 million (downside estimate) in 2020 and the projection for people in extreme poverty is to rise up between 143 and 163 million in 2021, due to pandemic situation (Lakner et al, 2021). It seems that our society will undergo definitive changes after this crisis. The pandemic increased gaps between socioeconomic groups. Developing national systems to provide quick support in case of decreased income should be a priority (Bowen et al, 2020). Policies should focus particularly on the recovery of the poor and vulnerable and on their resilience to possible sudden shocks. (Hill and Narayan, 2020).

Objectives and Hypotheses

All the measures taken to limit the infection rate of the population came with a general economic cost. Governments have tried to financially support businesses affected by their decisions so that they do not go bankrupt and have taken a number of measures to provide non-reimbursable funds or facilitate the deferral of payments for a limited period of outstanding debts. In 2020, the economic impact of the COVID-19 pandemic led to a severe recession and the measures taken to protect the affected sectors had limited effects. As seen in the figures. 3, GDP had registered an economic growth of 3% in the EU in 2019 compared to the previous year, with a maximum growth of 9% in Bulgaria, Romania and Ireland.

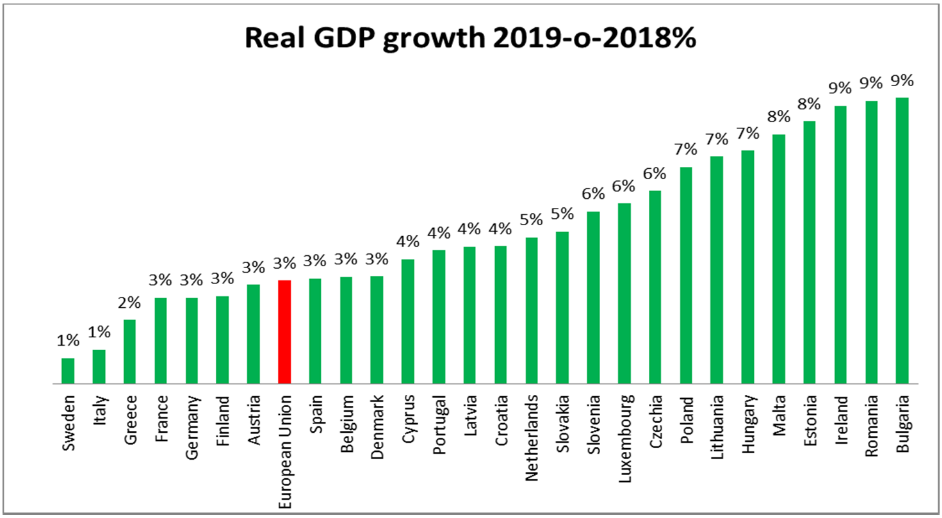

Figure 3. Real GDP, percentage growth, 2019 compared to 2018.
Source datasets: Data extracted on 05/04/2021 from Eurostat.
Gross domestic product at market prices NAMA_10_GDP

Most countries in the European Union have seen a decline in GDP in 2020. The detailed situation of the 27 countries in the European Union can be seen in Figure 4. Although trade has increased for Covid-19 related products (i.e. sterilizing products, some medical consumables and products, oxygen equipment, etc) and some of the people bought food and sanitary products in excess, other sectors experienced a strong contraction of activity.

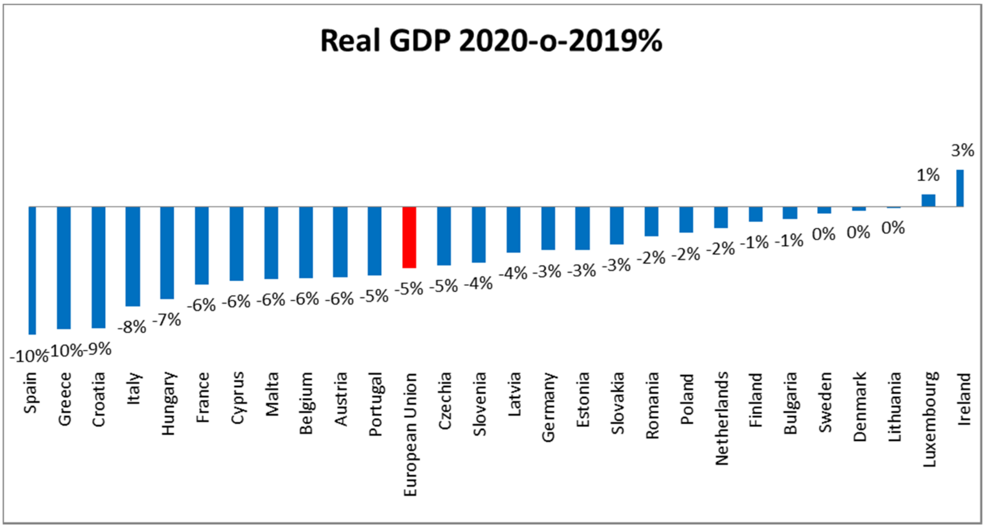

Figure 4. Real GDP, 2020 compared to 2019, percentage.
Source datasets: Data extracted on 05/04/2021 from Eurostat.
Gross domestic product at market prices NAMA_10_GDP

Tourism, the cultural and entertainment industry, hospitality, transport and construction are among the economic sectors strongly affected by the restrictions that impose social distance. The countries whose economy is based on these industries have been among the most affected. Spain was one of the biggest market in tourist accommodation with more than 400 million nights spent in tourist accommodation in 2019, domestic (traveling inside their own country) and inbound international tourists (coming from other EU or non-EU countries). Also Spain had the second largest value added for the construction of buildings in 2018, after Germany and the largest workforce for the construction of buildings (source: Key figures on European business. Eurostat). Construction and tourism in 2020 it decreased significantly. So, we see in figure 4 an economic decline in Spain and Greece in 2020, real GDP decreased by 10%. In 2019, Greece had the lowest rate of start-up companies among EU Members States. The share in the economy of the sectors that had growth during the pandemic is low in Greece and for this reason this growth did not have a significant impact in Greece. Telecommunications, computer, and information services contributed less than 5 % of all services exports, one of the lowest contribution in this field compared to the other EU countries. At the opposite, Ireland is one of the most industrialized economies in the world today. In Ireland large enterprises were responsible for 61.9% of value added in non- financial business in 2019. High investment rates among non-financial services were recorded in Ireland for food and beverage services (215 % in 2018). Ireland had the main share of telecommunications, computer, and information services exports from EU in 2019, industries that has been stimulated to grow rapidly in the pandemic due to rising demand. Thus, it can be seen that Ireland has managed to maintain its positive GDP growth trend, registering an economic growth of 3% in 2020 compared to 2019.

KPMG International published in November 2020 a consumer survey with more then 75.000 interviews. Two in five respondents were worried about their financial security in 2021 and 36% said that they prioritized savings. In the long run it seems inevitable that more consumers will suffer a negative impact.

The effect of the Covid-19 pandemic on the economic situation led to immediate changes in the business environment: closing businesses, changing delivery processes, accelerating digitization, adapting processes that required the physical presence of employees and customers, rapid implementation of a new way of interacting with employees and customers.

The financial sector was also affected by the situation generated by the Covid-19 pandemic and its role, in a first stage, was to manage the increased need for liquidity, to manage the moratorium on debt deferral and to further facilitate access to financial intermediation in conditions of restrictions on the movement of persons. In the second stage, the financial sector has the role of actively supporting the overcoming of the economic crisis generated by the pandemic by supporting the business environment. At the same time, it was observed that the pandemic had as an effect changes in the behavior of the household consumer. Some changes were short-term, with immediate effects, due to the feeling of insecurity, the lack of coherent and credible sources of information that would reach the entire population in a unified way. Thus, we witnessed the purchase of excess food and sanitary products for long-term supplies, for fear of a subsequent shortage. The insecurity of incomes, the limitation of the freedom of movement resulted from the restrictions and the diminution of the offer in certain sectors led to the reduction of the consumption in general, with preponderance to the reduction of the consumption of services (culture, art, hospitality, entertainment, transport).

It can be seen in Figure 5 that an acceleration of saving behavior due to the pandemic was registered in other European countries in Q2 2020, with a maximum of 38.10% in Ireland and an increase of 8.7% in Greece, a country that in 2018 and 2019 recorded negative savings rates.

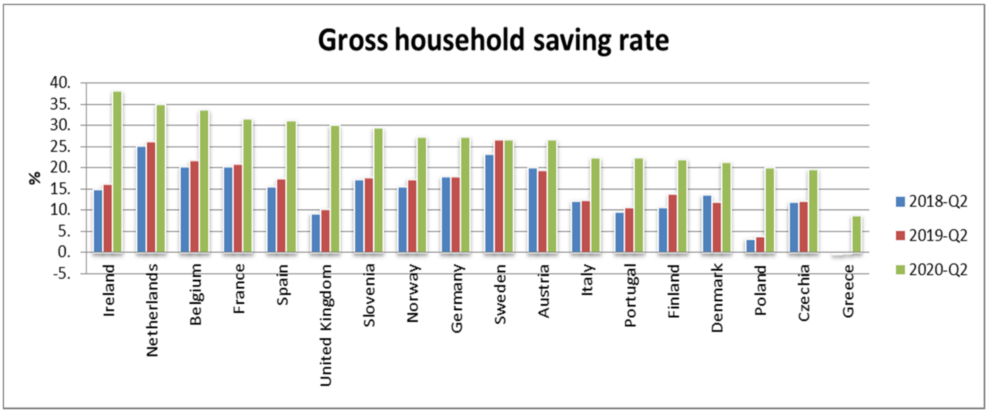

Figure 5. Impact of Covid-19 on household saving rate
Source datasets: Eurostat. National accounts indicator (ESA 2010). Key indicators [NASQ_10_KI]. Last update of data12/02/2021.

In Romania, the balance of resources attracted by monetary financial institutions in the form of deposits in the household sector in January 2021 was 259,952 million Ron, 16% more than in January 2020. The increase came mainly from visible resources (+ 30.9%) and less in term deposits (+ 3.6%) (calculation based on NBR data, Monthly Bulletin, Jan 2021), while loans to the population increased to 150,083 million RON, up 4.7% compared to from January 2020, the increase coming from the increase of the balance of household loans by 10% while the balance of consumer loans decreased by 2.3%. The Romanian population spent less, the economies kept them at a high level of availability and liquidity, without using them in investments and borrowed less, mainly for real estate acquisitions.

Governments spent large percent of GDP on measures that have helped households and workers, at least in the short-term. Observing figure 6 we see that the confidence in national governments increased during the pandemic in most of EU countries, except Poland and Belgium according data collected from OECD.

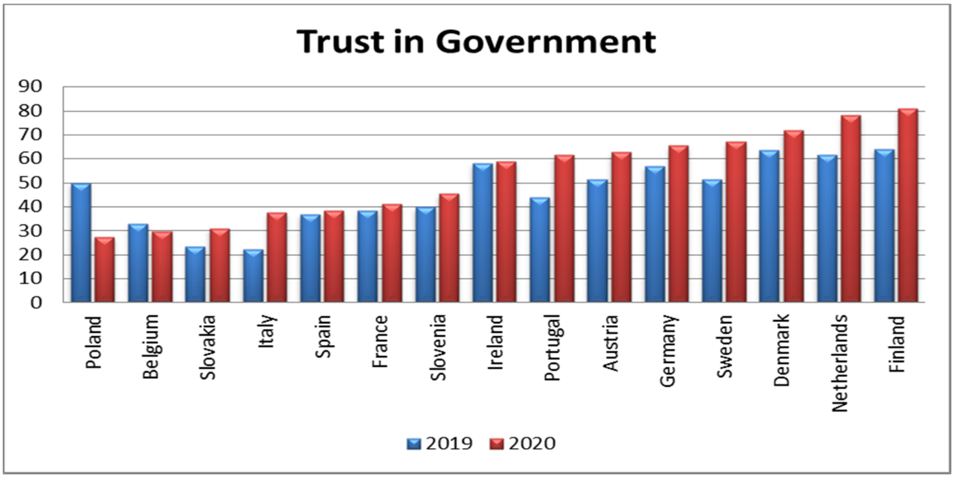

Figure 6. Trust in Government before and during COVID-19
Source datasets: OECD (2021), Trust in government (indicator).
doi: 10.1787/1de9675e-en (Accessed on 09 April 2021).

The current paper presents the result of a boarder research regarding opinions and perceptions of people regarding financial education during the pandemic. The main objectives of qualitative research were:

(1) Finding people's opinions on the concept of financial education,
(2) Identifying the attitude of individuals towards financial education,
(3) Identify how saving and lending behavior has been influenced by the pandemic.

The hypotheses underlie the research conducted, are defined as follows:

(1) Most participants have a positive attitude about the conduct of financial education programs,
(2) Most participants were more careful about how they plan their revenue and expenditure budget since the beginning of the pandemic,
(3) A part of the respondents are content with the current investments.

Methodology

The information in this research was obtained with the help of a qualitative focus group with a sample of ten subjects. This method is defined as a method of social research (Morgan, 1997) and involves the formation of a group of 8-10 people, selected on homogeneous criteria, invited to interact openly, spontaneously. The focus group was organized online, in the context of the social distance imposed by the pandemic, in a videoconferencing system. The chosen subjects were between the ages of 30 and 45, living in urban areas, with family, income and financial responsibilities. The condition for participation was to have experience as a customer of a bank, and to be employed. The jobs differ from one subject to another; the condition was to be graduates of higher education, to have similar experiences and similar involvement level in the focus group. The definition of the population was made by appealing to people in the close circle of acquaintances or their recommendations. The qualitative research took place in September 2020 and the duration of the discussion was around two hours. There was also a moderator who introduced the main topics and kept the discussion open. The participants freely expressed their opinions about what financial education provides, government and banks involvements, if pandemic influenced the financial targets set previously or has changed the way they used to spend money. Due to the large volume of raw data collected, an analysis was subsequently performed based on the recorded data.

Results and Discussions

The qualitative research was entitled "The opinions, perceptions, knowledge, behavior and attitude of adults in Brasov on financial education". Some of the main results of vertical and horizontal content analysis can be found below.

The concept of financial education is perceived on two distinct levels:

1. Basic financial education. It includes personal budget planning, revenue management, and expense management. It results in making responsible purchasing decisions, reviewing one's own financial behavior depending on whether the proposed financial objectives have been achieved.

2. In-depth financial education. It is perceived as that education that facilitates the understanding and knowledge of financial terms specific to the economic language. This type, in more depth, offers the possibility to access financial products and services responsibly and with a reduced exposure to the risk of being misguided towards the purchase of a financial product not fit for the need and level of understanding of the individual.

The government and public institutions are expected to provide financial education through the education system. All participants agreed with the idea that financial education should be taught as a subject in the school curriculum, starting with kindergartens and the middle school and adapted to the level of understanding for each age category. The impact on the way children will behave in their relationship with money when they are adults was estimated to be stronger if the information is delivered on a project-based, thematic basis, with assistance from experienced specialists in the field. Delivering information only in the form of theoretical concepts would be, in the opinion of the participants, insufficient to generate changes in habits in relation to money. Financial education must be translated into a daily financial routine.

Regarding personal budget planning, although recognized by all participants as a necessity, only one participant stated that he does so consistently and perseveringly. The other participants acknowledged that they do not have a habit or consistency in planning and tracking how to use their monthly income, on distinct categories of expenses and savings.

The usefulness of delivering financial education in the digital environment, through an online platform was appreciated as low even for the segment that has digital skills. The population that does not have digital skills usually overlaps with the segment with the lowest level of financial knowledge and for which the acquisition of notions of financial education is an unconscious need. A method proposed by one of the participants and interpreted by others as successful was the organization of financial education programs by local governments, with the direct involvement of municipalities in organizing training programs for pensioners, disadvantaged (socially assisted) or for newlyweds. Another topic of debate was how banks are involved in financial education. The problem of lack of trust in banks has arisen; it would be manifested through a reluctance to participate in financial education courses organized by banks as they are also a provider of financial services. It has been mentioned that financial education should provide information so that one should know how to react in the relationship with the bank or other financial institutions in order not to be fooled. It was considered that an independent actor should supervise the way in which the financial education actions are delivered by the banks in order to make sure that they respect the ethical principles and in order to prevent the risk of manifesting a conflict of interests.

The participants in the focus group have not participated in recent years in financial education courses and have heard of such courses only for a fee. They appreciated that financial education must be done from childhood in order to become a lifestyle.

Conclusions

The research has some limitations given by the dialogue carried through the video connection .This made it impossible to observe non-verbal behavior at the same parameters as in a face to face sessions. There was also a delay of answers given by the intervention mode in the online discussion and poor connection which led to less involvement in the discussion for two participants. One of the limits can be also given by the fact that some participants can be influenced by the answers of other subjects even if the moderator mentioned from the beginning that there are no wrong answers and the diversity of ideas and the contribution of each enriches the research results.

The research results supported the hypotheses that most participants have a positive attitude about the financial education programs and were more careful about how they spend their revenue since the beginning of the pandemic but they are not motivated enough to radically change their habits. This may mean that they are satisfied with the way they have made investments so far even if at a declarative level in a group they are more comfortable with the statement that they would have wanted a better financial situation. On the other hand, achieving a better financial situation comes with expectations from third parties: government, banks, employers, the education system and less from a concrete and persevering personal effort in this direction.

The OECD definition for Financial literacy is "knowledge and understanding of financial concepts and risks, and the skills, motivation and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society, and to enable participation in economic life." As this definition says financial literacy does not refer only to knowledge and understanding but also to the financial attitude and decision making about money that affects the well-being for the whole society. Financial education helps increase the financial literacy level of the people, reduce financial exclusion and increase de well-being. Digital delivery of financial education can improve access to it due to the elimination of the limitations given by place, time and pace of learning. The content can be personalized, intuitive and suitable for the audience. Typical elements of gamification allow errors and financial learning in a safe environment, allows financial decisions to be experienced in a secure environment, decisions that could be costly in real life. People can be motivated in a digital environment to develop healthy financial behaviors by setting personal goals and providing real-time feedback. Digital delivery of financial education allows better collection of data used to monitor the progress in financial education and to take the right decision to improve experience and results.

Digital and technological literacy is associated with higher financial literacy (OECD, Digital delivery of financial education: design and practice, 2021). An excessive digitalization of financial education delivery might increase inequality as long term excessive automation seems not be the best solution. We depend on the digital technologies for preventing a complete meltdown of the economy while many work from home but we should pay attention that the pandemic may exacerbate trends that were already underway towards too much automation (Acemoğlu, 2021). This could mean that those with a higher level of financial literacy also have better digital skills and those with lower digital skills could be the disadvantaged categories who would need more financial education. This way the disparities deepen for the social groups that already have a reduced access to financial education and the exclusion phenomena goes deeper. This doesn't mean that if the financial education can't be done face to face it should be not done at all, it means that the process of digitalization inclusion should go further and faster. Delivery of financial education without human touch, only through websites and apps should not happen. In order to reverse widening inequality digitalization must be used wisely.

Pandemic pushed forward digital solutions for payments and banking services. People have been taken out of their comfort zone when it comes to managing personal finances. The discrepancies between those who have access to digital devices and knowledge and those left out, between poor and rich became more obvious during this pandemic. It is now about access to school, work, finance, public services but also in business is about reaching to the clients for small businesses. Limiting access to services only through digital channels has intensified the phenomenon of exclusion. Governments and public sector are trying to fill this gap. Mobile network operators, fin tech and other non-bank institutions with good knowledge on digital interaction are interested to be involved. Digitalization also offers new opportunities. Digital enabled contact with other people meets the need for socialization and interaction. The educational resources were provided digitally when other means were not available. Financial education was delivered with the support of digital tools. OECD (2021), Digital delivery of financial education: design and practice study shows that National Financial Education Strategies have continued to be developed mainly in the digital environment. Financial education helps people to become financially literate.

National Strategies of Financial Education help governments decide how technology is used, how much digital delivery can be done and measure who benefits from it.

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