

## **Speech: “Financial Inclusion – A Prerequisite for Macro-Financial Stability”**

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Ladies and Gentlemen,

I am very pleased to join you at the current event and to thank the organizers – the National Bank of Romania and the International Monetary Fund for hosting this regional seminar on financial stability issues in this amazing place – Sinaia.

It is a good opportunity to discuss, share experience and insights on this topic from the perspective of linkages of financial inclusion with economic growth, financial and economic stability.

The financial inclusion subject is of growing interest throughout the world, particularly in emerging and developing economies. Financial inclusion is increasingly recognized as among the most important potential contributors to sustainable and fair economic and financial development.

Just a few global initiatives in this area:

- Financial inclusion has been identified as an enabler for 7 of the 17 Sustainable Development Goals.
- The G20 reiterated commitment to financial inclusion by renewing the Financial Inclusion Action Plan for 2015 onwards and endorsing the G20 High-Level Principles for Digital Financial Inclusion.
- The World Bank Group considers financial inclusion a key enabler to reduce extreme poverty and boost shared prosperity and has put forward an ambitious global goal to reach Universal Financial Access (UFA) by 2020.
- The World Bank Group committed to extending access to financial services to 1 billion adults. In order to implement this goal has been developed an integrated and unified approach to help countries achieve financial access and responsible financial inclusion.
- International Monetary Fund also is playing a more and more important role in this process.

At the country level, financial inclusion can boost efficiency of financial intermediation, through intermediation of greater amounts of domestic savings, and thus improve soundness of investment financing and investment cycles. Provided that quality financial infrastructure and competent supervision are implemented, such improvement will, in turn, produce both greater economic and financial stability.

Efforts that extend financial services should help households to smooth consumption, increase savings, and ease cash shortages. Enterprises with more access to finance would

gain a potentially important source of investment that facilitates better competitiveness and integration into international trade networks.

Thus, policymakers around the world are increasingly committed to promoting financial inclusion. At the same time policymakers now see a stronger rationale to build financial education due to the fact that it is intended to facilitate access and, where appropriate, encourage widening use of relevant financial products and services for the benefit on individuals.

According to the OECD (Organization for Economic Cooperation and Development) the financial inclusion refers to the process of promoting affordable, timely and adequate access to a wide range of regulated financial products and services and broadening their use by all segments of society through the implementation of tailored existing and innovative approaches including financial awareness and education with a view to promote financial well-being as well as economic and social inclusion.

The results of many researches have shown that low levels of financial inclusion are associated with lower level of financial literacy. In this context, financial education for financial inclusion is anticipated to target: those with no formal financial products; those using a very limited range of products; and inexperienced, newly included consumers, in other words “the financially excluded”.

Also, according to OECD the causes and barriers to financial inclusion comprise both supply and demand side factors.

Supply-side factors that have been shown to reduce the access to, and use of formal financial products include:

- ***Regulatory constraints.*** For example, some national regulatory frameworks can limit the ability of financial providers to attract new clients, imposing costs that would not be recuperated in the short term.
- ***Availability of competing financial services with no, or limited, financial consumer protection requirements.***
- ***Prohibitive market factors.*** For example, situation when certain providers exclude some sections of the population with actions such as: preventing access for those with no credit record; charging high fees for basic transactions such as withdrawing money; designing terms and conditions that exclude large proportions of the market and marketing activities that favor certain groups.
- ***Geographical/physical barriers.*** For example, the situation when the providers decide to close many bank branches in rural or low-profit areas, creating a barrier to continued use.
- ***Infrastructure and connectivity barriers.***

All of the supply-side factors can impact on the extent to which individuals want to, or are able to become fully included. Thus, the demand-side factors refer to:

- ***Financial vulnerability caused by personal circumstances.*** Issues such as a lack of money/resources, impaired or no credit history and unemployment can leave individuals unable or unwilling to access financial products.

- ***Low levels of financial literacy.*** A lack of awareness in relation to the different types of financial products and whether or not they meet particular requirements, a low level of confidence, and certain attitudes and behaviors that inhibit use of, and trust in, formal financial products create barriers to access. Poor knowledge of how products work and their likely costs also reduce the likelihood of inclusion. The same issues may also prevent individuals from making full use of their existing products.
- ***Reduced social and technological inclusion.*** Circumstances such as migrant status, lack of familiarity with certain and/or poor language skills can leave people isolated from a range of financial services.
- ***Cultural and psychological barriers.*** For example, due to personal and cultural preferences; religious beliefs or lack of trust in financial service providers.
- ***Linguistic or educational barriers.***

The results of OECD studies show that low levels of financial literacy are most likely to be considered a major barrier to financial inclusion.

Financial education clearly has a role to play in overcoming several of the barriers mentioned above. Financial education can improve levels of financial literacy, help individuals to overcome financial vulnerability caused by personal circumstances and potentially breakdown psychological barriers. It can also help people to learn about technological innovations aimed at reducing geographical barriers. However, education will not work in isolation. Financial consumer protection and well-designed regulation, as well as incentive mechanisms to encourage behavior change should all be considered important parts of the overall policy toolkit to improve financial inclusion.

There is global policy interest in increasing financial inclusion and recognition of the need for complementary policies on financial education and financial consumer protection. The policy aims of financial education for financial inclusion are typically to strengthen an emergent financial service sector, or to provide consumers with the protection and skills they need to operate within the existing financial market in a way that promotes their own financial well-being and opportunities.

Developing effective financial education programmes and delivering them to the target audience can be challenging. OECD research shows that there are several issues that can make it difficult to deliver financial education to the people who could benefit from it, including the difficulty of motivating individuals to participate, the need to build confidence amongst the target group, accessing sustainable sources of funding, and developing appropriate materials.

Many central banks and governments are now addressing the financial inclusion and financial education needs of their populations through coordinated strategies designed to tackle barriers to financial inclusion and low levels of financial literacy. In this context, the national strategies for financial education are designed to ensure that financial education measures and programs increase the level of financial knowledge of consumers. Increased financial literacy will contribute to a higher level of financial inclusion among the population and will further contribute to enhancing stability and confidence in the financial sector and strengthening the economic development as a whole.

According to the World Bank data, since 2010, more than 55 countries have made commitments to financial inclusion, and more than 30 have either launched or are developing a national strategy. The researches indicates that when countries institute a national financial inclusion strategy, they increase the pace and impact of reforms.

As a representative of the financial area I consider that strengthening people's level of financial education and financial skills, starting with the youngest age, is an excellent investment, simply because it could be seen as investment in knowledge and future.

Financial education allows people to understand better the financial concepts and to develop skills necessary for building financial literacy knowledge. In this way, the increase of awareness of financial risks and opportunities is ensured. Financial education complements the measures to ensure that consumers are provided with adequate information, protection and counselling. Thus, the capacity of consumers to make the best decisions given their financial situation is enhanced.

Financial education represents a helping hand for the population at any stage of life, regardless of the income earned. Financial education helps children to understand the value of money and savings, financially educated young people to be ready to be more independent and the adults to make important plans for future, such as buying a house, forming a family, paying for children's education or make retirement savings.

At the same time, financial education motivates financial service providers to come up with new products of a better quality, fostering the competition between market and financial innovations.

The efforts of central banks to foster economic education and literacy mostly rely on their communication policy. In this context, the communication with the public has an indubitably relevant impact. Effective communication with the public – explaining the process and objectives of monetary policy and the rationale behind the policy decisions – is an important means to foster economic literacy. It also fosters basic economic education by conveying basic economic insights, principles and models when the central bank's policy and related topics are explained.

I would like to emphasize that central banks' support for economic and financial education is a form of enlightened self-interest and therefore the main reasons for this support would be:

- to enhance the effectiveness of monetary policy,
- to ensure the smooth functioning of financial markets,
- to support sustainable economic policies,
- to promote economic and financial literacy as a public good and, by doing so to build and strengthen their reputation and promote support for their actions.

In other words, consumers who understand the functioning of an economy and who are financially competent bring their contribution to the reinforcement of the market efficiency, thus providing good conditions for sustainable economic growth and financial stability.

Given that the public confidence in the activities of a bank is an indicator of its success, we believe that adequate information will encourage people to take the best decisions in investing funds, and will enhance their credibility in the financial system.

**The Republic of Moldova and the National Bank of Moldova** in particular, are interested in moving forward to improve the level of financial education and strengthen the financial inclusion of the population from our country. The National Bank of Moldova being committed to actively support the process of financial education of Moldovan population, has already made some concrete steps in this regard.

Thus, according to the provisions of the National Roadmap for improving the competitiveness of the Republic of Moldova, the National Bank of Moldova along with other authorities committed to support the process of financial education has initiated the development of a national strategy on financial education, that is expected to be supported by the financial market participants, civil society and external partners.

The draft National Strategy on Financial Education is based on:

**Vision:**

To increase the economic well-being of all individuals and families of the Republic of Moldova.

**Mission:**

To create a collaborative framework for the implementation of financial education policies, which will ensure a reasonable financial behavior and improved use of financial services.

**The general objectives:**

1. Raise awareness on the necessity of financial education and ensure access for all citizens of the Republic of Moldova to financial education through providing adequate and ongoing information;
2. Determine and integrate core financial competencies throughout the life stages;
3. Promote protection of financial services consumers;
4. Strengthen public confidence in financial institutions and promote financial products and services.

**Target groups identified:**

NSFE will include all segments of the population. However, a particular attention is to be given to certain target groups, which would include those segments that will ensure the strategy's effect on long-term and the vulnerable parts of the society.

- Adults (including beneficiaries of remittances, particularly those in the rural areas);
- Children and youth;
- Vulnerable groups (low income earners, persons with disabilities, the ageing population, unemployed, etc.).

Day after day, financial education reconfirms its need and the advantages provided. The range of advantages is wide, from the formation of the capacity to create a personal budget and savings, entrepreneurial and investment competences to supplying the capital market with liquidity, granted then to the economy in the form of loans. At the same time, a better risk management in the business environment leads to an improvement in the loan portfolio quality in the banking sector, which is important for financial stability.

This could be a general vision on the financial education as being a time imperative in which we are living and a sine qua non support for financial inclusion. In order to achieve great things in this respect, we try to turn our aspirations into actions at institutional level and in society, opting for a well-defined positive impact.

Since 2010, the Program of social and financial education supported by the Institute of Educational Sciences, in partnership with the NGO "Child, Community, Family" is implemented in the Republic of Moldova.

Within this program, the social and financial education is looked at from a daily life perspective, with an emphasis on social and financial values known through other school subjects and that form an unitary and integrated combination of knowledge, capacities and attitudes. Their components are mutually conditioned and are aimed at preparing pupils to appreciate the changes of social and economic financial environment in which they will carry out their activity.

These social and financial activities are carried out as pilot projects in different schools, including the boarding schools for children who are orphaned and left without parental care.

Within these activities, teachers raise the awareness of pupils regarding the relation between: *to know, to know what to do, to know to do*, in order to identify the ratio between rights and responsibilities expressed in daily situations to draw up a personal budget, using as income the pocket money received from parents. At the same time, financial education is a support for pupils to assess the possibility of starting a private and profitable business in the future and taking into consideration the community's interests; it is a support for drawing up financial plans, analyzing efficiently the disposable resources or assessing the market prospects in order to obtain the necessary resources for starting a business, depending on the particularities of the social and economic environment.

Financial education is an invitation to reflection on how people make decisions and interact between them in this regard, on the criteria to take correct financial decisions, based on financial knowledge acquired within the respective process. Financial education is not just for improving some skills and knowledge on this matter, but also for the creation or change of mindset in this regard.

Most of studies have demonstrated that the main reason why people face financial difficulties is that they have passed through the education system without learning anything about money. Children are the future consumers of banking products and services. If they start at younger age to be financially educated, the results will be more visible in long-term.

An important achievement in carrying out the financial education process in the Republic of Moldova is the development and approval by the Ministry of Finance in 2012 of the optional school curriculum *Financial and social education* for V-IX grades.

Currently, the financial and social education is included in the Secondary Education Framework Plan. Today, the financial and social education is taught in more than 100 general education institutions, covering a number of 5000 pupils.

At the same time, the teachers, pupils, parents and other target-groups, as well the studies of different non-governmental organizations from the Republic of Moldova reveal the following main financial imperatives: the formation of entrepreneurial and life skills, creation of a new advisory and guidance system regarding the financial activities, which

often has an impact on the career, meaning not only of usefulness, but also personal development.

The analysis of the secondary education curriculum shows the presence of social responsibility elements of the concepts of economic and financial responsibility, which probably requires a deeper approach.

The recommendations of different international bodies - World Bank, OECD PISA (2011-2014) shows a global need to join efforts for the financial and social skills formation, development of civic spirit, entrepreneurial spirit and the spirit to manage financial resources, which are needed for the affirmation of the contemporary man.

The relevant institutions, such as National Bank, Ministry of Finance, Institute of Educational Sciences, licensed banks, non-governmental organizations with tangential activity on financial education need (concern for migrants' families etc.) assume their involvement in the financial education process designed to the entire society at different levels.

The National Bank of Moldova has several years of experience in this regard. Thus, the process of financial education is designed for various target-groups, mainly for pupils and students, as well for trainers. Firstly, this approach is oriented towards covering different age categories of pupils, as social hubs with the potential of knowledge dissemination on financial subject within an extended area. Secondly, addressing to trainers seeks a parallel effect of a more significant propagation.

The National Bank of Moldova carries out financial education on two directions: organization of visits to the NBM for interested persons and organization of visits to the educational institutions for the central bank's specialists. We are happy to see an increasing interest among the general public in the events carried out by the National Bank of Moldova during the last years, mainly on financial banking topic: Open Doors Day, International Saving Day, Day of Introduction of Moldovan Leu, etc.

The main event in this regard is the Global Money Week, organized internationally by the CYFI International Institute (Child and Youth Finance International). In our view, this is a very important event: a number of activities take place during the entire week, covering the possibilities of the National Bank of Moldova, and are initiated with the help of other institutions. Thus, the collaboration with the Ministry of Education, Institute of Educational Sciences, non-governmental organizations, educational institutions confer importance, profoundness and a character of public interest to this event. There are periodically organized conferences for trainers at different levels, including with expanded geographical coverage. Within these conferences, the trainers exchange ideas and experience, establish relations of collaboration, identify solutions to remove the existing impediments for achieving the financial inclusion.

During the financial education process, the National Bank of Moldova collaborates intensively with many partners, benefiting from their support. Thus, at the end of 2014 the National Bank of Moldova with the support of Development Facility of the European Fund for Southeast Europe has launched the Moldova's first national campaign for financial inclusion related to the promotion of cashless payments. The main objective of this campaign was to boost the use of cashless payment instruments by informing the general

public about the benefits of using payment cards, online banking, scheduled payments and not the least direct debits.

During the campaign, which lasted six months, were made several spot transactions dedicated to cashless payment instruments, that were broadcasted on several TV and radio channels in the country. At the same time, have been organized interviews, including in the form of panel discussions, attended by experts from the banking sector and representatives of international payment systems, who discussed on cashless payment instruments, the advantages of using them, their security, as well as innovative solutions in this area. Also, has been created a web page dedicated to this topic.

The collaboration with EFSF is very important and allows for a less traditional educational approach, which involves interactive games that showed a great interest among pupils and school teachers.

The National Bank of Moldova produced two brochures on financial subject for children with the EFSF support, which marked the beginning of a series of brochures on "Financial education". These and other educational illustrative materials are distributed to children during their visits at the National Bank of Moldova.

Following the recommendations of the National Bank of Moldova and at their own initiative, the licensed banks engage in financial education activities, Global money week being the major event in this respect. Thus, banks organize visits for pupils and provide financial consultancy to customers and potential customers. These activities generate added value both to the society, helping it raise its financial literacy level, and to banks that eventually make use of the possibility to prepare a new niche in the banking sector by attracting new customers, previously uninitiated in financial field.

These activities are in fact a call for everyone, regardless of age and income level, to improve the knowledge in financial field, benefiting from information and counselling, which in particular means the protection of the financial service consumer and his orientation in the financial area.

I tried to bring out the major steps undertaken at the global level and at local one (precisely case of Moldova) with the purpose to promote financial inclusion. In order to ensure more achievements in this field, I believe that it is crucial to have a complex approach and to keep a permanent interaction with the relevant national and international institutions, including also market participants.

Given the current situation, when the whole world is facing permanent challenges such as protracted recession and financial instability, new actions in order to cope with the changes in the financial landscape are required. In this context the initiative to promote financial education among the population and to provide them with access to financial services is strongly welcomed.

Thank you for your attention!